



# The effects of digitalization on music industry operators and its money flow

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As digitalization is rapidly evolving and changing traditional ways of working in most industries, the music industry is in the middle of a complete transformation. Traditional record labels have had to change their business model and adapt to changes taking place in the industry due to the emergence of streaming services. The object and purpose of this study is to research how digitalization has affected the way the music industry operates today and how it is changing the industry's money flow. The research methods used in this thesis are literature review, interview and benchmarking. In the theoretical framework we go through things like what are the 3 major record labels, how does the money flow of record labels work in practise, how does the money flow of streaming services work in practise and in which direction is the industry's money flow moving.

A focused interview with Teosto music copyright society's Senior Advisor of technology and foresight reinforces the theoretical framework and brings an industry experts perspective to the research. The interview points out challenges associated with digitalization, including data management difficulties, imbalances in compensation structures for streaming, and persistent data quality issues.

The benchmarking study done in the research analyzes the financial statements of two Finnish music artist production companies Kaija Koo Tuotanto Oy and Shadowland Ltd from the years 2003 to 2019. The benchmarking study reveals a significant reduction in material purchases, which symbolizes the shift from physical records to digital music consumption. For instance, material purchases for Kaija Koo Tuotanto Oy dropped from 929,81 € to 0 €, and Shadowland Ltd had a decrease from 18 819,04 € to 2,946,85 €. Simultaneously, external services showed a harmonious increase: Kaija Koo's external services rose from 0 € to 20,532,88 €, and Shadowland Ltd's external services increased from 217 351,48 € to 420 452,38 €. This suggests that in the digital music era, external services play a crucial role, outweighing the relevance of physical purchases for music artists' production companies.

Even though the financial statements analyzed in this research didn't include detailed breakdowns, the overall trends confirmed what is hypothesized in the benchmarking study.

This research contributes valuable insights into the financial shifts within the music industry, presenting a balanced transformation from physical to digital.

The refined role of material purchases and the elevation of external services as essential expenses redefine the financial statements of artists' production companies, reflecting the industry's evolution in the digital era.

Keywords: Digitalization, The music industry, Music finances

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## 1 Introduction

We are living a revolutionary time where everything is being digitalized and old ways of operating are changing. This era of digitalization has affected most industries remarkably and when it comes to the music industry, it has totally turned its operating models upside down.

The emergence of streaming services has made CD's, tapes and other analog forms of music basically obsolete, because most music today is provided to us in digital format. There is an exception with vinyl records and vinyl record sales have risen lately because it seems to be the most valued way of owning analog music.

No one would argue with the fact that the Internet has changed the music industry into being almost unrecognizable to the industry of the past. In fact, things continue to change at such a rapid rate that the music business is still struggling to keep up. Early issues caused by digitalization like illegal downloading and music sharing sites (For example. The now disappeared Napster) have evolved into current disputes over music streaming services and how much the artists/labels should get paid in royalties. It still seems so that the internet is raising more questions than it is answering, and while the internet has made music more accessible to the public, it's also made it more difficult for artists to actually make money. (Recording Connection, 2022.)

Blockchain is making its way to the music industry in the form of blockchain music companies which are utilizing the new technology to decentralize music distribution and secure artist royalties. Blockchain is enabling secure music publishing royalty "splits". Blockchain companies will be researched in the literature review.

The power and influence of the pre-Internet music industry was largely based on the ability to control physical distribution of music. Now the internet makes physical music distribution increasingly irrelevant and the incumbent major music companies have been required to redefine themselves in order to survive in the rapidly digitalizing music industry. (P. Wikström, 2013.)

### 1.1 Objective and structure

The objective of this thesis is to research how digitalization has affected the way the music industry operates today and how it is changing the industry's money flow. This thesis starts with a literature review, followed by a focused interview with the senior advisor of

technology and foresight from Teosto - Finnish music copyright society, finally a financial statement benchmarking study between 2 music artist's production companies and conclusions to finalize the thesis.

## 1.2 Research methods

The literature review researches the effects of digitalization on music industry operators and the industry's money flow. The objective of the literature review is to clarify the phenomenon, discuss the risks and opportunities of the phenomenon, bring forth the application areas of the phenomenon and look into the current situation of the phenomenon in practice using existing literature.

In the literature review I aim to find answers to questions such as:

How has digitalization changed the music industry?

How has the change affected the industry's money flow?

What challenges and opportunities digitalization has created within the industry?

How does the industry work now in practice?

After the literature review I conducted an interview with a music copyright society's (Teosto) employee to further clarify the operating methods and money flow of the music industry today. The interview was done by phone call. The interview was carried out using pre-planned questions and clarifying questions were added during the interview. The interview lasted for about 45 minutes.

After the interview and the results of it have been discussed I perform a benchmarking study between 2 different Finnish music artist's production companies financial statements, to figure out if there are differences in their financial statements in the pre-digital era (2004) and the digital era (2018 onwards). The research material for the benchmarking study was bought from the Finnish patent and registration office website.

## 1.3 Key concepts

MUSIC PUBLISHING is the exploitation of a recorded song's composition copyright. PUBLISHING means the business or profession of the commercial production and issuance of literature, information, musical scores, recordings or art.

STREAMING refers to any media content like audio or video that is being played back in real time via the internet on e.g. computers or mobile devices. The content can be either live or recorded.

