Introduction

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Similar to most other creative industries, the evolution of the music industry is heavily shaped by media technologies. This was equally true in 1999, when the global recorded music industry had experienced two decades of continuous growth largely driven by the rapid transition from vinyl records to Compact Discs. The transition encouraged avid music listeners to purchase much of their music collections all over again in order to listen to their favourite music with 'digital sound'. As a consequence of this successful product innovation, recorded music sales (unit measure) more than doubled between the early 1980s and the end of the 1990s. It was with this backdrop that the first peer-to-peer file sharing service was developed and released to the mainstream music market in 1999 by the college student Shawn Fanning. The service was named Napster and it marks the beginning of an era that is now a classic example of how an innovation is able to disrupt an entire industry and make large swathes of existing industry competences obsolete. File sharing services such as Napster, followed by a range of similar services in its path, reduced physical unit sales in the music industry to levels that had not been seen since the 1970s. The severe impact of the internet on physical sales shocked many music industry executives who spent much of the 2000s vigorously trying to reverse the decline and make the disruptive technologies go away. At the end, they learned that their efforts were to no avail and the impact on the music industry proved to be transformative, irreversible and, to many music industry professionals, also devastating. Thousands of people lost their livelihoods, large and small music companies have folded or been forced into mergers or acquisitions. But as always during periods of disruption, the past 15 years have also been very innovative, spurring a plethora of new music business models. These new business models have mainly emerged outside the music industry and the innovators have been often been required to be both persuasive and persistent in order to get acceptance from the risk-averse and cash-poor music industry establishment. Apple was one such change agent that in 2003 was the first company to open up a functioning and legal market for online music. iTunes Music Store was the first online retail outlet that was able to offer the music catalogues from all the major music companies; it used an entirely novel pricing model, and it allowed consumers to de-bundle the music album and only buy the songs that they actually liked. Songs had previously been bundled by physical necessity as discs or cassettes, but with iTunes Music Store, the institutionalized album bundle slowly started to fall apart. The consequences had an immediate impact on music retailing and within just a few years, many brick and mortar record stores were forced out of business in markets across the world. The transformation also had disruptive consequences beyond music retailing and redefined music companies' organizational structures, work processes and routines, as well as professional roles. iTunes Music Store in one sense was a disruptive innovation, but it was at the same time relatively incremental, since the major labels' positions and power structures remained largely unscathed. The rights holders still controlled their intellectual properties and the structures that guided the royalties paid per song that was sold were predictable, transparent and in line with established music industry practices.

A SECOND WAVE OF DIGITAL DISRUPTION

The first decade following the Napster launch was undoubtedly turbulent and had radical consequences for the industry as a whole, but the decade that followed has arguably been even more disruptive. iTunes Store,[1] and a number of similar but less successful online music retailers, did indeed introduce a new logic into the music industry, and more than 25 billion songs have been sold via the service since its establishment in 2003. However, since 2013, sales via music retail outlets such as iTunes Music Store have actually been declining and a new and far more radical music distribution model is gradually taking its place. The new model is manifested by music subscription services that do not charge their consumers for downloading individual songs or albums. Rather, for a monthly subscription fee they offer unlimited access to a large music library and when the consumers finish their subscription to the service, they no longer have access to the songs they have listened to. The leader in this market is a company called Spotify, which in early 2015 had 60 million users (15 million subscribers paying a monthly fee and 45 million using an advertising funded limited version of the service) in more than 50 markets across the world. Spotify has emerged as the dominating music subscription service and has quickly been able to capture more than 70 per cent of the recorded music markets in countries such as Norway, Sweden and the Netherlands.

This model is not in any way new to the world but has been used in other creative industries for decades. For instance, pay television services have by definition been subscription services since the very beginning and the model now has naturally evolved into all-you-eat on-demand video services such as Netflix, Presto, Amazon Instant Video or HBO Now. There is, however, quite a bit of drama in the music industry about the introduction of access-based music services. The critique has mainly focused on whether access-based music services are able to generate enough revenues to be viable in the first place, and secondly how these revenues should be fairly and transparently distributed from the consumer, via retailers, aggregators and record labels, to composers and musicians. The shift in business logic from generating a predefined and fixed royalty for every album sold to generating a varying and seemingly obscure royalty every time a consumer listens to a particular song is indeed dramatic. While the understanding and acceptance of this new logic is steadily growing in the music industry, several significant questions remain to be resolved. For instance, there is still a question about whether the revenues generated by these services and channelled via record labels reach the musicians and composers in a fair and equitable way. The revenues generated by these new services simply do not fit very well with the contractual structures of the analogue era and many musicians and composers raise the concern that they are not remunerated fairly. As when any new media technology redefines a creative industry, there are winners and losers. Music subscription services combined with a media landscape dominated by peer-to-peer communication via social media platforms encourage a new consumer behaviour that benefits certain types of music at the expense of others. The potential disruptive impact of these services is barely discernable and the battles between incumbents and new entrants remain fierce. It is difficult to predict the outcome of these battles, but it is nevertheless clear that subscription music services have been able to return the global recorded music market to growth. It increasingly looks as if these services are here to stay and that they will even strengthen their role as one of a set of primary music distribution technologies in the foreseeable future.

