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Evolution of business models and the relevance of the Lean startup in the music industry

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Author Title Number of Pages Date	Maiju Korhonen Evolution of business models and the relevance of the Lean startup in the music industry 47 pages + 1 appendix
Degree	Bachelor of Business Administration
Degree Programme	European Business Administration
Instructor/Tutor	John Greene, Business Lecturer

The purpose of this study was to investigate how the business models have evolved over time in the music business and could the Lean Startup be a useful approach to improve the chances for a record label to gain a sustainable competitive advantage.

The qualitative research method was applied, and the study was conducted using secondary and preliminary data. Preliminary data was gathered by conducting interviews with industry professionals providing industry knowledge of the changes within the music industry. Additionally, the use of author's experience in the music industry has been used in the results part of the work.

The key findings of this thesis are that the rise of streaming platforms have had a significant effect on the business models within the industry. This led to changes in the content of contracts created between artists and record labels. Therefore, record labels started to receive income from new revenue flows, leading the labels to modify their operations to fit the changing markets. Another key finding in this thesis, is that the business model canvas that is created to the purposes of using the Lean Startup method can be applied on a theoretical level to an independent record label. The results indicated that further research on the topic could be implemented.

| Keywords | *Music industry, Lean startup, Business model, Record label* |

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1   Introduction

Music is being consumed more than ever, and in today's world, it is possible to have a career as an artist without the backing of a record label. However, since it is so easy to publish one's own music, the large selection is making it increasingly demanding to stand out. Therefore, the role of the record labels is still relevant to the industry. The music industry is a fast-changing world full of several players in the market**.** The digital streaming services that did not exist ten years ago brought new opportunities, but simultaneously, forced the key players to change their business models to obtain new revenue sources. The main changes that have occurred in the music industry are introduced in the opening section of the literature review.

This thesis aims to provide a wider understanding of the music industry business models that have developed over time. Since the industry is still facing challenges, players in the market could possibly benefit from the use of the Lean Startup method. The possibility to connect the Lean startup that is created by Eric Ries, as an approach to the quickly developing music industry is being discussed in this work. This is done by applying a business model canvas into an independent record label. The aim is to discuss the topic, whether this approach could possibly be applied to the recording industry.

In order to gain more information about this topic, an interview was conducted with two industry professionals. Additionally, visual demonstration of an example, how an independent record label operates in the industry is provided in the results section of the work.

The thesis is combined from the literature review, which is covering the previous research of the topic leading to the gap in previous research. In the methodology section, the ways how the research is conducted in this thesis is explained more thoroughly. In the results section, the findings are presented, leading to the analysis and conclusion sections where the findings of this thesis are presented.

2   Literature review

The music industry has changed rapidly in the past 30 years. It has led to a change in the music business models, operations and even skills needed in order to make it in the industry successfully. Even now the industry is developing and adapting to new platforms, apps and ways to get music heard through a massive amount of selection. The introduction to the industry, its models and the Lean Startup model will give a base for the question, whether the model could be useful to the future challenges the industry is facing.

2.1   The music industry

The meaning of the word industry has expanded since the industrial revolution. In the past, industry meant economic activity concerned with the factory production of goods, which were aimed for mass consumption. Along the way, that definition has changed to refer to other areas as well including the production, marketing and distribution of most commodities. These include services and immaterial goods. (Wikström 2013: 46)

The music industry as an area of business is very complex and wide-ranging instead of being homogeneous like some other industries. A study conducted by Williamson and Cloonan argued that the music industry should be called music industries due to the fact that the players share only some common interests. The reason is that the term is easily mixed up with the recording industry, which can create confusion. (Williamson & Cloonan 2007: 305) Wikström states that the music industry is divided into three segments; music-recording, music-licensing and live music. The music industry is changing quickly, but that has not stopped experts trying to define it. One definition presented in Figure 1. has been used in several publications through the time when discussing the industry. It is made by the UK government's Department for Culture, Media and Sport in 1998. (Wikström 2013: 46)

Core activities	Supporting activities	Related industries
Production, distribution and retailing of sound recordings	Music press	Internet/e-commerce
	Multimedia content	Television and radio
	Digital media	Film and video
Administration of copyright in composition and recordings	Retailing and distribution of digital music via the Internet	Advertising
		Performance arts
Live performance (non-classical)	Music for computer games	Interactive leisure software
Management, representation and promotion	Art and creative studios	Software and computer services
Song-writing and composition	Production, distribution and retailing of printed music	
	Production, retailing and distribution of musical instruments	
	Jingle production	
	Photography	
	Education and training	

Figure 1.   Music industry defined by the British government (DCMS 1998, Wikström 2013: 47)

As the industry moves forward, so do the new ideas on how the industry should be defined. Nevertheless, Figure 1. works as a great base for explaining the basics of the music industry, even though several opinions exist on what else should or should not be in included in the definition. Wikström defined the music industry as consisting "of those companies concerned with developing musical content and personalities which can be communicated across multiple media." (Wikström 2013: 49) In this thesis, the main focus is on the recording industry.

The currently existing major distributors are the major labels parent companies Sony, Universal and WEA (Warner Bros-Elektra-Atlantic). These majors own a large number of other record labels. Independent record companies (indie labels) are record companies that are not owned by the majors. (Passman, 2015: 64)

2.2   The history of music business & models used

The music industry has gone through several significant changes through history, changing from vinyl records to cassettes all the way to the use of streaming services.

The digitalization had a considerable impact on how music is consumed. This led the whole industry to consider how to alter their products to fit the world without physical artefacts. The big wave of changes started in 1999 when the internet had its impact on the whole industry. (Molteni & Ordanini 2003)
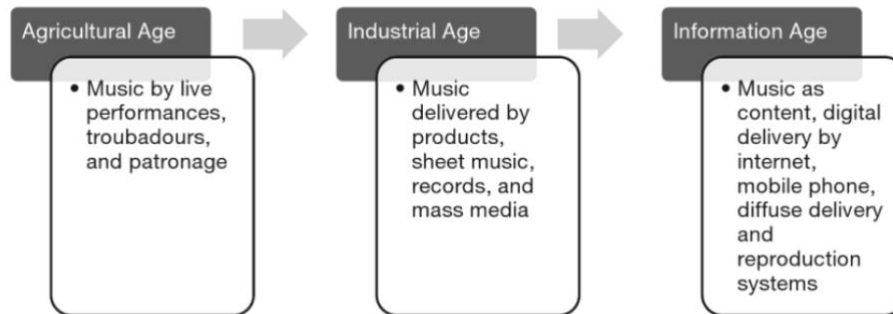
Figure 2. The music industry in three ages (Hull, Hutchison and Strasser, 2011: 30)

It is not new for the music industry to face a point where it would either evolve or die. The history of the major changes in the industry is shown in Figure 2. explaining the history shortly. The age that we are currently facing is called the information age where current development is not characterized by the production, but instead of the content and use of information. (Hull, Hutchison & Strasser, 2011: 30)

According to Hirsch (1970), (see Figure 3.) the only way for an artist to reach a broad audience in the industrial age is to go through four sub-systems; creative, record company, distributors, and media outlets. Indeed, Hirsch's model was one of the first models trying to explain the music industry, in which the number of records that come to the attention of the public and the number of records sold is connected with the success of the artist.
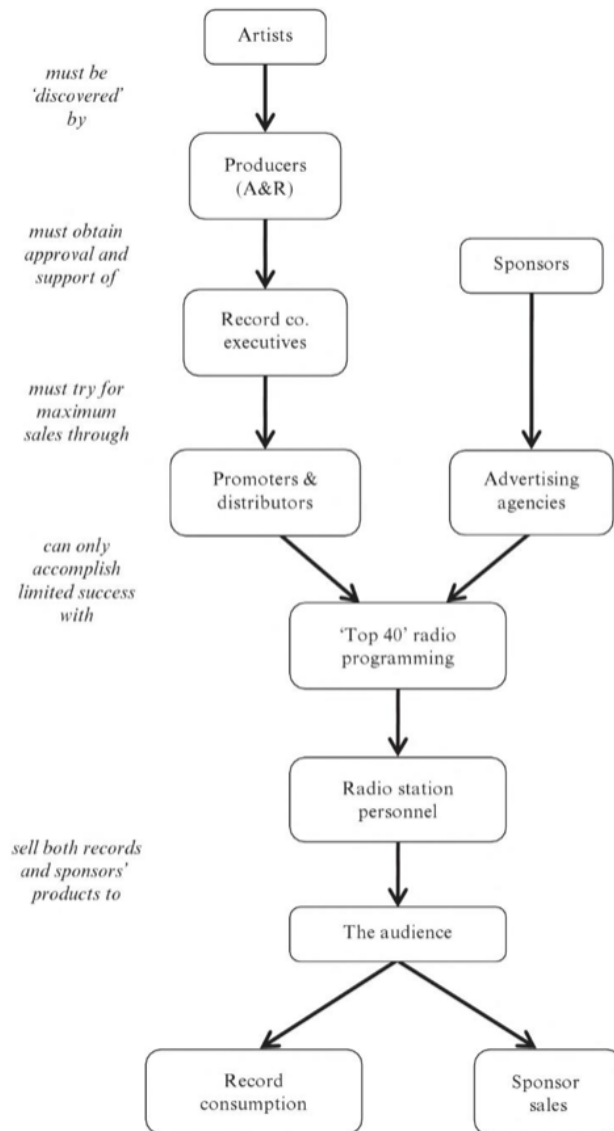
Figure 3.   The organization of the recording industry (Hirsch, 1970:17A)

The first section of Hirsch's model's sub-systems is the creative sector, which includes the artist, producer and the A&R (Artist and Repertoire) agent. A&R agents' job is to find new talent and introduce it to the label. This task is a crucial part of the record labels operations because the need for artists who have the talent and the potential to be commercially successful is ongoing. At those days a "hit" record would last 60-120 days before other records would replace it from the charts ranking the current most successful releases.