BLOCKCHAIN is a type of shared database that differs from a typical database in the way it stores information. Blockchains store data in blocks that are then linked together via cryptography. The most common use of blockchain so far has been as ledger for transactions because for e.g. decentralized blockchains are immutable, which means that the data entered is irreversible.

ROYALTIES are payments made to an individual or company for the ongoing use of their assets, including copyrighted works, franchises, and natural resources.

DECENTRALIZATION means the delegation of power from a centralized authority to regional and local authorities (Closer to the citizens). In this reports case it refers to the transfer of control and decision-making from a centralized entity to a distributed net-work.

SECURITIZATION is defined as the financial practice of pooling various types of contractual debt such as residential mortgages, auto loans or as in this reports case music publishing rights and selling their related cash flows to third party investors as securities.

FINANCIALIZATION is defined as the process by which financial institutions, markets, etc. increase in size and influence. In this reports case financial institutions are raising their influence in the music industry.

IPO/INITIAL PUBLIC OFFERING is the process of offering shares of a private corporation to the public in a new stock issuance for the first time.

## 2 Major record labels and the money flow of record labels in practice

Record labels have been around for decades and, for a long time, being signed to one meant that an artist made it in the music industry. There are two types of labels: major labels, which are organized into umbrella companies called label groups, and independent labels. The three major labels in today's industry are Universal Music Group, Sony Music Entertainment and Warner Music Group – with each having their own subsidiaries. Independent labels differ from major labels, as they operate on their own funding. They can also outsource distribution and publishing, while majors do that themselves. (R. Aniftos 2023.)

Labels today typically make money on songs' master recordings one of three ways: through music sales, downloads and streaming of an artist; brand partnerships where an artist

endorses a product; and master licensing, using the exact recording of a song for a commercial, movie or TV show. Labels can also make money on touring, merch and other opportunities based on deals signed with artists. (R. Aniftos 2023.)

Thanks to social media, the way labels recruit artists has changed drastically. “There was a time when record labels were the only way that anyone could actually get their music out to the public,” says Keith Caulfield, Billboard’s managing director of charts and data operations. “They controlled all the marketing and distribution of getting your music into stores. Today, that’s greatly different because you have the Internet.” (R. Aniftos 2023.)

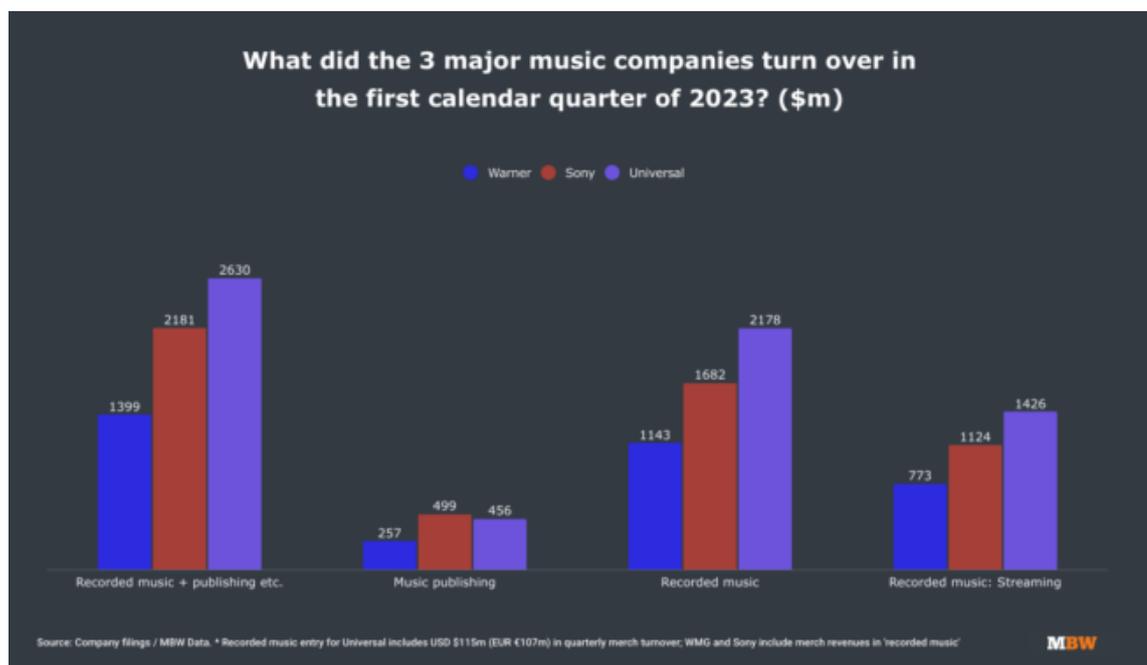


Chart 1: Major record label turnovers Q1 2023. (Music Business Worldwide, T. Ingham, 2023.)

From MBW’s chart we can see what each of the 3 major music companies generated in revenues across 4 categories in the first quarter of 2023 (January - March):

**Recorded music + publishing:** This means all recorded music revenue streams for the majors, with music publishing revenues, plus ancillary revenues from operations such as merchandise and concert ticketing. **Music Publishing:** All revenues attributed to music publishing. **Recorded music:** All revenues attributed to recorded music by each company. **Recorded music: Streaming:** All revenues attributed to streaming within the recorded music operation of each company in the quarter. (T. Ingham, 2023.)