CHAPTERS IN THIS VOLUME

This volume is the third in our book series on business innovation and disruption in the creative industries. The music industry is often considered to be the first among all the creative industries to be impacted by digital disruption. By studying the dynamics of the music industry it is possible to learn, and perhaps even predict, how digital technologies will impact other creative industries. Even though the digital transformation of the music industry has been ongoing for almost two decades, as discussed above, change is still unfolding and dramatic and the music industry still has the ability to serve as a bellwether for other creative industries.

The overall model for this book series is to combine insights from multiple disciplines on business innovation and disruption in the creative industries and we follow that model in this volume by bringing together perspectives from disciplines such as cultural studies, economics, management, media studies, musicology and human geography. The volume is focused on the second wave of digital disruption in the music industry and the chapters are structured into three parts. The first part intends to contextualize the music industry transformation that has been driven by digital technologies since the end of the 1990s. The second part unpacks the impact of these disruptive technologies on business models in specific industry sectors and geographies. The third and final part examines questions related to the emergence of subscription music services. The final chapters link back to the role of hackers as subversive and innovative forces in the music economy and examine how hacker creativity can be facilitated and encouraged to generate the next big music industry innovation.

Part I: Music Industry Transformation in Context

The chapters in the first part of the volume discuss music industry transformation on a macro level – how it has impacted different actors in the music industrial ecosystem and how these actors have responded.

Peter Tschmuck introduces the transformation of the music industry by unpacking how digital disruption impacts the major sectors of the industry. The chapter discusses the transformation of the music industry in relation to other creative industries and examines how the role of the musician and composer is changing as a new business logic emerges. Tschmuck argues that the increased complexity of the music business requires musicians to strengthen their business skills and that it becomes a necessity to be able to combine entrepreneurial and artistic skills.

Holly Tessler continues the discussion about the redefinition of roles in the music industry. Tessler recognizes that digital disruption requires the recorded music industry to rethink its core competencies and develop strategic partnerships throughout the music and creative industries. This is a move away from a model based almost exclusively on consumer sales and towards one based on a range of business-to-business partnerships across the creative industries. In this regard, the recorded music sector can be seen as adapting rather than collapsing in the face of industrial upheaval. It has shifted from an industry that sells records to an industry that sells cultural brands, or narratives, often via the medium of recorded music. Strategic alliances with firms within other sectors of the music industries and indeed from across all sectors of the creative industries have enabled record labels to extend the reach of music across multiple media and across multiple platforms in a way that is not only financially pragmatic but also culturally resonant within contemporary popular culture.

Jim Rogers and Paschal Preston's chapter continues the examination of how the music industry has reconfigured its core activities and internal structures in the context of a changing technological environment. After assessing the background to the growth experienced by the record industry in the 1990s, the authors proceed to summarize and critique accounts of the 'crisis' that characterized much twenty-first century commentary on the sector. They add to Holly Tessler's analysis by unpacking the increasing shift to the licensing of music services and brands across a multitude of platforms and outlets. Rogers and Preston argue in their chapter that as multi-rights deals have become standard across the industry record labels acquire the legal rights to exploit a vast range of revenue opportunities deriving from the recording artist. Such arrangements represent acute structural and organizational change that ultimately bolsters and maintains well-established networks of power within the music industry.

The digital disruption of the music industry was arguably ignited by online piracy facilitated by services such as Napster and the services, platforms and technologies that followed in its path. The actual impact of online piracy on recorded music sales has been extensively analysed since the turn of the millennium and in the fourth chapter, Robert Hammond returns to these studies and gives a fresh perspective that adds nuance to the validity of the conclusions in these studies. Hammond argues that some of the studies on the impact of online piracy on recorded music sales demonstrated a fallacy of composition, meaning that they incorrectly assumed that something that is true for some part of a group is necessarily true for the entire group. Hammond's chapter discusses whether the effects of file sharing on sales in the music industry may differ between an analysis of aggregate industry sales (where file sharing has been shown to harm the music industry) and an analysis of artist-level sales (where file sharing has been shown to benefit some types of individual artists). Hammond presents Monte Carlo simulations to offer new evidence from the types of econometric analysis that are often applied to data from creative industries such as the music industry. By quantifying which types of artists are expected to gain from particular technological innovations and which are expected to lose, the chapter provides insights into the prospective economic winners and losers in the evolution of the music industry.

Part II: Changing Business Models

The second part moves on from macro-level patterns to studies of how digital disruption impacts specific music industry sectors and geographies.