The second section is the record company, where the artist with people in charge of what records will be released. The third section is the distributors and promoters, and

the fourth consists of radio stations and other media outlets. The third section is based on the fact that the number of record labels is higher than the number of promoters. This gives the advantage for promoters to pick the recordings they want to promote. The promoters are then in contact with the radio stations and other media outlets hoping to get the releases on the radio's rotations. (Hirsch 1970, Wikström 2013: 55-56) According to Wickström, the model is still relevant to some extent and is succeeding to represent some aspects of the mainstream recording industry. (Wikström 2013: 56)

Technological innovations have always been prominent change-makers in the music industry. Before the Internet, the whole industry was relying on decision-makers in the record labels because the expenses of recording, production and distribution were much higher and covered solely by the record labels. The distribution at the time was conducted by the artists selling their albums in concerts, bricks-and-mortar stores, direct mail clubs and electronic retailing. Therefore, the traditional business model was far simpler until the end of the 90s. (Valerie, Vaccaro, Deborah & Cohn 2004: 46)

The Internet made changes to the way how music was consumed and distributed. This had a significant impact on the whole music industry, including copyright laws, revenue distribution and power relations. The creation of Napster in 1999 was the first platform that had a substantial number of users and made it possible for consumers to share music files via the Internet. This was the beginning of peer-to-peer file sharing where authorized and unauthorized listeners had access to music files. The new way of sharing music in a different form brought challenges to the major record companies to preserve their power in the market, which led to new legislations related to the copyrights.
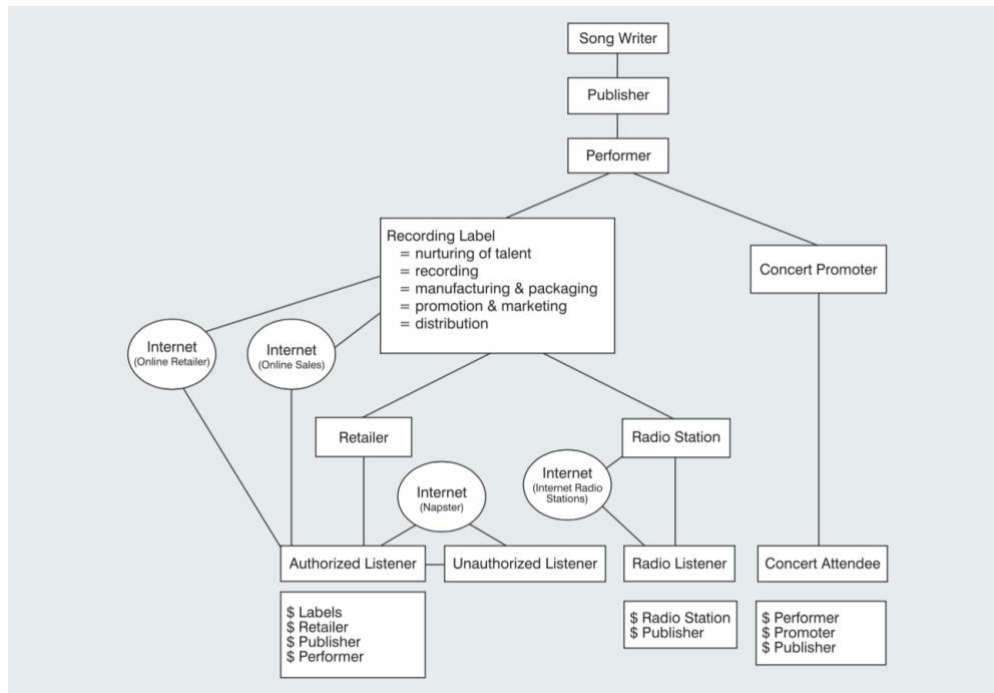
Figure 4.   Simplified value chain for the music industry (Meisel and Sullivan 2002:18)

Consumers were extremely interested in the online platforms due to the flexibility of the listening experience and the fact it was free. This led to the complete transformation of the old traditional business model. Figure 4. presents the simplified value chain of the industry. (Rao 1999, Meisel and Sullivan 2002: 18) Internet radio channels gave more options to the music listeners, and the possibility to skip retailers by downloading music files made the industry to come up with ways to decrease piracy. The music piracy means the copying and distributing a piece of music without the consent of the rights owners. (Meisel and Sullivan 2002: 18)

In 2000 when the new era of online music sharing platforms was approaching, the major music companies in the US invested into the Madison Project. The project was an early test on how consumers would respond to digital distribution. The test was done by using the latest technology available and it measured the consumer attitudes regarding digital distribution of music. (Don, 2000: 3) Already in this era the major labels were reforming and getting ready for the upcoming change, so they would be ready to adapt when the digital distribution started to rule the market. At the same time, the major labels became an essential part of making the change towards digitalization happen. While focusing on the future, they also conducted their separate

initiatives on how to modify their supply chains, value proposition and pricing. (Miller, 2018: 20)

In 1998 portable MP3 players were launched, which allowed the music listening of MP3 files on the go. In 2001 Apple launched the iPod, which became a huge success. (Wikström 2013: 66) In addition, Steve Jobs launched iTunes in 2003, a legal digital online store for buying music. This, together with the iPod, made the digital music fashionable and it was a turning point for the music industry. Through this online platform independent labels had a better chance of getting their artists' music available for a wider audience. Thus, it gave them a stronger position against the major labels. The labels started to gain revenue much faster, and because of selling downloads instead of CD's or vinyl records, many risks such as uncertainty in shipping and damaged goods were not as relevant as before. iTunes also created the standard price of 99-cent per song and increased the importance of a single release. At this point, albums were already starting to unbundle due to the substantially increased piracy. (Pham and Peoples, 2013)
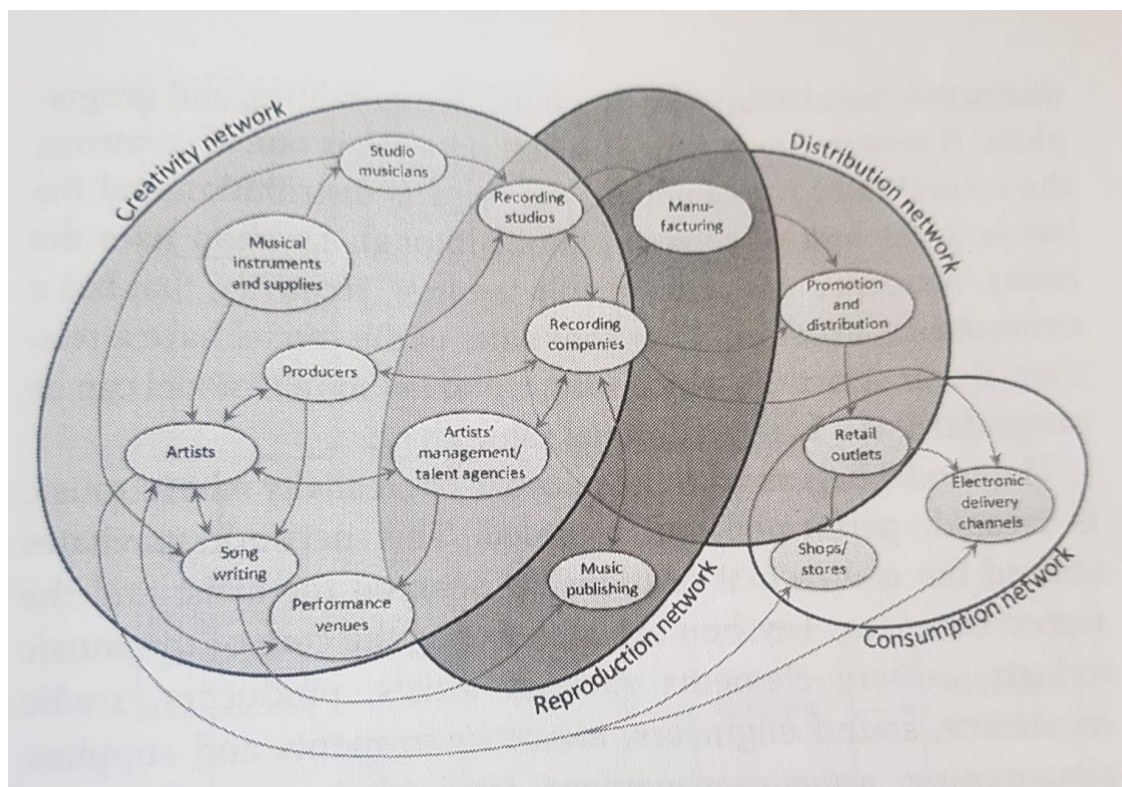

Figure 5.   Music industry networks (Leyshon 2001: 33)

The Figure 5. is a visualizing how the music economy is consisted from series of sequential processes.

The Leyshon's (2001) model is divided into four following networks. Those being the creativity network, reproduction network, distribution network and consumption network. The general aim is to explain the connections within the industry. It differs from Hirsch's model by focusing more on how the CDs are distributed instead of focusing on the promotional factors in the value chain. However, only the first part in the Leyshon's model can be seen as a network and others more as a linear approach. (Wikström 2013: 56, Leyshon 2001) This model was created the same year the first streaming platform was launched.