As you can see, collectively across their music rights operations (including recorded music plus music publishing plus ancillary revenues), the majors cumulatively generated USD \$6.21 billion in the first three months of the year. (T. Ingham, 2023.)

In terms of recorded music alone (including merch and other ancillary revenues), the three majors generated \$5.00 billion in the first three months of 2023. (T. Ingham, 2023.)

And in terms of recorded music streaming revenues alone, the three majors collectively generated \$3.32 billion in the first three months of 2023. (T. Ingham, 2023.)

It seems that the major record labels have grown their revenues due to digitalization and will continue growing more as they further adapt their business models to the ongoing digitalization of the music industry.

### 3 Digitalization of the music industry

The start of the digitalization of the music industry could be traced back to the emergence of file-sharing service Napster, which started the trend of downloading music straight from the internet. Many more illegal file-sharing services like Napster were created and this phenomena forced the music industry to adapt and move into the digital era of music.

#### 3.1 What does digitalization mean?

There is not one single correct definition for the term “digitalization” so I chose definitions by Gartner and KPMG that I think suit the music industry digitalization very well.

Digitalization is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business. (Gartner Glossary.)

Digitalization is about leveraging technology and innovative tools to improve the efficiency and efficacy of a given process; whether by building in-house capabilities or partnering with third-parties to do so. (KPMG, 2020.)

The most anticipated and ultimately possible technological transformation of the music industry is that of full protection of intellectual property rights which can now be traced on a global scale. (Music Innovation Hub.) This is the driving force for the digitalization of the music industry.

#### 3.2 Understanding the money flow of the music industry

In order to understand the dynamics of the music industry, it is first of all necessary to recognize that the music industry is not one, but a number of different industries that are all closely related but which at the same time are based on different logics and structures. (P. Wikström.)

The overall music industry is based on the creation and exploitation of music-based intellectual properties. Composers and songwriters create songs, lyrics, and arrangements that are performed live on stage; recorded and distributed to consumers; or licensed for some other kind of use, for instance sheet music or as background music for other media (advertising, television, etc.). (P. Wikström.)

This basic structure has given rise to three core music industries:

The recorded music industry—focused on recording and distribution of music to consumers. In the pre-internet music industry this was the biggest one and also the one which generated the most revenues. (P. Wikström.)

The music licensing industry—primarily licensing compositions and arrangements to businesses. This sector was much smaller and its main responsibility was to ensure that license fees were collected when a song was used in whatever context and that these fees subsequently were fairly distributed among the composers and lyricists. (P. Wikström.)

The live music industry—focused on producing and promoting live entertainment, such as concerts, tours, etc. This sector generated its revenues from sales of concert tickets, and although live music has a long and proud history, it came to play second fiddle to the recording industry during the twentieth century. (P. Wikström.)

There are other companies that sometimes are recognized as members of the music industrial family, such as makers of music instruments, software, stage equipment, music merchandise, etc. However, while these are important industry sectors they are traditionally not considered to be integral parts of the industry's core. (P. Wikström.)

### 3.3 How has digitalization changed the music industry's operating models?

In 1999 the global recorded music industry had experienced a period of growth that had lasted for almost a quarter of a century. Approximately one billion records were sold worldwide in 1974, and by the end of the century, the number of records sold was more than three times as high. (P. Wikström.)

At the end of the nineties, spirits among record label executives were high and few music industry executives at this time expected that a team of teenage Internet hackers, led by Shawn Fanning (at the time a student at Northeastern University in Boston) would ignite the turbulent process that eventually would undermine the foundations of the industry. (P. Wikström.)

Shawn Fanning created and launched a file sharing service called Napster that allowed users to download and share music without compensating the recognized rights holders. Napster

was fairly quickly sued by the music industry establishment and was eventually forced to shut down the service. (P. Wikström.)

However, a string of other, increasingly sophisticated services immediately followed suit. Even though the traditional music industry used very aggressive methods, both legal and technical, to stop the explosion of online-piracy services such as Napster, Kazaa, Limewire, Grokster, DC++, and The Pirate Bay, it was to no avail. As soon as one file sharing service was brought to justice and required to cease its operations, new services emerged and took its place. (P. Wikström.)

By the end of 2013, the sales of physically distributed recorded music (e.g., cassettes, CD, vinyl) measured in unit sales, were back at the same relatively low levels of the early 1970s. (P. Wikström.)

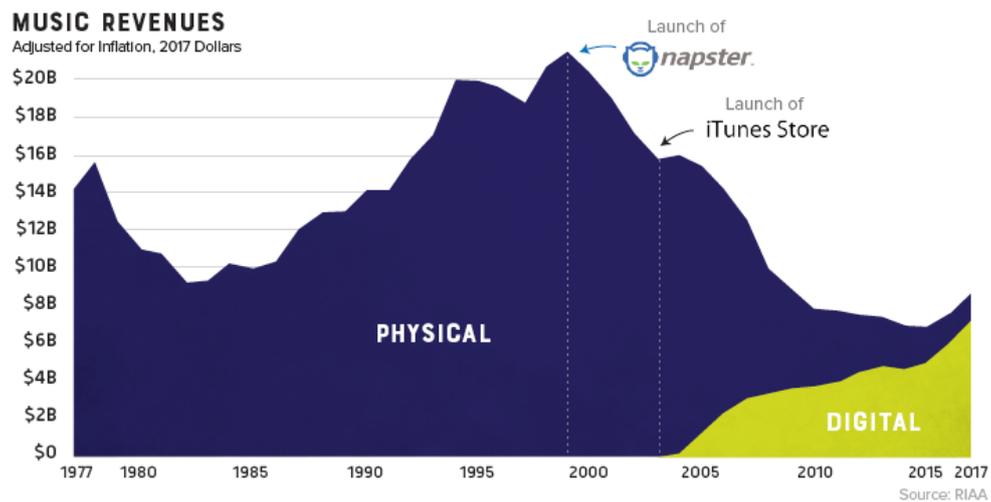


Chart 2: Music revenues Physical Vs. Digital (Visual Capitalist, 2018.)

