


# **DIRECT-2-FAN BUSINESS MODEL IN MUSIC BUSINESS**

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## **ABSTRACT**

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Music business has undergone a tremendous change during the last fifteen years. The technological innovations and development of internet based distribution, both illegal and legal, has diminished the conventional revenue streams while the new and growing digital services have not generated revenue at the same pace. This has caused music companies to start looking for compensating incomes and made them to branch out to new businesses. These changes have tied the artist closer to the music company and in some degree limited the artists possibilities to explore other business opportunities.

The same technological innovations have also opened up opportunity to step out from the conventional music business model and start developing a relationship directly between the artist and the fans in a global scale. This new approach invites the entrepreneurial artist to manage their own career and benefit of the freedom to seize the possibilities and receive not only financial but also professional and personal rewards.

The purpose of this study is to examine the direct-2-fan business model and research the possibilities and threats of it and what is needed to successfully manage a career using this business model. The research focused on how to create a meaningful and profitable relationship with the fan and what are the necessary steps and partnerships to reach this goal and what are the most important aspects in a artist career that benefit from this approach.

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Key words: direct-2-fan, music business, artist management

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## 1 INTRODUCTION

This study aims to describe the music business problems that have emerged due to development of digital technologies and how an entrepreneurial artist can use these same technologies to conduct an independent professional career with deep relationship with the fans.

In this study the conventional music business model is compared to more independent direct-2-fan business model with focus on the technology as a tool for connecting and providing information to the fans and how to use modern digital marketing, promotional and commerce platforms to create revenue streams. For a modern digital consumer the convenience is the key to success and these platforms need to offer convenient way for the fans, the clients, to acquire knowledge about the artist or purchase physical and digital products.

Independency means freedom to be open to emerging possibilities and ability to seize opportunities as they present themselves, but it also demands more business orientated approach to the career management. This study also researches the partnerships that can help an artist to build a career professionally and profitably. In this study the major areas of music business and financial aspects have been addressed. Some areas that are more difficult to manage independently or they require specialised knowledge are suggested to be outsourced to specialised agency or dealt in co-operation with music company.

The study outlines the benefits and demands for direct-2-fan business model. It aims to provide understanding why for some artists it can prove to be the right career model, while keeping in mind the needs and desires of the fans and resources of the artist.

## 2 MUSIC BUSINESS IS CHANGING AND ARTISTS HAVE TO ADOPT

Music industry has undergone serious changes in recent years, the revenue streams that once were the backbone of a record company are losing their value and companies have to search for new means of income.

At the same time digitalization of music business and other content driven businesses have empowered the artists to reach out and connect to their fan base in a way that was not possible 20 years before. This opens up possibilities to do business in a meaningful and profitable way without record company involvement.

### 2.1 Development of music business

According IFPI statistics the sales of music has declined nearly 50% during last 15 years (figure 1.)

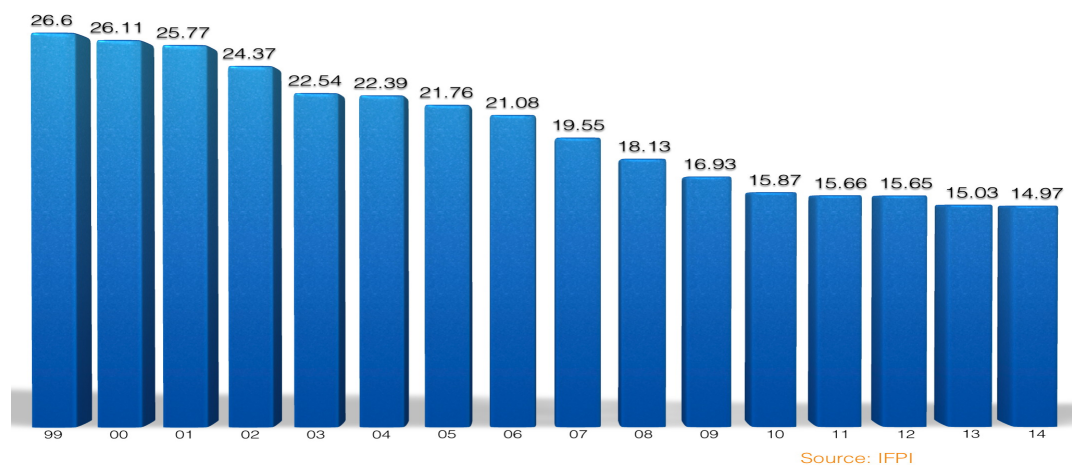


FIGURE 1. Global music sales (IFPI 2014)

The traditional reasoning for the decline has been focused on two major factors. One, the illegal distribution of music files through pirate and peer-to-peer networks and second being the slow wakening of the major music companies to this and offering convenient legal way to consumers to purchase music through legal digital channels. However, Steve Gordon argues in his book *The Future Of The Music Business* fourth edition, (2015, xxix) that reason of this decline is also the shift from purchasing complete

albums to purchasing of the hit songs and in this way using less money for desired content.