The MP3 form is a standard data-compression format to decrease the size of audio files. That made it possible for consumers to buy albums and songs via internet sites and download them on their computers and other devices. The downside of downloading was the high level of piracy (Owsinski 2016: 161-164).

Streaming, on the other hand, includes everything that is not a permanent download in the industry parlance. This includes on-demand streaming, tethered downloads, satellite radio, apps and interactive and non-interactive streaming services, among others. (Passman, 2015: 152) The first original streaming service was called Rhapsody. It began in December 2001 18 months before iTunes. The online digital download sites became popular, such as iTunes and Amazon. (Owsinski 2016: 161-164)

Several streaming platforms followed, but only after the Swedish Spotify came into the market the streaming became a more dominant distribution method and even led to a decrease in music piracy. In 2016 there were over thirty music streaming service providers. Many of them considered the cost of the content to be too high, which led the services providers to appeal for lower royalty rates. At the same time, the labels and artists wanted to increase the royalty rates. (Owsinski 2016: 161-164)

This led to a change in the business model. When streaming became the preferred method of consuming music, the revenue streams started to come from different sources. Direct communication with fans via new platforms gave new possibilities for artists to develop their brand on their own. Today, labels have the option to wait for an artist to become moderately successful before signing them, which then decreases the

risk of bad investment for the label. Because of this change, the artists today are more in control of their career, but also more responsible for marketing and promotion, since they are expected to have more hands-on attitude towards their own career than before. (Owsinski 2016: 19-42)

One of the significant effects of digitalization in the music industry was how the major record labels started to make new types of recording contracts giving them access to more activities and income within the music business. This form of contract, the 360 deal, is also referred to as "multiple rights deal". When the income received from only marketing an album started to decrease, the record labels wanted a piece from the other revenue streams. These included merchandises, licensing of certain names, logos and other parts which emerged due to the increased marketing in order to stay afloat. One of the areas that was included in the deal was live performances which are the most significant source of revenue for the artist. This became the industry's new norm leading the record labels to become more like music companies instead of being just distributors and marketers. (Stahl and Meier 2012: 44-442)

In 2010 the Entertainment Industry Organization in the US published a newsletter explaining the various types of deals that had been created, and how the contracts that were made by the major labels were named. (See Figure 6.)

90°
Record rights and webstore

120°
Record rights, limited tour and retail merchandising.

240°
Record rights, tour and retail merchandising, webstore and fan club

360°
Record rights, book publishing, tour, all merchandising, sponsorship and Endorsements, fan club, music publishing and sometimes even acting.
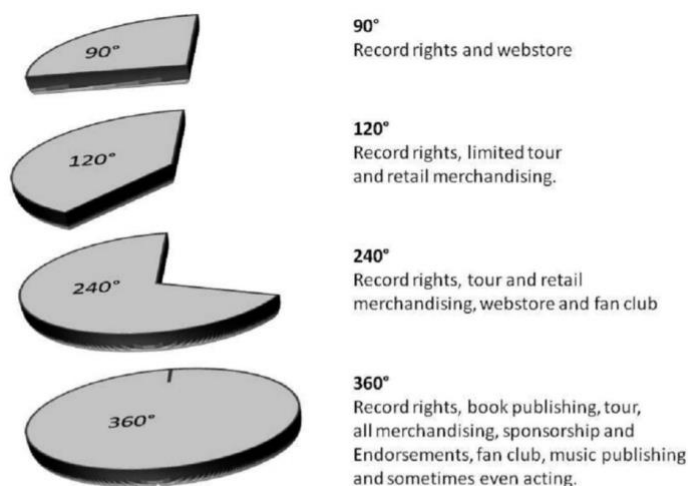
Figure 6.   Music rights deals in the US (LaPolt and Resnick, 2010)

LaPolt and Resnick present how the major and independent record companies have created contracts similar to the 360 deal in history as well, but that now has become the industry norm. They state that 360 deal has had a negative impact on the artists as the record label takes a part of the income but not necessarily bring any extra value. Therefore, the artist leverage in the negotiating situation is extremely important. The two questions that are being discussed carefully are related to the involvement of the record company in these additional rights and the ways to obligate the company to monetize the rights instead of cross-collateralizing them. (LaPolt & Resnick, 2010)

The change towards the streaming platforms in the industry gave the artists new possibilities to build a career without being signed by a label. An artist is able to get their music to streaming platforms such as iTunes, Spotify, Pandora through companies such as TuneCore or the Orchard. This can be a suitable option if the artists aims to sell to a small group of fans and stay in the niche the music falls into. In case of a more mainstream music genre, it takes more resources to stand out. Therefore, most artists still want to get signed by a label, because it gives financial stability and more time for the actual music making and touring. (Passman, 2015: 70-73)

2.3   How the industry operates nowadays

The primary source of information related to the statistics and the annual state of the industry in the recording business is IFPI (International Federation of the Phonographic Industry). The organization is representing the recording industry worldwide including 1300 members around the globe and all the essential players in the industry. However, it will cost a minimum of 5,000 pounds to get access to these full reports. (Ifpi.org. 2020) This pricing decision is creating an advantage to more significant players in the market as it can be too big of an expense for smaller companies. The amount of investments for an artist depends on various things such as the artist, the record labels expectations, the size and the financial situation of the label and the contract the label has with the artist.

According to IFPI, the global revenues of the recording industry in 2018 are consisted from physical sales being 25% of the total revenue, 12% of digital excluding streams, 47% of streaming, 2% of synchronization revenues and 14% of performance rights.

(Ifpi.org. 2020) As seen in Figure 7. streaming has increased significantly since 2010 and physical sales have declined. The figure represents well the shift to the use of streaming platforms importance in the past 10 years.
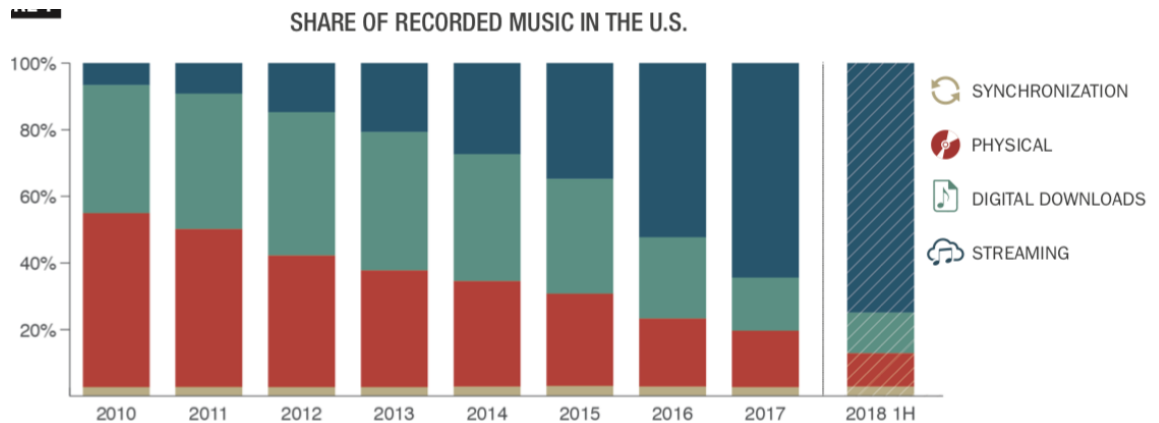
Figure 7.   The percentual growth of streaming (RIAA, 2018)

Larry S. Miller, a professor in NYU Steinhardt School of Culture, interviewed almost 50 record label executives from independent to major record companies in the US in order to investigate how record labels amplify talent. Record labels have invested heavily on their infrastructure and artists in order to become even more capable of amplifying the artists' talent. Even if the digitalization has made it possible for artists to make the production and distribution by themselves, it has become harder than ever to breakthrough due to the massive amount of selection. Therefore, the record labels are still in the leading role in the world of the music industry. (Miller 2018: 6)

When signing new artists, the typical investments in case of a major label are presented in Figure 8.

Typical investment by a major record company in a newly signed artist

Advance	US$50,000-350,000
Recording	US$150,000-500,000
Video production	US$50,000-300,000
Tour Support	US$50,000-150,000
Marketing and Promotion	US$200,000-700,000
Total	US$500,000-2,000,000

Figure 8.   Major labels development costs in case of a newly signed artist (Ifpi.org, 2020)

The songwriters and publishers have their share of the income, and due to the typical 360 type deals, that income is part of the record labels' income as well. The publishing income can be divided into three most common types as shown in Figure 9. (Owsinski 2016: 185) The figure is presented to give a better understanding of the revenue streams in the industry.

ROYALTY TYPE	AMOUNT PAID
Mechanical Royalty	
Physical product (CD, vinyl)	$0.091 per song.
Digital download	$0.091 per song.
Interactive On-Demand Streaming (Spotify, Apple Music, Deezer)	$0.0001 to $0.0002 per stream (21 to 22 percent of what's paid to the record label for the sound recording if paid directly to the publisher, 17.36 to 18 percent if paid to the record label), minus any performance royalties.
Performance Royalty	
Radio	Depends on a sample survey of all radio stations, including college stations and public radio. ASCAP, BMI, and SESAC use a digital tracking system, station logs provided by the radio stations, and recordings of the actual broadcasts to determine how much a song earns.
Noninteractive Streaming (Beats 1, Pandora, iHeart Radio)	Prorated from a blanket rate of 1.75 to 10 percent of the service's total revenue, collected by ASCAP, BMI, or SESAC.
Interactive On-Demand Streaming (Spotify, Apple Music, Deezer)	Prorated from a pool of 5% of the service's gross income of the streaming service, collected by ASCAP, BMI, or SESAC.
Synchronization Fee	**Music against picture**
Television	Fee is subject to negotiation, plus survey from cue sheets that program producers provide to ASCAP, BMI, or SESAC, as well as program schedules, network and station logs, and tapes of the broadcasts to determine how much a composition earns.