For years, publishing has been watching the movement and transformation underway in the world of recording, gradually benefiting from the development of the live industry to some degree without embracing any real transformation of the specific industry that has always been the backbone of music, turning the creativity of artists into a “product”. (Music innovation Hub.)

The record industry, which went into crisis 20 years ago due to its inability to face the challenge of digitalization, has caught up over time thanks to the “liquefaction” of the product from physical to digital and the consequent re-conversion of the supply chain. The current record market is now seeing almost half of its total revenue coming from digital music. (Music Innovation Hub.)

Digitalization has meanwhile revolutionized the production system by introducing profound changes into the creative process. It has also resulted in the development of new business opportunities, leading to growth in the synchronization market thanks to the development of the videogame market, and the increase in film and television productions. (Music Innovation Hub.)

It is a real revolution that has made an unlimited amount of music immediately accessible on a global scale and at very little cost, thus stimulating consumption. Today, music is the most widespread cultural product of consumption in terms of hours of use. (Music Innovation Hub.)

Technology/business model	Pre-digital/traditional (pre-2000)	Digital/internet (2000–)	Blockchain (2015–)
Operating system	Major/indie labels Copyright information held in silos Physical distribution (retail)	Major/indie labels and growing number of distributors Rise of aggregators in digital distribution Copyright information held in silos Digital distribution through multiple centralized download and streaming platforms	Major/indie labels and growing number of distributors Copyright information networked/distributed, with possibility of automated payments and licensing through smart contracts Possibility of decentralized streaming platforms/P2P
Venture/customer	Recording artist signed to record label and music publisher	Recording artist probably signed to record label or distributor and music publisher Growing range of independent options, especially for established acts	Recording artist signed to record label or distributor and music publisher – although boundaries blurring Range of independent options continues to grow, especially for established artists
Value creation recording and add-ons	Recorded music (sales – i.e. one-off purchases)	Recorded music (shifting from ownership to access model) Increased emphasis on other revenue streams (live performance, merchandize, sync and direct-to-fan) Crowdfunding	Recorded music (high volume of micropayments) Continued emphasis on other revenue streams (live performance, merchandize, sync and direct-to-fan) Crowdfunding/ICO
Institutional/regulatory	Copyright, advances from labels and publishers, royalty collection (relatively low numbers of relatively high-value transactions) via collection societies and tax	Copyright, advances from labels (and some distributors)/publishers and digital royalty collection via collection societies and tax	Copyright, advances from labels/distributors and publishers, digital royalty collection (smart contracts arguably reduce role of collection societies and arguably allow real-time micropayments), secondary rights market and tax

Table 1: Technological and business model component evolution - recorded music industry intermediaries (O. Robyn & M. O’Dair, 2020.)

Robyn’s and O’Dair’s (2020) Table 1 presents a dynamic framework which incorporates the three key stages of technological evolution from pre-2000 analogue and post-2000 digitization, downloading and streaming and post-2015 blockchain developments. This framework also incorporates the elements of operating market system and institutional/regulatory external factors, as well as the venture-specific customer and value creation aspects which comprise the business model theory. (O. Robyn & M. O’Dair, 2020.)

### 3.3.1 Music-tech as a new music industry sector

The traditional three-part segmentation of the music industry into publishing, recorded music and live music has had its day, and to these traditional industries a fourth line of production and sales, known as music-tech, has been added. (Music Innovation Hub.)

Music-tech has a short but intense history. In 2001 Napster was born, in 2005 along came YouTube, and in 2008 Spotify was founded. Among the most recent queens of the market, Twitch arrived in 2011, but was acquired by Amazon as recently as 2014; Tik Tok is from just 2016, yet in a very few years this sector has literally turned the entire musical ecosystem upside down. This transformation continues at breakneck pace for many professional figures who are now destined either to transform or perish. (Music Innovation Hub.)

The music-tech sector is well developed in China, the US, UK, India and Europe, especially in Sweden: here alongside the major international streaming players known to the general public - such as YouTube, Apple Music, Facebook Live, Twitch/Amazon, ByteDance/TikTok, Tencent, Spotify - there are also lesser-known entities such as Kobalt, working in the sale of music catalogs, or Believe, a digital and physical distributor that is also active in the field of synchronization for cinema and advertising. (Music Innovation Hub.)

Music-tech is a sector which is, by definition, capable of attracting capital through the application of development models with strong scalability and sustainability: to give just a few examples, Spotify alone is worth as much as Universal Music Group on the stock market, Kobalt reaches half a billion dollars in turnover, and ByteDance, known to the general public for the platform TikTok, exceeded 17 billion in revenue in 2019, surpassing even YouTube. (Music Innovation Hub.)