Gordon's argument may be validated in the future as the decline as levelled and actually the sales have started to grow, 3,2% in 2015, due to the growth of subscribing users of streaming services. According the International Federation of the Phonographic industry report the digital sales of music overtook physical media sales for the first time in 2015. Streaming now is 43% of all digital sales (figure 2.)

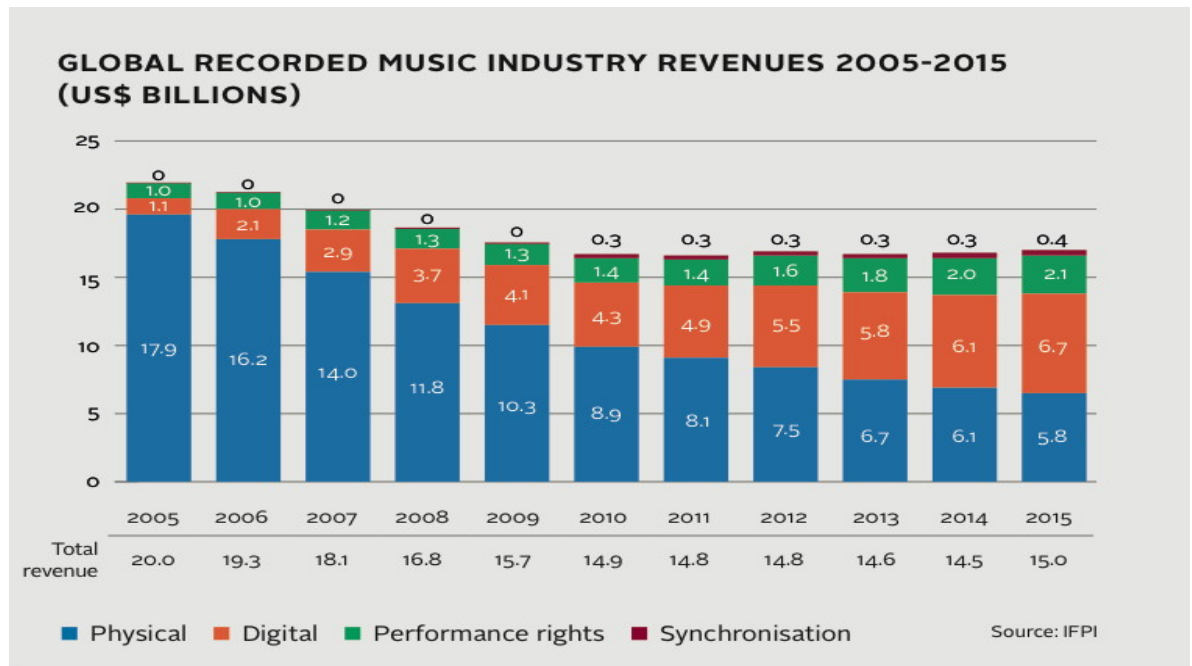


FIGURE 2. Global revenues (IFPI 2016)

## 2.2 Where does the revenue come and where will it come

Music business is not only recorded content. Music companies have tried to compensate the diminishing revenues from recordings with branching out to new markets and actively working for better and more up to date legislation for criminalizing illegal use of copyrighted content.

Before the decline of the music companies were mostly interested in creating physical media and merchandise sales, publishing and concerts. The accelerator of all activities were new physical media release. Today companies are active in more sectors in monetizing the artists brand and activities. The music company can receive revenue from such unlikely places as artists fan club and product endorsements.

### **2.2.1 The sales of recorded content**

This has been the backbone of record companies for years. The companies were built to produce, market, sell and distribute physical products such as records, tapes and other tangible goods.

Bases of recorded content is a agreement between the record company and the artist. In a simplified example in this agreement it is agreed that the artist will produce recordings for the company against agreed royalty and the company will manufacture, market, sell and distribute this recording to the best of it's capabilities. The bases of the agreement is sound, there is a mutual interest to achieve the best possible recording using the record company's resources such as A&R services and achieve best possible sales to compensate the costs of the record and receive royalties. The record company has also protected it's interests against illegal use of the recorded material and in that way also protected the rights of the artist.

In the modern music environment, where the revenue is not coming from selling complete recordings but is coming from selling individual songs, there is a contradiction between the desire of the artist and the needs of the record company. Record company is not any more a company that produces and sells records, it has evolved into a Music company that wants to collect revenue from different sources.

### **2.2.2 Publishing rights and synchronisation**

Publishing companies precede record companies and many record companies have their roots at least partly in publishing companies. Music publishing begun with producing and selling sheet music and evolved to covering the recorded music in early twentieth century as disc format became popular.

Publishing companies represent artist work and actively seek opportunities for artist's work to be used in recordings, films, commercials or in other usage cases. A good and reputable publisher is capable of generating significant income for the artist if the artist's work itself is in high level. Also journey to a recording agreement can start from a publishing company finding a suitable record company to release artist's work.