ROYALTY TYPE	AMOUNT PAID
Commercials	Fee is subject to negotiation, plus survey from cue sheets that program producers provide to ASCAP, BMI, or SESAC, as well as program schedules, network and station logs, and tapes of the broadcasts to determine how much a composition earns.
Movies	Fee is subject to negotiation, with a performance royalty paid when the movie plays on television.
Printed Sheet Music	Subject to negotiation, but usually 15% of retail.
Digital Print	Any website that shows song lyrics or sheet music, flat fee or percentage of site income, subject to negotiation.
Ringtones	$0.24 per sale.

Figure 9.   Publishing royalty breakdown, royalty rates and methods of collection (Owsinski, 2016:185-186)

The first one of the three most common types is mechanical royalties which are paid when a CD or vinyl is sold, the song is digitally downloaded or streamed on an on-demand platform. The second is a performance royalty which is paid when whenever the song is played on television, radio or streamed over the internet. The third is synchronization fee which is paid when music is used in any type of moving pictures including for example television shows, YouTube videos, commercials and video games. (Owsinski, 2016:183-184)

Record labels pay two royalties—one to composers and publishers and one to the artists. Composers and publishers receive 30% or more and artists 10%-15% of suggested album retail, minus packaging costs. Larger labels have an advantage when it comes to the production of CDs. In the US larger labels pay approximately on orders of 100,000 or more $0.50 to $0.55 per CD. In case a label buys less than 10,000 CDs per year, the cost is about $1.20 per CD. Smaller labels pay recording costs $15K per album on average. When for larger labels the amount can be varying between from $100K to $500K and up. Commonly the artists carry this debt, and it is repaid from royalties. (Petulla 2019)
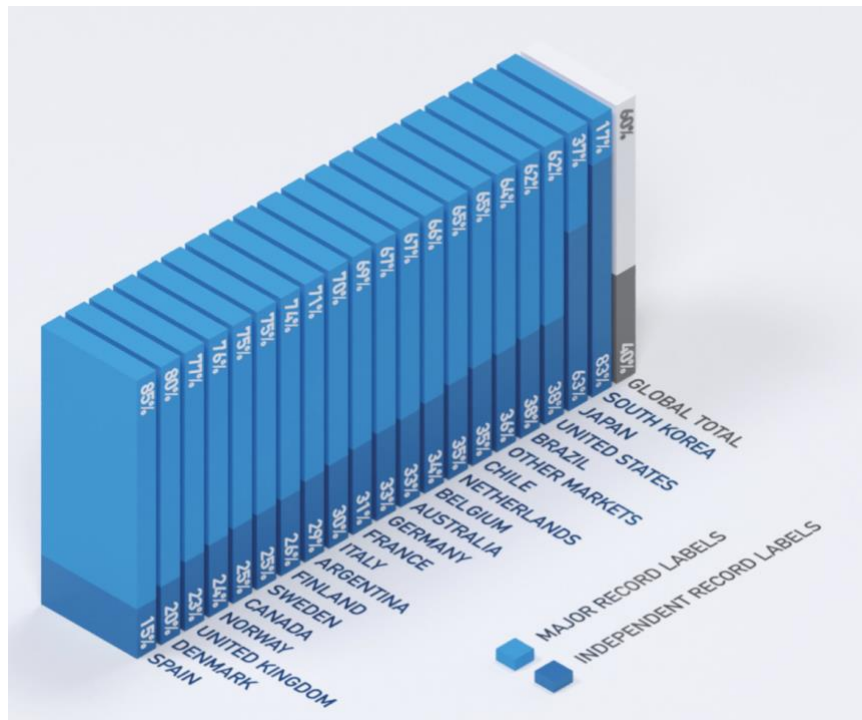
Figure 10. Independent record labels market share (WIN Worldwide Independent Network, 2018)

According to a report created by the worldwide independent network (WIN) report in 2018 shows that the independent record labels market share had increased to be 39,9%. (Figure 10.) The independent labels are the fastest-growing sector of the global recording industry. According to Wintel Worldwide Independent Market Report (2018) 22,4% of the independent record labels revenue comes from artists whose music was distributed via major labels in-house distributor and label services divisions. According to some metrics that are used in the industry, these revenues are calculated to the major labels market share. According to the WIN, these should be included in the independents share, because they are the significant risk-takers as they have invested and taken the risk to sign these artists. Therefore, the share should be calculated based on the ownership instead of distribution. (WIN Worldwide Independent Network, 2018)

Independent record labels can be divided into True Independents and Major-Distributed Independent record companies. True independents distribute their records through independent distributors. Major-Distributed Independent record companies

take care of the recording the record, but the major record label handles other functions. (Passman 2015: 69)

In order to clarify the functions that happen in record labels Figure 11. clarifies the main areas in a major record company. (Passman 2015: 67)
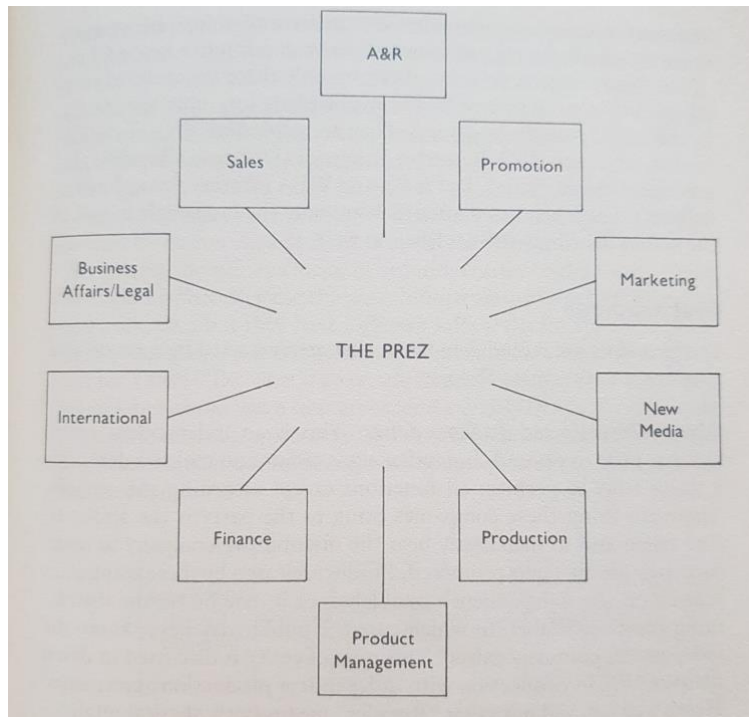
Figure 11. Departments of a major record company (Passman 2015: 67)

The areas mentioned in the figure can be combined into one department in the company. Nevertheless, it clarifies the general functions of a company. It brings clarity on how the business generally operates. (Passman 2015: 67)

2.4   How data is changing the industry

Before getting to the topic of how important part of the industry data has become, it is important to understand what is meant by it. Data is; "Information, especially facts or numbers, collected to be examined and considered and used to help decision-making or information in an electronic form that can be stored and used by a computer." (Dictionary.cambridge.org. n.d.) The possibility to use data as part of the decision-making has significantly changed the way record labels operate.

According to the interviews conducted by Miller (2018: 11-17) data has infinite value, and it is used in areas such as A&R, artist services, marketing and promotion, artist services, sales and distribution.

Data needs to be analyzed by several experts in order to extract the relevant information. Campaigns can be created based on consumer response, one song and one day at a time. This approach differs widely from the previous age when album release was more of a one-time event. When nowadays it is common to release songs from the album in advance in order to have a better understanding of what would be the optimal marketing measures for the upcoming album. This also means that the record labels nowadays need more specific skills due to this more targeted approach with a wide variety of job functions. (Miller, 2018: 11-17)

In the area of A&R, where the job used to consist of reviewing demo recordings and scouting local scenes, different kinds of data is now used when deciding on signing new artists. In marketing and promotion, the work was previously done even three months before the release. Today, several teams are focusing on streaming and social media, interpreting Shazam and looking up new material to keep fans engaged a long time also after the release. The traditional PR has been replaced with innovative digital marketing. The deal between the artist and the label have changed from inflexible contracts, the finite number of album cycles and option periods to professional services that are coordinated across the label to fit the artist in the best possible way. These services include for example e-commerce, digital strategy and merchandising. Currently sales and distribution happen widely in the digital world, especially in the US. This has led to the change from manufacturing CD's and shipping them to retailers to having Global Business Development teams making sure that the metadata-filled digital songs and albums are sent correctly to the hundreds of online retailers and services across the world, giving fans instant access to music. (Miller, 2018: 11-17)

Darren Stupal, the Executive Vice President in Sony Music stated that "Data is not useful without the tools to interpret it, and data for a single artist isn't very useful – you need to be able to look at data from scores of comparable artists to actually pull out the trends." Miller (2018: 17)

Another critical tool that did not exist in the daily operations of a record label 20 years ago is metadata. It describes what the data is combined from. The metadata includes areas such as songwriters, titles, artists' names to beats-per-minute and moods. This information is used in voice discovery; for example, when a consumer wants to listen to cooking music, the label can modify the metatags to fit such a request. However, adding the "atmospheric" tags requires a human, so even though several tasks are getting done by machines they cannot add the human touch that is still needed. (Miller, 2018: 18)

An essential point that came across in the interviews conducted by Miller (2018: 11) is that the gut feeling, and the use of data are in a big role in the decision-making process. The utilization of expertise to extract relevant information from the data is helping in the decision, for example, potential tour stops, music consumption and discovery and social media engagement of real-time song performance. (Miller, 2018:10) In the past, a label picked a focus track and started to market it to the public. Nowadays, the approach has changed. All songs from the album are marketed the same amount and the decision that what song will be marketed the most is based on the data received. (Miller, 2018: 20)

Larry Mattera from Warner Bros. Records explained the necessity of a record label when it comes to international artist marketing. "The instant reaction to the release in the local market is necessary in order to amplify the track further. One person cannot react quickly in all markets, and therefore, the need for an international organization is needed to give the required extra boost". His statement applies to both independent and major record labels. (Miller, 2018: 19)

2.5   Recording industry's new challenges

One of the issues at hand is that the industry is fighting against is stream manipulation. Stream manipulation is the act of creating a false number of plays on a digital platform that are not created by organic consumers. The mitigation of its effect is important globally since inaccurate charts will cause an unfair payment system for the music creators and investors. (Ifpi.org. 2020).