In the world, if 100 is the total economic value of the music industry 4.0, music-tech would be worth 60, the live industry 30, and the traditional recording and publishing industry 10. (Music Innovation Hub.)

## 4 Effects of digitalization on the money flow of the music industry

According to Robyn & O'Dair (2020) in terms of how artists get paid, there is universal agreement that the industry has shifted considerably towards an online streaming model that is driven by single tracks and a high volume of low-value (fractions of a cent per play) payments, where income is accrued over time. This initially posed a challenge to record label business models, which were based around the sale of physical vinyl and compact discs (CDs), yet labels with large catalogues are now seeing the benefit of the shift to streaming. For artists and songwriters, however, streaming is a winner-takes-all scenario in which only the likes

of Adele, Drake and Ed Sheeran earn significant sums while everyone else is obliged to seek out additional revenue streams to make a living.

#### 4.1 The music industry moving towards the financial sector

The interest of the financial markets and the excellent performance of some companies have led to a renewed interest in music companies, with the major ones very active in recapitalization partly thanks to revenue generated by their immense catalogues. (Music Innovation Hub.)

Music copyrights are becoming completely divorced from the original creativity that lies behind them, thanks to the increasing financialization of the sector. As songs are viewed simply as assets that can be bought and sold, they can also be manipulated in other ways, including securitization. (Walled Culture, G. Moody, 2022.)

In 2022 Kohlberg Kravis Roberts & Co. an American global investment company bought a music catalog for \$1.1bn from the independent rights management and publishing company Kobalt Music Group. Now KKR is securitizing the catalog into bonds and seeking a nice rating for them. KKR Credit Advisors is using a catalog of 65,000 songs including hits from top artists of today to sell more than \$732 million of asset-backed securities supported by publishing and sound recording royalties. (Music Business Worldwide, T. Ingham 2022.)

“As MBW has written previously, the most memorable pioneer of bonds in music was David Bowie who, alongside David Pullman, launched ‘Bowie Bonds’ in the late nineties. However, as the specter of piracy began to swirl around the music industry, in 2004 these bonds were downgraded at Moody’s from an A3 rating to Baa3. Bowie’s bonds did actually end up returning the full \$55 million investment that they attracted from investors, plus an agreed rate of interest. But the wobble spooked Wall Street, and set back music rights’ potential as a basis for bonds. The post-Spotify world has changed all that. That’s partly thanks to streaming, with its predictable future royalty income patterns for catalog rights; and it’s partly thanks to a surge in Wall Street’s confidence over investing in music assets, helped by the performance of companies such as Hipgnosis Songs Fund and Primary Wave.” (Music Business Worldwide, T. Ingham 2022.)

The rising popularity and potential profitability of music streaming is likely to make the securitization of songs increasingly attractive to the giant investment companies, like KKR. The bad thing is that, only few if any benefits will flow to the musicians who do all the hard work of actually creating the songs. That’s how copyright is working these days. (Walled Culture, G. Moody, 2022.)

#### 4.2 Blockchain and the future of digitalization in the music industry

“Although it is sometimes understood as a financial technology phenomenon, blockchain has the potential to transform numerous sectors -including the creative economy. We are entering a new era of distributed creativity, with blockchain technology facilitating frictionless licensing and the fair and accurate distribution of revenue from large-scale collaborative projects. Copyright data, currently held in centralized silos, could also be distributed, allowing for a single source of truth - with the result that creators receive just rewards for their work. Automated payments, executed on a blockchain, could dramatically speed up royalty payments, as well as making them more transparent. Finally, a more inclusive approach to data would encourage innovation, allowing entrepreneurs to build new services. There are, however, significant barriers to adoption. Adoption would also bring with it significant risks.” (M. O’Dair, 2019.)

In the Music in the air report by Goldman Sachs (2022) the leading global financial institution believes that the whole music industry will reach a worth of \$153bn by 2030. Goldman Sachs forecasts the compound annual growth rate of recorded music to be 8% for the years 2021-2030. This industry handle includes paid streaming, ad-funded streaming and physical record sales which have seen growth recently due to grown interest in vinyl records. Goldman Sachs forecasts a compound annual growth rate of 6% for music publishing for the years 2022-2030. Music publishing growth is due to mainly similar growth drivers as the recorded music, these being streaming and physical sales. Music publishing is expected to continue growing at a little bit slower rate than recorded music because publishing derives a greater share of its revenue from performance and sync revenue. Goldman Sachs also expects live music to remain an attractive market with a steady growth outlook after the COVID-19 pandemic. The company forecasts live music a 4% compound annual growth rate for the years 2022-2030. (Goldman Sachs, 2022.)

#### 4.3 Challenges and opportunities the music industry faces due to digitalization

“While huge segments of the public are excited about the simple fact that the internet has enabled people to quickly and effectively get their hands on music, this comes at a massive cost. Or rather... cost reduction. Music today is just cheap. It’s disposable. It’s viewed as free. People spend more time stealing music than they do listening to it, in a lot of cases. Piracy and low streaming royalties have fundamentally changed the way artists get paid off of their creative work. With the dominance of Spotify and other music streaming services, who offer either ad-based or paid subscriptions, this fact isn’t going to be changing anytime soon.” (Recording Connection, 2022.)