In some cases an artist would in conjunction with the record agreement make a publishing agreement with the record company's publishing company. This is a convenient model for the artists as the partnership has been easy to manage and there has been a mutual interest to easily collect the publishing revenue from performances, manufacturing of the recorded compositions and other licences. Also income from publishing rights can be a factor in music company's plan in marketing and promotion of the artist.

Synchronisation means that the original recording is used in film, TV, commercials, games or other media. The rights holder of the recording can actively seek usage of the recording in hopes that this added exposure will generate interest in the recording and the artist and this would result as boosted sales.

In many cases revenue from publishing rights and synchronisation has been the only additional source of income for the music company. Often when an artist is not composing own material, but is using compositions that can be administrated by different publishing company. The revenue is divided between companies and the artists and the revenue is insufficient, the music company would want to deepen its relationship with the artist and tap into additional revenues streams.

### **2.2.3 The 360 deal**

In attempt to widen their revenue scope, music companies have introduced so called 360 model as an agreement type between them and the artist. In this type of deal gives the music company access to all revenues that is generated by the activities of the artist.

A 360 deal is defined by Rutter (2011, 275):

Where a music company is contracted to take care of the collective business interests of the artist's income. In music this would constitute recorded music sales, publishing, concert revenues, sponsorship and product endorsement income.

This model can be hugely beneficial for both parties. The company has more initiative to use marketing and promotional tools to achieve the best possible exposure for the artist. For the artist this means less administrative work that at least for a new band



without a manager can be considered as a good thing and the artist is able to concentrate fully on the development of their art. In some cases the music company can assume managerial duties for the artist, but this can cause conflicts of interests and harm the artists career.

Also 360 deal can include recuperation of different costs from the artist even though the cost is not generated by the activity from which it is deducted. For example recording costs can be deducted from the ticket sales revenue.

### **2.3 Revenue streams change as new opportunities emerges**

In a constantly evolving world of music business the future is not clear and new opportunities can not be predicted. This is why music companies try to tie the artists and reserve the right to take a part of all possible income.

#### **2.3.1 The kids at digital age steer the evolution**

The music companies are trying to identify the possible new opportunities that they could seize and compensate the lost physical sales. But the digital native kids, millennials, are shaping the future models of music content usage.

In their report technology research company Forrester suggested that user experience is the most important thing for the digital age users. Personalized and curated user experience will guide consumers towards the legal digital outlets of copyrighted content. Other consult company Bain & Company published a survey where the results show that digital natives are more willing to pay for desired content for the convenience.

The digitally connected and savvy users of new media outlets do not only steer the evolution of platforms, they also can change and create new digital outlets by choosing their own digital channel.

Youtube is the largest music streaming service in the world and this was not by design of the music companies. Kids discovered that Youtube can be used as a method of distributing music and videos and by this they in practise created a new platform for music

companies to distribute copyrighted material, launch new artists, discover artists and receive income.

### **2.3.2 Will there be enough money to go around**

If an artist is not in a vanguard of new technology or is not capable or willing to use new digital opportunities, will the artists be able to continue their career or will they be forced to seek other income. Agreements can be disadvantageous for the artist and not take in consideration the digitalization and do not offer reasonable compensation for digital usage of copyrighted music.

The current state of music business where streaming is becoming the most important channel for music distribution, the royalties paid by the streaming companies are still relatively small and divided between the music company and the artist, will the artist still be able to create and release music in that way and on that level they want to.

All this can result in a totally different way of selling, marketing and promoting music by passing the old ways and creating new methods of connecting with the consumers and generating added value to both the artist and the consumer.

### **3 DIRECT-2-FAN (D2F), OLD CONCEPT UPDATED FOR GLOBAL REACH**

Concept of D2F has been around from very early on. Earliest fan clubs which provided fans information, exclusive content to subscribing members from an artist, can be considered as beginning of D2F. What is important to note is that these early incarnations did not seek to make income from engagement, but to build up artists brand and widen the fan base. Also in the punk rock era, the DIY attitude and lack of other distribution channels encouraged artists to connect with their fan base through mail order and merchandise stalls at the venues. The object of this was generally not to make profit but spread the culture and connect with the fans. This ethos was later continued by underground hip-hop with self produced CD-R's.

#### **3.1 History of commercial Direct-2-Fan**

Break through of more commercial oriented D2F has been dependent of development of internet and technical capabilities of distributing digital content with possibility collect payments reliably.

The first artists using D2F effectively emerged in end of the 1990's with British progressive rock band Marillion leading the way. In the early stages they used their site for collecting contributions for touring and recording as they despite being reasonably successful recording artist for EMI, were not interesting band for a record company to sign and invest. This has later evolved into full scale one-stop for all things related to Marillion. It is possible to purchase music in different formats, merchandise, connect with the band members and other fans. The site has evolved and expanded by the technological development and can still be considered as template of what D2F can be.

Myspace, started in 2003 as a social network can be considered as a first completely digital channel for D2F. The site it self did not sell music at the beginning but it offered a media for artists to promote themselves and linking artists content to relevant market places where the digital content could be purchased. The market places included Itunes, which was started 2001. It could be argued that Myspace cannot be consider as D2F as artist did not control the flow of income, but Myspace allowed artists to promote themselves and reach global audience without help from a record company marketing and promotion efforts.