Allan Watson examines the transformation of the recorded music sector specifically and focuses on three specific key elements: (1) falling recording budgets from a wider economic crisis in the musical economy; (2) home recording technologies; and (3) audio quality. The chapter describes how these developments have challenged the future viability of recording studios and examines the strategies taken by the studios in an attempt to cope with the changes and to survive. Watson argues that these developments have challenged the future viability of recording studios as formal, professional spaces of recording. The chapter examines diversification as a strategy being adopted by recording studios to remain economically viable businesses in the face of these challenges. Set in the context of the rise of 'dual-market' audio facilities, the chapter provides a case study of the service diversification of the world-renowned Abbey Road Studios in London. Then, considering the potential for diversification across the sector more widely, the chapter identifies medium-sized professional studios as the potential losers in an industry in which large 'audio service centres' gain the lion's share of heavily reduced corporate recording budgets, and small home and project studios offer audio services at rates that larger studios simply cannot afford.

David Schreiber turns attention from the recording studios to radio promotional strategy of a micro-firm during an extended period of disruptive technological change in the music industry. These changes persuaded the firm to ultimately abandon one strategy for another, which became feasible with the disintermediation of the value chain brought about through MP3 technology and the internet, declining costs in music production and the use of the internet as a way to educate managers on business practices. The case provides a rich description of the influences on the strategic decision-making practice surrounding this choice including the use of heuristics, intuition and external advisors.

The following chapter dissects the music from a geographical dimension rather than a sectorial dimension and focuses on what might be the world's largest music market, China. However, most of that market is informal or illegal and difficult to measure, and many major music companies have considered China to be a lost cause. This attitude has, however, established China as a test bed for heterodox business models that would not be accepted in most established Western markets. Another complexity that adds to the distinctiveness of the Chinese music market is the role of the Chinese government. This role and its consequences for music industry innovations are examined by Guy Morrow and Fangjun Li who argue that the Chinese government has greatly influenced the process of innovation within China's music industries through its censorship, on the one hand, and direct policy and investment, on the other. The Chinese government's ambition to use music as a way to exert 'cultural soft-power', combined with a virtual copyright anarchy and the intense scrutiny of governmental censorship, has cultivated the unique brand of music industry innovation that can currently be observed in China.

Part III: Streaming Music Services and the Future of Music

In the third and last part of this volume, we focus on the emerging subscription music services and the benefits, challenges and tensions they have brought into the new music economy. The chapters also turn attention to the future and try to envision how and where the next innovations in the music industry may be created.

Aram Sinnreich searches for an equitable recorded music economy and starts out by recognizing that business models for recorded music have diversified and changed radically in the first decades of the twenty-first century. This diversification has caused industry stakeholders including artists, composers, labels, publishers, broadcasters and distributors to attempt to grow – or at least to maintain – their 'slices of the pie'. Sinnreich examines past, current and proposed methods of dividing revenues in the US marketplace. He presents his perspective of what is at stake, and for whom, and he tries to counteract some of the more vitriolic rhetoric that has governed the public debate related to music subscription services thus far. Sinnreich also provides a side-by-side comparison of the economic rewards for creators, as well as the cultural rewards and economic costs for consumers, of music distributed via various channels.

The United States might be the world's largest and dominating music market, but it is not spearheading the development of new music distribution models. Rather, it is Norway, together with a number of smaller music markets, that offers the best opportunity to learn how a market that is dominated by music subscription services functions. Daniel Nordgård reports that music subscription services now control more than 70 per cent of the total recorded music market in Norway and have significant consequences for the distribution of revenues between local and international artists as well as between music produced and distributed by major versus independent music companies.

Pelle Snickars remains in the realm of music subscription services and discusses the ways in which the music subscription services run the risk of being undermined by 'spam' and other forms of human or algorithmic manipulation. The record sales data has always been challenged by various forms of manipulation and new distribution technologies give rise to new manipulation practices. The size of the music databases combined with the open nature of contemporary online services make it possible for artists, managers, fans and hackers to create automated music, fake listeners and other deceits, copyright infringements and hacks. Snickars discusses how music subscription services can become undermined if various forms of music automatization increase. He argues that the archival mode of online media is linked with the risk or a techno-inherent ability to challenge classical notions of collections as trusted and secured repositories of material and cultural content.

In the final chapter, Andrew Dubber picks up the thread related to the role of hackers and algorithms as drivers of music industry innovation. In 1999, hackers ignited the digital disruption of the music industry and the process has since been largely driven by unsanctioned innovations generated within the hacker community. Dubber argues that far from its appearance in popular discourse as the domain of unscrupulous thieves, hacking is a source of creative innovation that, if deployed and explored in a spirit of genuine experimentation, has the potential to create the kind of disruptive invention that music industries need to develop in the twenty-first century. The domain of creative technology rewards a playful and transgressive approach that challenges existing notions of what behaviours and artefacts are appropriate to the creation, production, distribution, promotion and consumption of music. Dubber argues that facilitating, supporting and investing in hackers rather than attempting to contain or control them provides the environment within which it is possible to make the most of these opportunities. Through repeated experimentation, repurposing, rebuilding and playing with technologies, music hackers are more likely to stumble upon the key to a new music industry opportunity than someone who is simply sitting at a desk attempting to invent the next big thing.

NOTE

1 'Music' in iTunes Music Store was eventually dropped as the store started to offer other products than music.

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