Recording Connection (2022) also writes that the same internet that has caused all the problems, is going to be the solution. The internet has changed music in a way that the music

industry “machine” is dead, because the “machine” only services the top 1% of artists and for every one of those artists that benefit from that system there are legions of other artists who have found success doing it themselves. Young entrepreneurs/artists today have the ability to independently leverage their social following and monetize it. That’s ultimately how the internet has changed music: by freeing it from the grasp of literal gangsters. Yes, it has made certain areas harder to find success within, but it’s absolutely made having a career in music, on your own terms possible.

## 5 Applications of a digitalized music industry

In this section we explore the practical effects and real-world applications of the ongoing digitalization of the music industry. While technology continues to reshape the landscape of music production, distribution, and consumption, it is important to highlight especially streaming platform companies and companies which integrate blockchain technology into their business models.

### 5.1 The situation of a digitalized music industry today in practice

As we can clearly see that the music industry is becoming more and more digitalized, streaming service companies and blockchain music companies are in the forefront of the digitalized music industry. These companies are innovating and accelerating more changes within the industry. Record sale revenues are generated mostly through streaming platforms and not physical record sales like in the pre-digital music era. Royalties are bringing in the cash flow to musicians, but also the importance and value of live-music has grown, and in fact musicians make most of their income from live concert ticket sales by going on tour (If the tour is successful). Digitalization has also awakened the interest of financial companies towards the music industry, because due to streaming services music publishing rights are transforming into exchangeable assets like real-estate and stocks.

### 5.2 Companies working with the subject now

There is a vast amount of companies working within the digitalized music industry today and they are not only limited to streaming platform companies and music blockchain companies. Major record labels like Universal Music Group, Warner Music Group and Sony Music are also working intensively with the subject. Even financial companies and institutions are growing their share in the digitalizing music industry. In this report I present only a few of the most important streaming platform companies and music blockchain companies.

### 5.2.1 Streaming platform companies

**Spotify** is a Swedish music streaming platform, which is setting the standard for modern music listening. The platform has 158 million subscribers, and 356 million monthly users, with over 70 million tracks of music and 2.6 million podcasts. Users come from all over the world, and have created 4 billion playlists. It is the world's leading audio-streaming subscription service. In 2018, Spotify went public after 10 years of exponential success; it is listed in the New York Stock Exchange as **SPOT**. (Firsthand, Spotify.)

Spotify began as a startup in Stockholm in April 2006 when founders Daniel Ek and Martin Lorentzon wanted to develop the platform in an attempt to address the issue of piracy in the music industry. Daniel Ek said, "I realized that you can never legislate away from piracy," so creating a platform in which every song was available to everyone while still compensating the songwriters, singers, producers and bands listeners loved was critical to the future of the music industry. (Firsthand, Spotify.)

Spotify still holds the title of the largest audio streaming platform in the world and is counting Apple Music, Amazon Music, YouTube Music, Soundcloud and Deezer as its competitors. Since the launch in 2006 Spotify has paid out over \$30bn in royalties to the music industry. (Gulf Business, 2022.) Spotify charges 9.99\$ a month for their subscription. (Spotify, 2023.)

**Apple Music** is a music, audio and video streaming service developed by Apple Inc. (Listed in NASDAQ as **AAPL**) The service was announced on June 8, 2015, and launched on June 30, 2015. Users select music to stream to their device on-demand, or they can listen to existing playlists. The service also includes the Internet radio stations Apple Music 1, Apple Music Hits, and Apple Music Country, which broadcast live to over 200 countries 24 hours a day. (Wikipedia, Apple Music.)

Apple Music is much like Spotify, but since its start as strictly a music service Apple began expanding into video in 2016 and is investing heavily in the production and purchasing of video content, both in terms of music videos and concert footage that support music releases, as well as web series and feature films. (Wikipedia, Apple Music.)

In January 2016, Fortune Magazine reported that, six months after launching, Apple Music had reached 10 million paying subscribers, having spent six months reaching the same customer base that took competing music streaming service Spotify six years. (Wikipedia.) Apple Music has reached 88 million subscribers in 2022 and so it holds the second largest subscriber base in the world. (Business of Apps, 2023.) Apple Music charges 10.99\$ a month for their subscription. (Apple Music, 2023.)

**YouTube Music** which is owned by tech giant Alphabet Inc. (Listed in NASDAQ as **GOOG**) is a streaming service which brings together a gigantic catalog of music albums, covers, remixes, live performances, music videos and more. It's been described as an all-in-one type of deal in their official blog with both a mobile app and desktop program. YouTube Music was officially released on May 22 2018. (Forbes, 2018.) As of September 2022, YouTube surpassed 80 million Music and Premium subscribers globally. (YouTube blog, 2022.) YouTube Premium, which includes YouTube Music and other benefits (e.g. no ads on YouTube videos) costs 11.99\$ per month. (Make use of, B. Stegner 2023.)

**Amazon Music Unlimited** is Amazon's (Listed in NASDAQ as **AMZN**) on-demand music streaming platform that works in a similar way to Spotify and Apple music. It offers access to a massive library of over 75 million songs and podcasts, as well as the ability to add your own music. Much like its rivals, it gives allows you to access thousands of curated playlists and radio stations to help with music discovery. (Pocketlint, 2022.) Amazon Music has around 82.2 million users, which makes it the third largest streaming platform in the world. (Headphones addict, 2023.) Amazon charges 10.99\$ per month for their subscription. (Amazon, 2023.)