For artists that do not have a sufficient resources to self manage D2F business, there is several different platforms which provide services to artists against agreed fee. Earliest of these platforms was US based company Nimbit, founded 2002, which offers manufacturing and fulfilment of ordered physical products, distribution of digital content and collection of payments.

In less than 25 years commercial D2F has developed into a real competitor for record and music companies and offer in some cases wider range of revenue opportunities and possibly bigger income to the artist compared to a conventional recording agreement or the 360 deal.

### **3.2 Revenue opportunities**

The possible revenue streams for an artist in D2F do not greatly differ from those that are present for a music company. But the main difference is that the artist can control these opportunities and be more freely explore different alternatives and create relationships to those companies that are able to fulfil the demands and desires of the artist and deliver the best possible user experience and end-product to the fan.

#### **3.2.1 Physical media sales**

Physical media sales can be the most difficult aspect when working on self managed D2F. Physical products always mean production and other costs. It is relatively easy to manufacture CD's or DVD's, but it is harder to distribute them in larger scale. For this a distribution agreement is required and securing one could be difficult as major music companies are not very interested to offer these services and reliable independent distributors are hard to find. Manufacturing physical products requires some capital resources which also are tied to the product until it is sold. D2F service platforms are able to solve some of above mentioned problems but they also deduct a fee from their services and this has an effect on the revenue to the artist.

Still despite these obstacles the physical product is important as it is a tangible and acts as a manifestation of fandom or a souvenir from a concert. It also can have content that is hard to achieve in digital formats.

### **3.2.2 Digital media sales**

Digital media sales are mostly done by specialized digital distribution companies that are able to service all digital service outlets. For an artist this is the only way to deliver the content to all services as digital outlets are not willing to do agreements with individual artists. Distribution fee for these services will affect artists income, but as the option is not to have the content available, the fee is a necessity and have to be accepted.

Existing digital services, such as Spotify, Itunes or Netflix are familiar to consumers and they already have established a relationship with these services. For a fan it is very convenient that the artists content is available in these outlets.

### **3.2.3 Publishing**

For an independent artist music publishing is as important as it is to a artist signed to music company. When an artist creates original composition or a lyric it is subject to copyright even it is not registered with a copyright society that represents music authors. If the work is primarily used for example at home and there is small possibility for it to spread to wider audience, registering it with a society is up to creators activity. But registering the work is highly advisable if the work is made available in open media outlet such as Youtube. This will give it some protection against plagiarism in form of proving that the work existed before the plagiarism accrued (Rutter 2011, 92-93).

The independent artist has very little possibilities to market their own work in the global publishing marketplace. Teaming up with a smaller publishing company for a agreed time period or signing with a major company can prove to be better option. Specialized publishing companies have the necessary connections and practises to have the artist's content exposed to wider clientele of content users. (Rutter 2011, 93-94).

Also in the copyright protection viewpoint the publishing agreement with a publishing company can be a better alternative as companies have possibility to monitor content usage on global level and are capable of starting legal measures in behalf of and in benefit of the artist and themselves (Rutter 2011, 102-103).

### **3.2.4 Merchandising**

Merchandising has become a major source of income for both music companies and artists as well. Selling t-shirts and other memorabilia, including CD's and recordings at the concert venue is serving two different functions. Firstly it creates a revenue stream for the right holders and on the other hand it provides fans the much needed possibility to purchase mementos of the concert and enforce their relationship with the artist.

For an independent artist merchandising can be profitable even in small scale, but to be able to reap the benefits of it in a best possible way the co-operation with for example D2F platform that offer artist this service enables an artist to produce merchandise at lower cost and serve their fan base better as many of these companies also provide on-line outlet for merchandise.

It is possible to take the merchandising to a next level by using the artists brand to generate services or product families that are remote to actual music of the artist (Kusek & Leonhard 2005, 117-119). These cases the image and brand must naturally lend it self to these additional purposes and the recognition of the artist must be at certain level. Also it is possible for an artist to grant licences to different companies to use the artists brand and image in merchandising. This revenue stream compared to the revenue that can be generated by producing own merchandise can be very much smaller. On the other hand it enables artist to reach wider audience and build up the artist profile in territories that otherwise would be ignored.

### **3.2.5 Live performances and ticket sales**

Live performance is one area of music business that is growing. Concerts are promoted by booking and promotion companies that represent and book the concert performances. In some cases they also produce the concerts. For an independent artist it can prove to be very hard to break into the performance business by themselves. Entrepreneurial artist can succeed to a certain level but to be able to really start receiving revenue from performance can prove to be too big of a task.

Regardless of the way that the performance is produced or booked, the artist will receive payment of the performance and possible royalties from the music that has been performed.

Ticket sales can also prove to be something that the artist or D2F platform can not provide. Ticket sales are in the hands of a couple of big global companies such as Ticketmaster but here are some smaller players, in Finland for example Lipputoimisto that could provide more flexible terms and enable the artist to receive more income from ticket sales.