Another issue that the industry is trying to solve is stream-ripping, which means the illegal practice of creating downloadable content from a file that would be possible to stream online. The main issue with stream-ripping is the copyright infringement where the music creators do not benefit monetarily from their work. The use of unlicensed sources remains a threat for the ecosystem of the music industry. (Ifpi.org. 2019: 21)

Coronavirus pandemic has made the music industry to struggle because the touring industry is currently on hold and many tours and large festivals have been cancelled or postponed. Since most musicians rely heavily on touring income it is creating uncomfortable situation for them and everyone who is working behind the scenes including crew workers and tour managers. (Millman, 2020)

When looking at the developments of the recording industry, it is possible to see that it has gone through several major changes that have led to changes in its business models. One business model that has been used to develop technological startups in a scalable way is called Lean Startup. In this thesis I investigate whether it could be useful in creating a model to encounter the future challenges of the recording industry.

2.6   Lean startup model and its relevance to the music business

In the past, creating a solid plan, making thorough market research and strategy was often enough to create a sustainable business. Ever since the uncertainty has increased in the world, a new type of approach helps the businesses to adapt to the changing market needs. (Ries 2011: 5-22) In 1988 the term Lean was used the first time by John Krafcik in an article which was discussing Toyota's production techniques. (Womack, Jones & Roos,1990: 11) The Lean Startup method is introduced in this literature review, because its relevance and possibility to use it in the music industry will be examined in the research part of the work.

The Lean business model has its base from lean manufacturing processes, and when combining that thought with the innovation process, the Lean Startup model was created. The inventor of the model Eric Ries started a company using the method, and the model started to spread widely through several industries. The model aims to increase the success rate of new innovative products following five principles. The key

focus on the first step is the way management is implemented in a startup that is operating under extreme uncertainty. The people being in charge of new ventures or product innovations can be considered as entrepreneurs in bigger companies. Even though the name suggests the method to be applicable to startups only, Ries states that it can be implemented to businesses regardless of the size of the company or the industry. (Ries 2011: 8-25)

The second step covers the area, what is meant by a startup. In the book "The Lean Startup" it is defined as follows; "A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty." (Ries 2011: 27) The third step covers the principle of validated learning. The aim of a startup is to become a sustainable business and in order to build that it is necessary to test each element of their vision. This is done by running experiments that validate the decisions. (Ries 2011: 8-9)

2.7   Business model canvas

Steve Blank wrote an article about the lean business model and its differences when comparing the lean business model to the traditional one.

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment? Which customer needs are we satisfying? What is the minimum viable product?	How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	KEY RESOURCES		CHANNELS	
	What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	

COST STRUCTURE	REVENUE STREAMS
What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?	For what value are our customers really willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?

Figure 12.   Business model canvas (Blank, 2013: 4)

A business model canvas is built from nine building blocks that represent the components of the business. The blocks are filled with the hypotheses that should be tested and changed according to the results. This approach is already used when deciding on the business model. (Blank 2013: 4-7) Alexander Osterwalder created the business model canvas in 2005. (Osterwalder 2005) The modified version for the lean business model was presented in the book Running Lean, by Ash Maurya written together with Eric Ries as a following publication for the Lean Startup book. (Maurya 2012: 1)

2.8   Build-measure-learn

The Lean Startup model is based on hypotheses that will be tested during the process of creating the product. The product is tested with users and changed if it is not attractive enough for the customers. A product in this stage is called Minimum Viable Product, and it means that the product is ready enough to be used in gathering the customers' opinion of the value of the product. In this stage, the product is not ready and is still missing some features that it would have in the later stage. The information gathered from the customers is used to determine whether the product should be developed or not. By doing so, it is minimizing the time used to possibly not a profitable product. (Ries 2011: 75-78) Then one or several hypotheses are modified or changed entirely and then tested again. The concept is called build - measure – learn, and it is in the heart of the lean business theory. Minimizing the time that it takes to go through all the steps in the circle is in the interest of the company because it will minimize the unnecessary waste of resources.
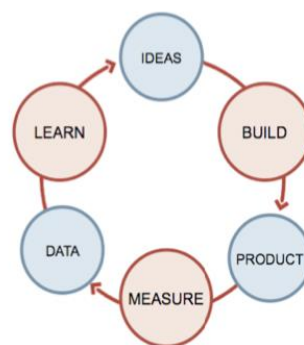
Figure 13. Build - Measure – Learn Feedback Loop (Ries, 2011: 75)

This step is repeated as many times as necessary in order to come up with a product that is attractive enough for customers to make the product successful and the business profitable. The change in the business plan that is made according to the information gathered is called pivoting. (Blank 2013: 4-7)

Innovation accounting is part of the Lean Startup model. The main idea is to hold the innovators accountable in order to improve entrepreneurial outcomes. It is important to set milestones, know how to prioritize work and measure progress. The general aim is to measure where the company stands and then draw up experiments to achieve the ideal numbers in the business plan. (Blank 2013: 9)

In the article Why the Lean Start-Up Changes Everything that was published in 2013 Blank states that in order to get by in the changing business environment, large corporations have understood the need to adopt more of the mindset of a startup and its way to manage innovation. This includes harvesting new skills and even the change in organizational structures. (Blank 2013: 9) In the music industry, the discussion around the necessity of new skills in the area of record labels operations was discussed in the article created by Miller. When interviewing record label executives, the necessity of new specific skills in the operation of a record label came across as an essential part of the functions of a major label. (Miller 2018: 11-17)

Where Ries stated that the method is successful in all industries and sizes of companies, Blank, on the other hand, said that it could not guarantee the success of all startups. This is due to the large number of variables that can determine the success of a company. Therefore, one model cannot simply guarantee every company's success. However, he claims that it will decrease the startup failure rates compared to the traditional business model. (Blank 2013: 4-7)

2.9   Product-market fit

Marc Andreessen defined a product-market fit as following "Product-market fit means being in a good market with a product that can satisfy that market." The top three

sections consist of the product and the top two layers from the market. In between is presented the place for the product-market fit. The market consists of the potential and existing customers that share a need for the product. The size of a market can be described either by the number, or total revenue generated by those customers.

Figure 14. The Lean Product Process in the Product-Market Fit Pyramid (Olsen 2015)

The second stage on the pyramid is understanding the product needs of the target customers. When entering a market with a new product, the aim is to give customers something that they are not already having, because the customers will judge the product based on what other same types of products are on the market. According to Olsen; "Product is a specific offering intended to meet a set of customer needs." Products are categorized into different market categories. New categories emerge in case of a product that is new. In many markets, active competition is taking place when companies are trying to gain market share through product innovation. In the case of software, what the customer sees is the customer experience (UX) which is the top layer on the pyramid. This consists of several features that are created to meet customer needs. (Olsen 2015)

The aim of a company is to gain sustainable growth, and this can be characterized by using one rule. "New customer come from the actions of past customers." The term sustainable growth according to Blank is excluding one-time marketing activities such as publicity stunt or single advertisement. The four main ways how past customers drive growth are; via word of mouth, by creating revenue that can be used for funded

advertising, as a side effect of product usage, for example, a product that raises awareness when being used or via repeated purchases or use. (Blank 2013: 207-208)

2.10 Agile development

Several managerial experts have started to use the Lean Startup method and develop it further by introducing the way how larger companies can improve their innovation processes in real life.
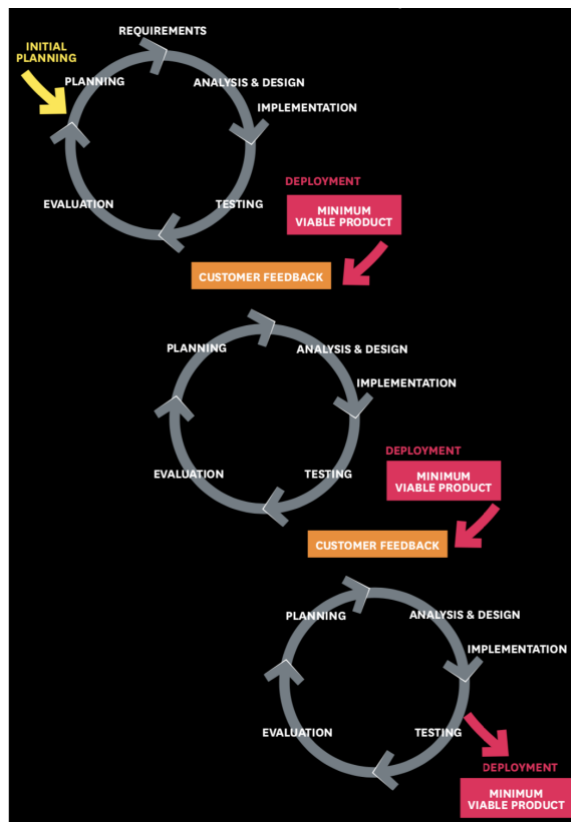
In the lean Startup method products are created in short, repeated cycles instead of the traditional product development, where each stage lasts longer and happens in linear order. This agile way of creating products comes from the software industry that is working closely with customer development. The agile development circles are illustrated in Figure 13. That shows the ongoing steps from initial planning to the deployment of the minimum viable product to the customer feedback leading to a new circle. (Blank 2013: 8-9)