**Tencent Music Entertainment Group** (Listed in the NYSE as **TME**) is a company that develops music streaming services for the Chinese market. Tencent Music's apps include QQ Music, Kugou, Kuwo, and WeSing; which have more than 800 million active users and 120 million paying subscribers. As of July 2016, Tencent Music's three services held an estimated 56% market share of music streaming services in China. Tencent Music was established in July 2016 with Tencent's purchase of China Music Corporation to strengthen its music offerings. Sony/ATV Music Publishing acquired and equity stake in Tencent Music on July 4, 2018. In October 2018, the firm filed for IPOs (Initial Public Offerings) of around \$2 billion in the United States. (Wikipedia, Tencent Music.)

In the first quarter of 2021, Tencent Music announced it had 60.9 million paying users, up 42.6% compared to the 42.7 million paying users in the first quarter of 2020. In addition, the total number of music streaming users was announced to be 615 million, a drop of 6.4% compared to the first quarter of 2020 (657 million). (Wikipedia, Tencent Music.)

### 5.2.2 Blockchain music companies

**OPUS** is a decentralized music sharing platform that leverages blockchain technology to guarantee fair compensation for artists, transparent and reliable payment rules; and extensive music content stored by the community. OPUS introduces its own digital token (OPT) for payments and revenue management for both artists and fans. These tokens give us new possibilities in the music industry: artists can decide how to split revenues between band members and for each song separately, can share their own revenue with the fans, who in turn can support their favorite artists or can purchase extra content. Leveraging the speed and

redundancy of a decentralized and immutable file storage technology - IPFS (Interplanetary File System), OPUS can scale and deliver thousands of tracks per second in a very decentralized manner. This is achieved by encrypting music tracks on the go and storing the encrypted music files permanently on the IPFS swarm. (OPUS, 2018.)

**Soundblock** is a music distributor which distributes artist's music and merchandise to the most relevant platforms (e.g. Apple Music & Spotify) and storefronts while every stream, download and t-shirt sale is documented forever on the blockchain. Soundblock makes it possible for artists to monetize and administer their digital and physical sales without having to trust or rely on a booking agent, manager, record label, publisher, performance rights organization or government agency. The company makes it possible for artists to receive royalty payments in Bitcoin, Musicoin, Ethereum, PayPal, Wire, Check or ACH. (Soundblock.)

**Sound or Sound.xyz** was founded to solve two major problems with the music industry: (1) the vast majority of songs go entirely unheard and 90% of streams go to the top 1% of artists and (2) artists earn a minuscule amount from each stream (\$0.003 per stream), resulting in even the most talented artists struggling to making a living wage. "We believe music is more valuable than the current paradigm suggests." (Sound.xyz)

Sound.xyz is powering the next generation of artists and their communities. Artists can launch a listening party for new song releases with a series of limited edition NFTs to capture more value from their art and more closely connect with their fans. Fans can support their favorite artists, inscribe a public comment on the song, and engage with the artist & other fans. Sound is a platform created for a more collaborative music movement, built on web3 technology and values. On Sound, fans support the artists they love directly and stake their claim on being there before everyone else. (Sound.xyz)

**Audius** is a decentralized, community-owned and artist-controlled music-sharing protocol. Audius provides a blockchain-based alternative to existing streaming platforms to help artists publish and monetize their work and distribute it directly to fans. Audius is owned and run by vibrant, open-source community of artists, fans and developers all around the world. Audius gives artists the power to share never-before-heard music and monetize streams directly. Developers can build their own apps on top of Audius, giving them access to one of the most unique audio catalogs in existence. The mission of the project is to give everyone the freedom to share, monetize, and listen to any audio. (Audius.)

## 6 Research methods

This thesis uses two research methods, qualitative interview, and benchmarking. These qualitative research methods are chosen to be used because they are the most suitable research methods regarding the topic of this thesis. The interview is a focused interview and is carried out using predetermined interview questions but are flowing freely around the question themes. The benchmarking study is done by comparing two Finnish music artist's production companies financial statements from the years 2003-2019.

Interviewing is a flexible research tool that can be used at any stage of a research process: during initial phases to identify areas for more detailed exploration and/or to generate hypotheses; as part of the piloting or validation of other instruments; as the main mechanism for data collection; and as a "sanity check" by referring back to original members of a sample to ensure that interpretations made from the data are representative and accurate. Interviewing, as with all research methods, is also open to several biases and shortcomings, the most critical of which is the difficulty of achieving reliable and valid results. Quantification and objectification of interview-derived data are the most powerful ways to remedy this and highlight the importance of the researcher maintaining an objective stance throughout the research process. Interviews can take a variety of forms depending on the type of data required to inform the research question being asked, as well as on the availability of resources. (Brewerton P & Millward L, 2001.)

### 6.1 Focused interview

A semi-structured interview falls in between a structured and an unstructured interview. A semi-structured interview incorporates elements of both quantifiable, fixed choice responding and the facility to explore, and probe in more depth, certain areas of interest. Thus, this type of interview carries with it the advantages of both approaches (generally easy to analyze, quantify and compare, but allowing interviewees to explain their responses and to provide more in-depth information where necessary) as well as the disadvantages (the temptation to spend too long on peripheral subjects, the danger of losing control to the interviewee, and the reduction in reliability when using non-standardized approaches to interview each respondent). (P. Brewerton & L. Millward, 2001.)