In addition of conventional performance before live audience, the development of high quality HD streaming can in the future provide artists a possibility to sell access to a live concert that is filmed in multiple cameras and streamed in real-time and available for later viewing. These kind of concerts can be managed by the artist and artist is entitled to all possible revenues.

### **3.2.6 Other revenue sources**

Beside the conventional usage of music, there is a huge market for different type of music that can be used in films, TV, games, commercials, greeting cards or some other media than a recording.

This music is called stock music and the purpose of the composition is not to be used in a recording but in some of the above mentioned outlets. The compensation for the artist lump sum of the user wants exclusive rights for the content, but also the content can be distributed in non-exclusive and this enables constant flow of income. There are several digital outlets for stock music with different models of revenue structure and services (Cury 2011, 174).

If an artist has reached a certain level of popularity or is in some other way interesting for sufficient amount of people, a fan meeting in a form of webinar or a personal participation for example in a recording session with paid entrance or a concert at fans house could be an source of income. Webinar is easier to organize and carries less costs than arranging a personal meeting, but an personal interaction between the artist and the fan has higher value toward the fan and increases the commitment of the fan toward the

artist. Personal meeting can evoke organic marketing, promotion and added interest the artist and also enables additional sales in form of physical products.

### **3.3 Benefits (strengths and opportunities)**

D2F can in addition to economical benefits have a significant positive impact on the level of fan engagement. When an artist is involved in interacting with their fans the attachment of the fan is increased and this in turn may result in fans becoming ambassadors of the artist and the artist-brand. This in turn will increase the organic interest in the artist and will in some cases increase the sales and create new opportunities to the artist.

On economical point of view the artist is able to monetize opportunities freely and flexibly. This gives the artist a possibility to profitably collect revenue from such sources that would be profitably too small or difficult to manage through conventional agreement with a music company. Being open to non-conventional revenue streams can lead to discovery of parallel economical environment that run along side and support but not intervene the main revenue stream.

For an artist that is creating music in an niche musical segment, being independent and dealing directly with the potential customer base could be the only way to profitably have a career. Music companies seldom have the interest to promote an artist that has only limited commercial potential, but for an active D2F artist even a smallest niche can be enough for a professional career (Leonhard 2008, 35).

Without the direct contact with it's fans an artist might not be able to understand what the potential fan base could be and where they could be. This would lead to a missed opportunity to connect socially and economically with the fans. Good example of this is the popularity of English singer Morrissey and his popularity among Mexican-American people, Chicanos, living in Southern California. For Chicanos Morrissey's songs content resembles their traditional music and they are able easily to relate these songs even the artist himself comes from totally different culture. Morrissey has embraced this in social and economical way by touring in Southern California.



In a case where an artist is losing general popularity, the recognition of potential fan base and actively engaging and serving fans the artist could be able to continue to create music in a professional level despite smaller income. Focusing on those opportunities would give the artist a better return of investment and continuing career in a healthier economical situation.

### **3.4 Drawbacks (weaknesses and threats)**

Running a successful D2F-business independently requires a lot of work. For example there is a constant need of serving fans with social media updates, serving media with promotional messages and updates, serving physical products, touring or concerts, developing new products, stock-keeping of products and ordering products. The number of necessary activities depend on the scale of the D2F operation, but the work needs to be done. This additional workload can have harmful effect on the actual creative process.

To engage your fans in a deeper level requires an artist to be open and available for the fans. This can prevent the artist from focusing on the career and possible opportunities for career development. For an self managed artist it can be difficult to turn down opportunities to interact with fans, but using this time to focus on career development can be more beneficial in longer perspective and eventually result in better and more valuable relationship with fans.

In addition of personal resources, the financial resources are in a key role. Particularly in manufacturing physical goods, the financial resources must be available from the beginning. Financial resources need to be sufficient as physical goods also tie up financial resources and time of return of investment can be longer than expected. If the financial resources are limited or are tied up in physical inventory, the business development can become stagnated and this can result in lost of interest from fan base.

Sufficient knowledge of the business in economical and legal level is needed to be able run any kind of business, D2F included. In addition to normal business processes, the music business has several other components that needs to be understood. These are for example copyrights, payments from or to copyright societies, licences and royalties. For

an creative artist, administrative work can be uninteresting and lead to negligence in official reporting, book keeping or other required tasks.

The artist starting a D2F operation can be immersed in the musical genre or niche that it is hard to see the true size of the genre. It may result in biased understanding of the business opportunities and create false expectations for business revenue. Based on this false understanding, the scope of the D2F operation is too wide and it results in failure to convert investment into profit. Researching the scale of the fan base can also prove to be difficult for a starting artist. For a more matured artist it is easier to estimate the size of the fan base in general, but the core fan base is the true measurement to which base business decisions.