Figure 15. Quick and responsive development (Blank 2013: 9)

According to a blogpost, an artist has used Lean approach successfully and speeded up her career substantially. She created songs in different genres and developed the product, which in this case is her songs ending up changing the whole music genre she started from. She tested the songs with her fans via social media and picked the songs her fans enjoyed the most. She said that this had been a crucial tool to get to the point, where she can easily live with the music she is making and succeed. (Platz 2013)

According to an article created by Lindvall, (2011) the songwriters that have written multiple hits, never knew what would become a hit song. Even though there are set of common features such an average beats per minute varies between 117 bpm- 122bpm and are not commonly ballads. But there are so many exceptions to the rules that the rules cannot be considered very efficient. One common fact that came across was that all the songwriters who had written several hit songs, love the music they write. (Lindvall 2011)

It is possible to see that an individual artist in some cases can use the method in creating a more sustainable product. However, in this thesis the main focus is whether the Lean Startup can be useful in the daily operations of a record label.

3 Methodology

In order to get a better picture of the Lean Startup model and its relevance to the recording industry, the methodology section will cover the method on how research is conducted, and the basic terminology related to it.

According to Nair (2008: 2) "Research refers to the process of collecting, documenting and analysing important, critical and relevant information pertaining to any problem or question." The existence of a problem, query or question suggests that research could be initiated. The aim of the research is to conduct a systematic, objective and thorough process to discover the relevant information. (Nair 2008: 2)

3.1 Research design

Marketing research, according to Professor Philip Kotler, is the "Systematic problem analysis, model building and fact-finding for the purposes of important decision-making and control in the marketing of goods and resources." (Sontakki, 2009: 7) Marketing research can be useful in many ways if conducted correctly. In companies marketing research can be used, for example, to find solutions and give marketers insights about purchase behaviour, motivation and customer satisfaction. It can give guidance in

assessing market potential, measure the effectiveness of product, pricing and promotion activities.
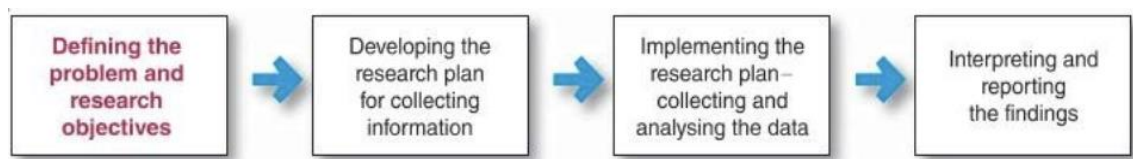
Figure 16. The marketing research process (Kotler 2013: 114)

The first step in the marketing research process is to define the problem and research objectives. That guides the entire process, and it is crucial to make sure that the research is addressing the right problem. The second step is to determine the information needs and the plan to gather it by creating a research plan. The research plan includes the outlines of existing sources, explains the specific research approaches, sampling plans, contact methods and instruments the researchers will use to gather the needed and the new data.

After that, the researcher puts the plan in action by collecting, processing and analysing the information. In companies, the data is either collected by the company's marketing research staff or by the staff from outside firms. The last step is the interpretation and reporting of the findings. In this step, the findings should be interpreted in cooperation with experts and the marketing manager who has the best idea of the problem. The aim is to present the findings to the management in a way it will help in the decision-making process. (Kotler 2013: 114 -125)

Exploratory researches aim to gather preliminary information that will help to suggest the hypotheses and define the problem. The object of using descriptive research is to describe things, for example, the market potential for a product or the attitudes as demographics of consumers buying the product. Causal research aims to test hypotheses about cause-and-effect relationships. Secondary data consist of information that is already existing somewhere. This type of information has been collected for other purposes. Preliminary data is information that is collected to the specific and current topic at hand. Observational research is one way of gathering preliminary data, and it is done by observing the relevant people, actions and situations. (Kotler 2013: 114 -125) Quantitative research answers to questions like what, who, how many,

where and when. In quantitative research, collectable material is numerical data, which is analyzed by using mathematically based methods. Qualitative research answers questions starting with why, for example, why people buy or do not buy a particular product. The aim is to find explanations to why people act the way they do. (Sontakki 2009: 12)

3.2   Data collection

In this thesis, a combination of exploratory and descriptive research methods will be used in order to gain relevant information. Observational research is used in some parts of the results section because the author of the thesis has been working in the relevant field. The thesis is conducted by using secondary and preliminary data. The secondary data is gathered by using relevant articles and industry websites, that offer reliable information of the general state and ways of the industry. The intention was to interview five to ten music industry professionals, who have a deep understanding of the record labels functionalities. Therefore, this information would be highly relevant to the topic at hand. Due to limitations that are specified later in the thesis, it was only possible to interview two industry professionals.

The interviews were conducted by having a semi-structured and non-disguised questions. Non-disguised questions mean that the purpose of the survey is revealed for the respondents. (Sontakki 2009: 114) A semi-structured interview allows some amount of flexibility to the interview. In this type of interview the interviewer's task is to make sure that the interview is limited to the topics that are important to the research. In this way the interviewer can allocate a specific time for each question and have time to adapt to the different responses. (Sreejesh, Mohapatra & Anusree, 2014: 48)

The Interview questions can be found in the appendix section of the work. The first part of the interview questions focuses on the general questions related to the respondents' background in the recording industry. The rest of the questions in that section are following the same structure as the literature review starting from the changes the digitalization brought and the respondents' opinions on those.

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The results section will cover the answers gained from the semi-structured interview and secondary data sources that bring relevant information to the topic. Due to limitations regarding the interview and the difficulty of finding respondents I was able get two respondents. This led me to take more of a qualitative approach to the interview. However, the respondents were highly experienced in the recording industry, so they were able to bring relevant information related to the thesis question.

The aim of the interview is to gain information on what kind of models are being used in the companies the interviewees are working in. In the second section of the interview, the interviewer explained the Lean Startup model, business model canvas and a product-market fit pyramid shortly, before presenting the questions related to the subject. The aim is to find out, would these theoretical models be useful in the recording industry. The questions in this section are covering the interviewee's opinions of the relevance of these concepts in their companies' operations.

4 Results

In the results section of the work I will analyse the two respondents' answers of the semi-structured interview. The interviews aim is to provide answers to questions e.g. how the music industry business models have changed over time and what type of metrics are being used to measure success in the industry. In order to guarantee the respondents' anonymity, I will refer to the first respondent as Tony and the second respondent as Emma.

First, I will present relevant background information of the two respondents. Tony is working in the area of distribution in label management and content operations in a large size company in UK. Emma has been in different roles in the industry most of her life and has worked approximately ten years in an independent record label. Before that, she has worked in several other companies in the industry. During her career Emma has worked in several roles, such as day to day manager and tour manager, and also in the areas of artist development and marketing.

The second part of the results section is made based on the authors experience working in an independent record label and secondary data.

4.1 Developments in the recording industry business models

The industry has been changing rapidly and this has led to changes in the business models as discussed earlier in this thesis. The first section of the interviews is focused on the respondent's idea of the changes the industry has been facing. When asking about the main changes the both respondents mentioned streaming to be one of the greatest change makers. Tony brought up the effect it had to the independent artists by saying that;

> Streaming brought opportunities for independent artists, however, seems to be verging away from that with Spotify announcing payments for playlist placements. (Tony)

Butler (2019: 1) verifies this statement suggesting that the streaming made it easier for people to listen more and different genres music than ever before. It also gave more opportunities for the DIY (Do It Yourself) artists and therefore a fairer ground for larger number of artists to succeed. (Butler 2019: 1) On the other hand, Emma explained what type of changes were happening within the record labels when streaming became more popular;

> They started to license the records. They owned the right to exploit it for an X amount of time in a very controlled setting and hopefully in that time they were able to recoup the advance that they gave the artist and get whatever it was they needed out of it to be able to make money essentially. It was more like a licensing and distribution deals they started to go in toward. (Emma)

As mentioned in the literature review, not only did the way record labels started to function change, the contracts made with the artists developed as well. However, a new point of view on this topic was introduced by Emma who explained some of the negative impacts of the 360 deals as following;

> They started these 360 deals. It was all in theory of grand plan that everyone is invested. The problem is the oversight of these 360 deals. Because how people spend their money what they feel is essential, as oppose to what isn't. There was no proper oversight on how to execute the control over how money was spent. Even from the artist perspective on the marketing plans. (Emma)

As the sources of revenue were not as stable as in the past, record labels started being more careful in the way they were using money when signing new artists.