### **3.5 Infrastructure is still needed**

In a conventional model, where an artist is attached with a music company by signing an agreement for recording, publishing and merchandising, the needed infrastructure is in place to support the artist financially, legally and promotionally. The music company takes the bulk of the financial risk and allocates resources to supply services for the artist. As the music company takes a bigger risk than an artist, the music company offers an artist royalty-based compensation with possible deductions. For an artist this compensation might not be sufficient to be able to lead professional music career. Also an artist is tied to the company and has limited possibilities to pursue opportunities that are in contradiction with the agreement with the music company.

D2F forces the artist to actively work on the different aspects of music business independently. Depending of the scale of the artist, musical genre and placement in career development, it can be manageable but it also can prove to be too time consuming and have negative impact on creative work. For such cases there are several platforms for D2F business.

These platforms offer wide variety of different services that can alleviate artists work load. Services can include manufacturing physical products ranging from media recordings such as CD's to merchandise such as t-shirts. They also offer dedicated marketplace for artists products on the internet with comprehensive payment and delivery method and fulfilment services of orders. Some of the platforms act also as a tool to

collect data of the fans and enable the artist to target the fan base more accurately for example to regions where the artist is touring.

These platforms offer some free services but to be able fully exploit the possibilities of these services, a monthly payment is required. The payments scale according to the services needed by the artist. These platforms do not offer promotion or marketing services beyond product related marketing campaigns, for this a separate promotion/marketing company is needed.

It is possible for an active artist to do own marketing and promotion. Usually for new and starting artists this is a natural thing, but for a matured artist this could be seen as unprofessionalism. Independent marketing and promotional service companies are available even for a global scale. The cost of these services is related to the scale of services needed and experience of the company.

Publishing is best administrated by a publishing company with sufficient global resources. It can be enough to join a local copyright society for securing income from usage of copyrighted content, but to be able to exploit the full potential of the content in the global marketplace an artist is better off leaving it to the hands of an interested and reputable publishing company. Publishing companies also have an interest in an artist's success as they normally are entitled to a share of publishing revenue.

Concert booking and arranging tours is also a specialized area, where a good partnership with a recognized booking agency is essential. A booking agency's connections to promoters and venue owners have been built over a long period of time and organizers prefer to deal with an established agency to whom they can rely. For an individual artist or manager it can prove to be a difficult situation to get organizers' attention and book concerts or tours. A booking agency normally deducts a fee from the booked concert, but they also can provide services to pay taxes and other related costs in behalf of the artist.

For an artist using D2F there are a lot of possibilities to outsource work and use different companies to do required tasks. A benefit of using different companies is the possibility to employ specialists that are able to deliver added value and give the artist the opportunity to change service provider if the service does not fulfil the needs of a successful D2F busi-

ness. Managing these partnerships is added work for the artist but comparing it to the total workload done by these partners, the time is well spend.

## **4 DIRECT-2-FAN ENABLES ARTISTS TO CONTROL THEIR CAREER AND CONNECT WITH FANS CREATING ADDED VALUE**

### **4.1 Career control**

The vision of the artist of the career development can be in a conflict with the music company's vision of the development of the career and willingness to invest in artists career. This conflict may be rise to be a significant factor and cause eventual disagreement between the artist and music company. Particularly the financial investment by the music company can be regarded to be too small, misplaced or mistimed by the artist, even though it is in the music company's interest to maximize return of investment. For the same reason music companies drop artists from their rosters either by not renewing their agreements or just letting the artist leave the music company.

For these reasons and to be able better control their career and make decisions regarding their future or to be able to continue their career at least in semi-professional level, many artist have chosen to use D2F.

D2F enables artist to focus on the overall development of the career and be able to exploit opportunities more freely and without interest conflicts that are present that can be present between music companies. For an independent artist it could be possible to better exploit cross-media possibilities such as music usage in games in conjunction with other releases to maximize the overall effect.

### **4.2 The artist as an entrepreneur**

When embarking in an D2F journey an artist has become an entrepreneur. In most cases more precisely a micropreneur, who has the same duties and responsibilities as a entrepreneur, but significantly smaller resources (Rutter 2011, 225), a Startup.

Entrepreneurship also means accepting the need to think and in some extent act accordingly. Beside fulfilling the mandatory tasks such as fiscal reporting and tax returns, it also requires delivering definitions for the business for example in a mission statement and how to measure the outcome (Rutter 2011, 229-230). In a mission statement the

micropreneur can define the reasons and values of the business and which way to achieve desired goals. A mission statement should be concise and clear, focused on the core idea of the business. It also should be timeless and inspiring, timeless in that sense that the core idea of the business should not be easily altered and inspiring in that sense that the micropreneur believes in it and is able to convey this belief to other people as well (Brikman 2016). If an artist is considering the D2F as a better alternative to achieve professional goals, writing a mission statement could help to understand scope of the endeavour in both personal and business level and discover the unique selling proposition .

For some artists it can be more natural to work as an entrepreneur, it is a strategy choice how to be able to work in given business and culture environment. It could be also that the music genre is encouraging or even forcing this as the genre itself is too small, too regional or in some other way limiting a large scale business model. By selecting a suitable business model a niche market can also support a professional career.