4.2   Risk assessment in the area of A&R and industry operations

Managing the artists' talent is one of the key functions of a record label and therefore, the risk that is related to the label's investment of an artist is an important topic to cover. As stated in this thesis, it takes a significant amount of resources to stand out as an artist. Therefore, to protect their investment, the record companies expect artists to have a more hands-in-attitude towards their own success. Another area of focus in the interviews are challenges and changes in the business models. As Tony explains, the problem is not only monetary;

> The recording industry does not take risks anymore. We're seeing the same artists and hearing the same music. They want artists to make it themselves before they're interested in investing. But by that stage, should the artist make a deal if they make it happen with their own team/plan? (Tony)

In the digital distribution-age, the monetary risks for record labels increased due to the decrease in the amount of royalties received from the album sales. These royalties were important for musicians as well. Emma started to experience the change first time around seven years ago, and describes the change as follows;

> The way they (used to) paid their bills were royalties. Those royalty checks came in quarterly and that is what kept the lights on. And that was huge for them. (Emma)

When asking about what kind of business models the respondent identifies in the recording industry Tony's response was following;

> Artist/label to distributor to dsp (Digital Service Provider) and retailers. (Tony)

This simple chain identifies how it is no longer necessary to have a record label backing up the artist. When asking about how record labels were adapting to the changes related to digitalization Tony replied explaining;

> I think distribution companies definitely have the stronger relationships on this side of things compared to the major labels. Independent labels are easily able to outsource this support from distributors. It's certainly beneficial for underground/rising stars who have a much lower budget compared to those at a label. (Tony)

4.3   Decision-making process and social media

Questions related to the processes and steps on signing and developing artists were covered in the interview. When asking about the recruitment processes from Emma, she said that;

> These days, the way they do, is just through social media. They look at your socials, engagement, how many fans you have, how much time people spend on you. It's all about the metrics of social media. (Emma)

She continues discussing more on how the approach in talent seeking in a record label has changed over time;

> Unfortunately, the work is very hard to just start up because somebody is talented. I don't think that's feasible anymore, nobody has that grip nobody has the energy and it's just not the world we live in anymore. People will not go see a show unless they can see something first. (Emma)

Emma's point of view can be confirmed when looking at the statistics on how closely the music industry is connected with social media.

The power that the artists and bands have over social media is evident when looking at the Music Watch study that shows that 9 out of 10 average social media users partake on some artists- or music related activity on the most popular social media applications. This leads to the fact that the top five categories of celebrities or public figures followed are music artists/bands. Artists are important influencers, and streaming services are working closely with social media platforms as 63% of social

media users are visiting streaming services after they see a tweet or an update from an artist, they are interested in. Snapchat is also widely used in live events and streaming of live performances is starting to increase in several platforms. (Crupnick 2018)

One of the most important tools for the industry to recruit and find talent these days are open streaming platforms. Tony explained the talent finding process in the company he is working as following;

> We offer an open platform for artists to distribute their music no matter what stage in their career they at. A&R will analyze who is building traction to determine who is offered a high tiered service i.e. label services - marketing, sync opportunities. (Tony)

When discussing more about the role of data in the decision-making Emma stated that;

> Marketing meetings turned into literally talking about; we ran this add, this many impressions to me that's hocus pocus. It's not real. You can't measure, it's all just speculation and I don't get with that at all. I reject it whole heartedly but that's what it is. (Emma)

4.4 Current state of the industry

When asked about the challenges the industry is facing in the near future, both respondents brought up the current Covid-19 pandemic. Emma stated the following;

> In light of Covid-19 challenge, not to sound doomsday, but is a rival of the industry. I don't know that I will tour again until maybe 2021. (Emma)

Tony, on the other hand, commented how the company he is working for, is getting through the situation;

> With the current pandemic, relying on people to stream. Hoping these platforms don't lose streams. It is the recording industries only

sustainable source of income right now with the touring industry on pause. (Tony)

Since the respondents did not reply directly to the questions about the Lean startup model, we will cover the subject in the next chapter of this thesis. We will also focus on how the Lean Startup model is applied to the business model canvas from the point of view of an independent record label.

4.5   Independent record label's business model canvas

Information in the Figure 17. is a combination of the literature review, secondary data and the authors experience working in a record label. The aim is to see how the Lean startup business model canvas can be applied in case of an independent record label.

Designed for: Independent record label

Key Partners	Key Activities	Key Propositions	Customer Relationships	Customer Segments
-What are your key partners to get competitive advantage? • Distributors (global) • PR companies • Marketing teams • Radio pluggers -Which key resources are we acquiring from the partners? • Marketing • Distributing -Which key activities do these partners perform? • Marketing and other services in different geographical areas	– What key activities does the value propositions require? • Artist development • Seeking new talent • Marketing and promotion – Distribution channels? • e.g. Orchard **Key Resources** – What key resources do the value proposition require? • Human resources • Copyrighted content • Artist roster • Distribution channels	– What value we deliver to the customer? • Catalog of music • Music / hit songs • Entertainment -What bundles and products are we offering to each segments? • Singles/ EPs, Albums • Wide artist roster conducted from different genres	– How do we get keep and grow customers? • Marketing & promotion • Continuous stream of new music **Channels** – Through which channels customers segments want to be reached? • Digital music streaming service (e.g. Spotify, Itunes) • Social media (e.g. Instagram, Snapchat, TikTok, Facebook, Youtube) • TV & Radio	-Who are our customers? • Target market (based on the strategy for a specific artist) – Who are our most important customers? • Fans • Influencers

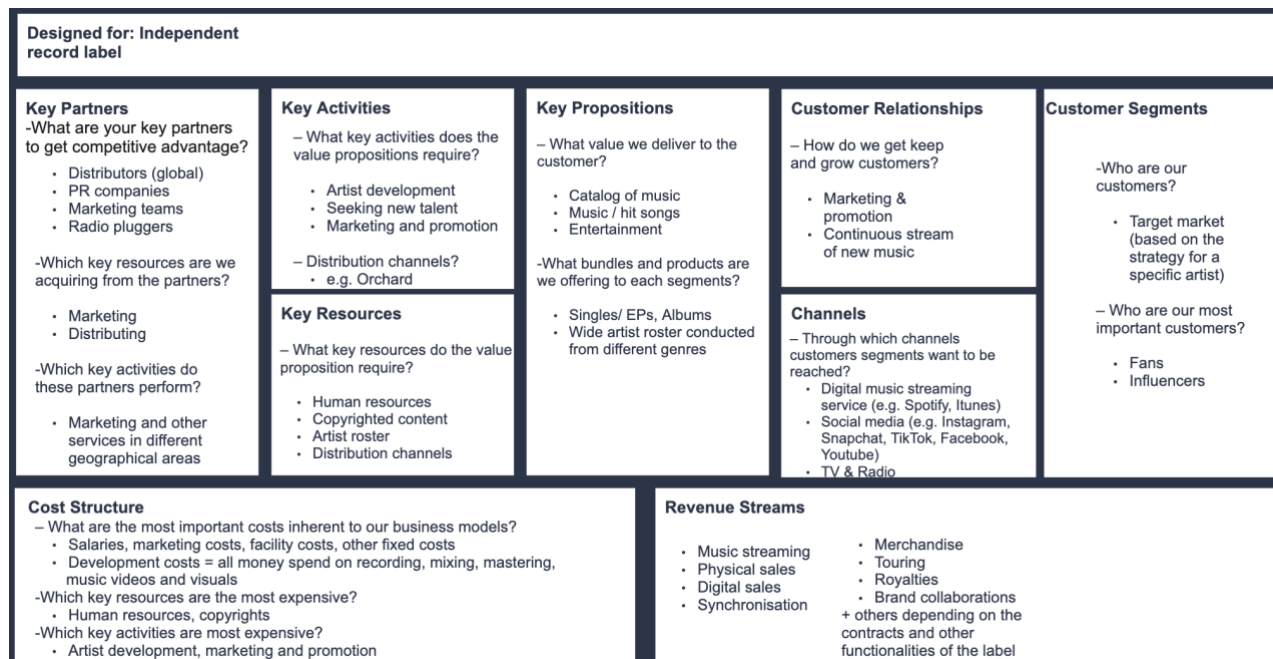| Cost Structure	Revenue Streams
– What are the most important costs inherent to our business models? • Salaries, marketing costs, facility costs, other fixed costs • Development costs = all money spend on recording, mixing, mastering, music videos and visuals -Which key resources are the most expensive? • Human resources, copyrights -Which key activities are most expensive? • Artist development, marketing and promotion	• Music streaming • Merchandise • Physical sales • Touring • Digital sales • Royalties • Synchronisation • Brand collaborations + others depending on the contracts and other functionalities of the label

Figure 17. Business model canvas for an independent record label

The first column focuses on the key partners. The industry connections are important and the aim is to gain a sustainable flow of streams, which will bring income to the company. When the aim is to market a certain artist's project in several countries, it is useful to use outsourced promotion companies and marketing teams, who have the connections and knowledge of the territory. Radio is still a powerful income stream in

the industry, so radio pluggers are the key people when trying to get the song on the list of songs that they play regularly. The key recourses that are gained from the outsourced marketing, are the local contacts, and the ability to reach wider markets.

Key activities that are required for the value proposition are artist development, talent recruitment, and marketing and promotion. One example of a distributor partner, that can handle the physical (CD's and vinyl records) and digital distribution, is called The Orchard. The Orchard is a subsidiary fully owned by Sony and is one example option for an independent record label or a DIY artist to arrange distribution with. (Jones, 2019) Another area that is needed for value creation in a record label are the employees and the skills they have. As mentioned earlier in this thesis, a record label has a variety of different departments. Often in an independent label, one person can handle tasks from several areas. Copyrighted content is another key element that is needed in order to receive income.

A roster of artists is the product of a record label that they market. Distribution channels are in the key role as well, since without them the product does not get to the consumers. An independent record label brings value to the customer by providing music, entertainment and songs that arise emotions.