**Digital technologies support moving into entrepreneurial business strategy** by offering affordable means to create, distribute and market the content professionally in a global scale at the same time still creating a deep connection to individual fans and keeping a local focus. Creating content such as recordings can be done by using digital recording technologies without the need to use recording studio. Musicians can be even in different continents and still be able to create music together in a remote collaboration platform. Distribution of digital content or physical recordings can be done by using D2F platforms. Marketing can be a mix of creating content for social media outlets, which have a built-in mechanism to share and re-distribute the content created by the artist to achieve organic visibility. Promotional work towards the conventional music press outlets have also become easier in a global scale with ability to share and distribute promotional material digitally.

### **4.3 Crowdfunding**

The term crowdfunding or crowdsourcing means that the financial capital for certain project from large and undefined group of people (Ennico 2016). Internet has opened the possibility to expand the search of people willing to invest in a project to a global scale. Crowdfunding platforms such as Kickstarter or Indiegogo offer a convenient way

for individual people to invest in artist project and in this way support the artists work directly. These platforms also provide a standardised way to organize the funding in a legal way and the fund seeker does not need to put up any securities as the funding or a pledge is collected from the funder if the project has reached the target funding and will actually be started. For an artist a project could be a new recording or a tour.

In crowdfunding it is also customary to offer different type of content, rewards for different size of funding. This will give an opportunity for fans to participate in their own level of commitment to the artist and also give the artist a change to serve the die-hard fans with something extraordinary in return for a substantial contribution. An artist still needs to keep in mind the artistic integrity and do not let the contributions to dictate the content.

Crowdfunding is a way for an artist to connect with fans and build up a sense of community and involve the fans in artists career in addition of receiving a financial contribution.

#### **4.4 Building the relationship with fan base**

When working on a limited resources relationship between the artist and the fan base is essential for success of an artist. In conventional model, where there is a music company taking care of the relations to the media, the fan base may not be able to create a strong bond to the artist. In D2F the artist is able to deliver added value to the fan base with direct communication and reaction to fan base expectations.

##### **4.4.1 Focused marketing**

For a D2F artist with limited resources, identifying the core users, fans, is essential. By clever marketing tactics and advanced segmentation it is possible to achieve good results with limited marketing budget (Lathrop 2003, 41-45).

Discovering the size of the fan base and collecting as much information about them, will help the artist to focus the marketing efforts to the right people, in right media, in a right scale. In a niche market, it is not profitable to do marketing in a mainstream media, the return of investment (ROI) can be very poor, unlike a personalized email campaign

target to a selected audience members, which could give better results and in addition increase the bond between fans and the artist (Kotler & Armstrong 2004, 253).

After identifying the easily reachable audience, the expanding of the fan base is next step. By using available information about the fans, what the music press they read, what websites they visit, it could be determined which music or genre overlaps with the artists music or genre and on these neighbouring markets are those that have the most potential and a marketing should be expanded to cover them as well (King 2009, 6). If the music genre that the artist is a part of has relevance in other entertainment, for example electronic pop-music has touching points to sci-fi movies, this totally new market could be worth studying for potential growth.

#### 4.4.2 From four P's to four C's

For marketing the four P's have been the standard approach for decades, but for modern web-driven consumer focused marketing such as D2F Lauternborn's four C's are more accurate and offer more relevance. Being market and customer centred and offering product directly to the customer with focus on customer satisfaction can deliver better results (Kotler & Armstrong 2005, 32)

1990 Robert Lauternborn created his four C's to replace the four P's that have been the backbone of marketing strategy.

Table 1. Four C's and four P's

Four C's	Four P's
Consumer	Product
Cost	Price
Communication	Promotion
Convenience	Place

The four C's give more understanding in what is important to think about for those who select D2F as their strategy and consider the four P's as something that is complimentary to four C's and can be implemented after the four C's (Kotler & Armstrong 2005, 58)



**Consumer**, the fan is in the centre of the D2F. Without the fan the artist would not have an audience who is willing to invest financially support the artist by purchasing the physical products, attend concerts or act as an advocate for the artist work. The fan has wants and needs which is fulfilled by the artist. For example an artist can offer a emotional outlet for fans feelings or give sense to the fan of belonging in a larger group of supportive people. More tangible want can be fulfilled by a concert at fans hometown.

**Cost**, the price that a fan is willing to pay for the experience including affiliated costs and what kind of added value can have positive effect on the purchase decision. A crowdsourcing campaign can have several price points from which the fan can choose and this may offer a possibility to maximize the potential turnover. The price level may need to be researched so that the price be set correctly as the presumption of the cost is very subjective. The price level of the musical genre can also have effect on the price. For example a price of a punk rock CD can be set lower than a mainstream pop music release, but the price needs to cover the expenses of producing the CD.

**Communication**, on the internet age the direct two-way communication between an artist and fans in a global scale is easier than ever before. By using social media or direct marketing using mailing lists collected on the website or at concerts it is possible to reach audience that has already a connection to the artist. When trying to reach new markets, there are a lot of tools to segment the target audience based on different values such as location, age or interests. The message can be personalized giving it added value to the fan and the channel can be chosen according the target group and their media usage and the possibility for interaction between the artist and fans. It is important also to keep in mind that the communication, marketing, is done in order to achieve a certain goal. The goal can be directly commercial, such as CD marketing, but it can also have other goal, for example collecting information from potential new fans, building up asset for future marketing.

**Convenience**, how the artists products can be most easily be obtained. For this a global D2F solution platform provider is extremely important. The possibility to purchase a physical product with wide selection of reliable payment and delivery options or a possibility to use one's default streaming service to listen to the music are key factors. Offering the products in multiple channels considering the target fan base demographics

is essential for success. The fans also want to interact with the artist not only buy products, so contacting the artist should also be possible with minimum trouble.

## 5 CONCLUSIONS AND DISCUSSION

The music business has been faced several problems during last fifteen years. The advanced technologies and especially the internet have changed the business environment and reduced the profitability of the record companies that rely on conventional revenues streams such as physical recordings. For gaining the profitability back the record companies have transformed into music companies that have branched out to new businesses and the created new business models such as 360 deal. These new business models tie the artist more tightly to the music company and allow the music company to have a share in all artist related revenues. The artist brand is not entirely artists own but has become a part of music company's intellectual property. Music companies may focus on certain music styles that are regarded the most profitable and let go those artists that they feel do not have the necessary potential even these artist have a had a relatively successful career.

The tight relationship with the music company can limit the artists potential and prevent the artist to seize all possible new opportunities as the music company may control the artists career. Also on the financial aspect the artist may see fall on the income not only due to the reduced sales but also due to the music company taking it's share on all revenue and in the worst case the artist may lose trust and resources of the music company.

As the technology has changed and caused a profound change in the music business, it also has offered affordable new and exciting way of artist driven business model, direct-to-fan D2F, where the artist is in direct contact with the core audience and offer them change to support the artist directly. Social media outlets offer possibility segment the audience and research possible new ways of engagement and better targeted marketing. With this approach even a local or very limited music niche could be profitable market for an artist with right attitude and knowledge.

D2F gives new tools directly to the hands of entrepreneurial artist. The artist is able to connect with the core audience directly on a global scale with reasonable financial starting capital. This creates a stronger bond between the fans and the artist where both are receiving additional value from their commitment in the relationship. The artist is able

to promote and sell the created content to the fans and the fans have sense of deeper connection and participation to the artists career and even becoming artists advocate.

To be able to reach economical prosperity with this independent approach the artist is required to manage several aspects of music business and related mandatory tasks. Work load can be significant depending the scale and can draw energy away from creative work. This can become a burden to the artist and hinder the artistic development. For an independent minded artist with limited knowledge or resources that has a desire to pursue D2F model, it is possible to outsource certain tasks to other independent professionals such as promotion, publishing and booking agencies. For manufacturing physical merchandise such as CD's or t-shirts and distribution of these goods there are several D2F platforms that offer these services for a fee. Using these outsourcing services still keep the artist in control and leave them open act on emerging possibilities without straining the limited resources too much.

Other possible approach to keep artistic control and still utilize some aspects of D2F model is a hybrid of agreement with a conventional music company for recordings and publishing and keeping some parts separate, for example using a specialized merchandise company to manufacture, distribute and sell the merchandise. The benefit with this hybrid model is that the artist is able to utilize music company's in areas which require a specialized knowledge. Especially in publishing good and established connections to other content users such as other music companies, movie or advertising companies are extremely valuable. In this model the artist keeps the independency and control and is free to explore possible opportunities without restricting agreements.

On either models the artist might face the challenge that to be able to create and produce content or products that satisfy to the fan base and have enough appeal to the audience outside the core audience, there is a need for starting financial capital. The fact that the artist is independent can not be used as a excuse for poor quality, especially if the aim is to broaden the fan base. Then a crowdfunding could offer a solution in which the fans are providing the funding directly to the artist and feel more connected to the artists career.

The core fan base are willing to invest time and money in order to support the artist by purchasing merchandise. Even if the payment and delivery methods of the physical products are not commonly used or the digital content is not available in the streaming

services. For an artist that has committed to D2F is vital to understand that convenience drives the growth. The ease of use of streaming services such as Netflix or Spotify have taught the digital users to demand convenience and reward it by paying for the service rather than use possibly illegal downloading or streaming sites that have poor user interface. Supplying the popular digital services with quality content, the artist is making it easier to the fans to support the artist. Also using such D2F or e-commerce platforms for selling physical products that offer comprehensive payment and delivery methods to all countries increases the fan satisfaction. Being able to deliver good user experience across different platforms is a key to success and well managed engagement between the artist and the fan.

The direct contact with the fans and the audience gives the artist a unique opportunity to connect with the fans in a way that creates mutually advantageous and valuable relationship. On this relationship it is possible to build a profitable business model using modern commerce technology, affordable segmented marketing, dedicated platforms for outsourcing and co-operating with necessary agencies with relatively small financial investment. The entrepreneurial artist has the change to control own career, keep the integrity, fulfill own vision and create something that touches the fans in a personal level.

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