Customer relationships are maintained by marketing, promoting, and developing interesting content for the consumers. The continuous stream of music is vital for a record label company, since it often cannot rely to the existing revenue streams, but constantly has to develop new ones. The channels used to reach out to the customers are mainly via social media, e.g. Instagram, TikTok, Facebook, digital music streaming platforms, radio, and tv.

There is discussion about the reliability of social channels' metrics, because it is relatively easy to tamper the statistics related those, for example, by buying followers. The engagement with legitimate and loyal followers is a key topic to measure, in order to get a better understanding on how the released content is seen by the key followers. The feedback that can be seen from measuring the relationship between daily activity and the number of fans can be useful in measuring the success. (Buli 2014)

Customer segments that the company is trying to reach out to, depends on each artists' project. Each artist has a different strategy and the aim to reach out to a certain group of consumers. However, the group in most of the cases are fans, who have influence in social media.

The main costs in this business model are salaries, marketing costs, facility costs and other fixed costs. When discussing about development costs, I refer to the money spent on recording, mixing, mastering, music videos and other visuals. The money that is invested into an artist development and copyrights, is the greatest investment in the company. However, it is also the key to the revenues.
An article created by Hu (2016) states that labels spend as much as 15,6% of their received revenue to artist development. This percentage is higher than what e.g. technology, aerospace or software industries spend on research and development. (Hu, 2016)

The revenue streams for a record label are received from e.g. music streaming, physical sales, synchronization income, merchandise, touring, royalties, and brand collaborations.

Zach Phillips explained the way record labels make money as following; "In the 360 deal, the signed artist and the label become "business partners" in all endeavours, meaning that the label gets a cut of any profits the artists make, even those not related to records sales." (Recording Connection Audio Institute 2020)

4.6   Business connections of an independent record label

In order to get a better picture on how an independent record label operates in the recording industry, and what kind of resources and connections are needed, I created a visualization on the topic. The aim of the Figure 18. is to show an example of the structure and networks of a record label, bringing a real-life point of view into this work. However, a multiple different type of relations and company structures exist and therefore, this cannot be seen as the only way an independent record label operates.

Figure 18. Example of the organisational network of an independent record label

The record label in this model example has people inhouse for the following departments; publishing, A&R, marketing and promotion, law, and label executives. The publishing department works with a group of songwriters and producers who are creating songs, that are pitched for artists. In this case, when the song is selected, the songwriters, producers, and the record label receive a part of the income generated by the song via, for example, streaming. The record label provides recording studios, for these songwriters and producers.

Law department is in charge of creating all the needed contracts between the people working with and in the record label. Marketing department has several types of roles and specific skills that are needed in the creation of a campaign, including e.g. social media specialists, content creators and product managers. A&R department finds continuously new artists to sign, and discusses with the existing artists about the upcoming releases. The label management focuses on the financial and strategic decisions within the company.

The independent record label is located in the middle part of the figure, and the arrows pointing outwards, are describing the outsourced partners that the company is contacting either regularly, or only in case of a specific project. The record label contacts the copyright organization when it registers songs, or handles information related to royalties. Depending on the project, the record label contacts sub-publishers and PR companies in the needed geographical location. Tour management can be contacted in case of a large tour, e.g. a world tour, but the marketing team can handle a smaller tour's arrangements. The artist often communicates directly with fans via social media, but the campaigns related to upcoming releases are created in cooperation with the marketing team. The independent record label can use a distributor, who sends the required metadata to distribution platforms such as Pandora, iTunes and Spotify. Some distributers can organize the physical distribution as well. By using a major labels distributor, the possibility to get the song on playlists with larger number of followers might increase. One distributor as such was mentioned on the page 36, when discussing about the company named The Orchard.

5 Analysis

5.1   Discussion

This thesis aims to find answers to questions on how the business models in the music industry have evolved, and if the Lean Startup model could be used in the recording industry.

One of the main findings was the tremendous development of the business models due to the digitalization in the music industry. The main change was the shift to streaming platforms. It had a significant effect to the distribution and income streams, since the royalties from physical sales decreased. (Owsinski 2016: 19-21) The revenue streams for record labels started to conduct from several sources due to the 360-type contracts between artists and record labels. These developments led to the changes in the internal operations within the labels. (Stahl and Meier 2012: 44)

Based on the chapter 4.5, it is possible to conclude that the Lean business model, which was presented in the modified business model canvas, can be applied on a theoretical level to an independent record label.

It was difficult to gather enough data of an independent record label and identify the key functions of the label against the Lean Startup model. Another challenge was to insert the data into the business model canvas and to compare the relevance of the Lean Startup model in the recording industry. This study showed that there is a lack of reliable up-to-date data regarding the use of business models in the recording industry.

Another new theoretical visualization is placed in the section 4.6. of this thesis. The model in Figure 18. demonstrates the example connections that an independent record label can have between its operations and the other stakeholders in the field. It is also possible to gather an understanding of the various interdepartmental functions in an independent record label from the model in Figure 18.

The impact of digitalization and its effects on the business models is global, but since there are several ways for the players in the market to operate, the results in this thesis are not applicable to the whole recording industry. However, the possibility to use Lean Startup model theoretically in an independent record label, is notable.

This thesis was not able to provide a reliable answer to the question; would the Lean Startup be useful approach in creating a more sustainable business in the area of recording industry comprehensively, due to limitations which are specified in the reliability and limitations section. However, it was able to point out that artist recruiting has changed significantly after digitalization, in a way that social media metrics are a part of the decision-making process in several areas according to the interviews and secondary data. (Miller, 2018:10) This is a notable point related to the change of the business models, since artist recruiting is one of the key activities of a record label.

5.2 Reliability and limitations

The main limitations of this thesis are related to data collection and time. The aim was to conduct semi-structured interviews with a larger number of professionals, in order

to gain up-to-date information from the industry. However, due to the time limitation of the Bachelor thesis, the author was not able to get in touch and organize as many interviews as would have been optimal. In addition, the quality of the data conducted from the interviews varies due to the respondents' different experience in the industry. Also, the possibility of misinterpreting the gathered data has to be considered when analysing the reliability of this thesis.

The target group for the interviews were the professionals working in the recording industry, who understand the industry business models. People with specific knowledge of the industry models are relatively rare and challenging to contact. This limits access to information in the industry. It must be acknowledged that the sample used in this thesis is too small to provide data for any generalisations of the whole recording industry.

5.3 Further research

This thesis can work as a base for academic researchers, who have the interest to study more of the relationship between Lean Startup and music industry. The natural way to continue from this study would be to apply the business model canvas for an independent record label in a real world, to see how applicable it is.

A study related to the Lean Startup model and its relevance to the recording industry could be conducted by having in depth interviews with a wider sample of industry professionals. In this type of a setup more reliable results would be gained. Second gap in the literature was also the lack of up to date information on how independent record labels operate and what is their cost structure. That is another topic that could be investigated further.

The natural way to continue from this study would be to apply the business model canvas for an independent record label in a real world using the Lean Startup approach and investigate whether that would be a successful approach. This would demonstrate the applicability of the canvas in real life.

6   Conclusions

In this thesis I have presented common music industry business models and examined, whether the Lean startup model could be a useful approach in the fast-changing environment of the music industry. The thesis clarifies the music industry business models and their evolution over time. Since the cost and revenue structures have changed due to the online distribution and streaming, the record labels adapted their approach towards new ways to make additional income streams.

The interviews conducted in this thesis, showed that the social media metrics, such as the number of followers, streams, and social media activity, is an area that is considered when signing an artist. Marketing and promotion of an artist happens mostly on social media and is also one of the main recruitment tools for the label. Therefore, the visual and social factors that are needed along the music are important to maintain a strategic position in the industry.

On a theoretical level, the Lean Startup method can be applied to the music industry in some areas of the record labels operations. However, since the products that the record labels are marketing are mainly music, visuals, concerts and the artist's brand, the measurement of these types of products is not the same as if the product was a software or an app. The metrics to measure the success of the selected product, need to be chosen carefully due to stream manipulation and other factors that could falsify data. Further research on the topic is needed to gain more reliable results and the Lean Startup approach should be tested in the real-life environment in order to gain more reliable results.

The lack of up-to-date information on the current business models within the industry makes it difficult to predict the functionality of the Lean Startup model within a record label. Also, the academic sources that cover business models in the music industry are from the time when streaming was not as significant source of revenue to the labels, as it is today.

Based on the findings in the interview, it is possible to suggest that changes in the industry will keep occurring. The music industry has had to invent itself again several times, starting from the day it became possible to record audio. Today the challenges

of the global Covid-19 pandemic are worldwide, and the far-reaching consequences for the music industry are yet to be seen. Also, the development of the streaming platforms, social media, and other channels, will present challenges and opportunities for the industry.

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Interview questions

April 2020

Section 1

1. What is your country of residence?
2. Do you have experience working in a record label?
3. What kind of work experience do you have from the field of the recording industry?
4. What is the size of the company you are currently working at (or have recently worked at)?
5. What kind of changes have you noticed in the music industry over time ?
6. What are the steps in finding and developing an artist in the company you are working at?
7. How is a record label adapting to the digitalization originated changes (e.g. new apps and distribution platforms)?
8. How does your employer / a record label create sustainable growth? What kind of metrics are being used to follow and measure success?
9. In your opinion, what challenges is the recording industry facing in the near future?
10. What kind of business models do you identify in the music industry today?

Section 2

11. In your opinion, how could Lean Startup model be useful in the music industry?
12. In your opinion, could the Lean Business model canvas be applied completely or partly in the music industry?
13. In your opinion, could the product-market fit be applied in finding and/or confirming and artist success?