Focused interview is an example of an applied semi-structured interview, and it is one of the most frequently used interview types. This interview format enables versatile interaction between the interviewer and the interviewee. The themes of a focused interview are defined beforehand, but there is no strict order in which these themes are presented. In a focused interview, the set of questions serves mostly as a malleable reminder for the interviewer that gives way when the situation calls for it. All selected themes are covered with each interviewee, but the way the different themes are handled and to what extent can vary from

interview to interview. Preparing a focused interview requires a lot of background research and the interviewees must be carefully selected so that the interviews will serve the goals of the research. (L. Näpärä, 2019.)

The design of the themes is one of the most important stages of the research process. With the help of themes, the phenomenon is broken down into sub-sections. The researcher tries to understand the content and meanings of the themes with the help of the questions asked. Examining even one individual theme is more of a broader whole “unit” than a single interview question. In the interviews, all the selected themes/theme questions are covered, but the order, scope, word choice and the way of asking the questions may vary a lot from interview to interview because the interviewees’ answers, plus the desire and way of telling things are different. In this way, the part of the researcher may also differ in each interview. Sometimes the researcher is mainly an active listener, encourager, and presenter, however sometimes the situation requires the researcher to be more active in asking direct questions. (A. Puusa & P. Juuti, 2020.)

In a focused interview it is important to think carefully how the pre-planned themes guide the interview, because it is assumed that the interviewer and the interviewee speak the same language and the terminology used means the same for both parties involved. Without this starting point, it cannot be assumed that the interviewee’s answer would be genuinely related to the theme intended by the interviewee. This is exactly why the method can be considered rather demanding. A pre-planned interview framework gives the interview a form and helps to ensure that the researcher receives relevant information from the point of view of the purpose of the research and the research problem/topic, when the discussion focuses on issues that are correct from the point of view of the research and central to the problem/topic. The purpose of the chosen themes is to produce as much material as possible, which the researcher can later interpret with the help of theory. (A. Puusa & P. Juuti, 2020.)

## 6.2 Benchmarking

Benchmarking is a way of evaluating or checking a market research metric with comparison to an identified standard. Benchmarking standards are often elements such as “industry bests” or “best practices”. Benchmarking provides a way to contextualize results, helping brands/companies understand how and where they need to make changes to a current product/operating model to improve that product’s/service’s performance against competitors in their industry. (Quantilope, 2022.)

Benchmarking is a useful research method when one wants to learn from others to improve or change their own operations. Benchmarking is also a way to point out differences between competitors without a big price tag. The biggest challenge in benchmarking is to find the right benchmarking criteria, and when searching for the best practices in a certain field, it’s

possible to make the mistake of believing that the market leader in the field does everything in the best possible way. (B. Gaille, 2016.)

Benchmarking is normally done by a brand or company that competes in a certain field and is developing their competitiveness. In this research two music industry operators financial statements are compared between one another. The companies are both production companies of Finnish music artists. The purpose is to figure out whether the two companies have similarities or differences in their financial statements and whether they share a common factor that would indicate changes taking place due to digitalization when looking at financial statements from the pre-digital era (years 2003-2004) and the digital streaming era (2018-2019).

## 7 Copyright society Teosto interview

The copyright society Teosto's interview is carried out by interviewing Teosto's Senior Advisor of technology and foresight. A music copyright society's employee is an excellent candidate for this research, because music copyright societies work in the center of the evolving money traffic of the music industry. Music copyright societies also have to stay very aware of the state of the music industry and the new operating methods it is moving towards.

The interview was done by phone and a recording of the interview was used to document the results for this research. The recording of the interview is meant for research purposes only and is not published anywhere. The goal of the interview is to find out how digitalization has affected music industry operators operating models and money traffic in practice. In this case Finnish language was used during the interview and results were translated to English language. The interview follows a pre-planned structure consisting of 5 themes and pre-planned questions but adapt and flow according to the interviewee's responses. Follow-up questions are asked when necessary to dive deeper into specific areas of interest.

### 7.1 What are copyright societies?

Copyright societies represent authors, performing artists and other copyright holders in their respective fields, and administer their rights. Among other things, they collect and distribute copyright remunerations to rightsholders. (Ministry of Education and Culture, P. Virtanen)

### 7.2 What is Teosto?

Teosto is a copyright society for composers, lyricists, arrangers and music publishers in Finland. It's a non-profit organization that strives to enable the creation and use of music as a profession. Teosto manages the copyrights of music authors and promotes music creation in

Finland. Teosto was founded nearly one hundred years ago by Finnish composers and music authors to safeguard their rights and promote their interests. Teosto is the biggest community of music authors in Finland and takes concrete action for a more sustainable and diverse music industry. Teosto also funds the building of the music industry's future through for example, the Teosto fund. (Teosto.fi)

The ultimate decision-making power at Teosto lies with Teosto's voting members, which consists of composers, lyricists, arrangers and publishers. Voting members decide on the focus areas and the budget of operations at the twice per year held General meeting. (Teosto.fi)

### 7.2.1 What does Teosto do in practice?

Teosto collects royalties for music use and then pays the royalties to composers, arrangers, lyricists and publishers. (Teosto.fi)

Teosto sells music licenses to operators in different sectors. There are licenses for various kinds of situations: event licenses as well as licenses for radio stations and TV channels, municipalities and digital services. (Teosto.fi)

Teosto develops the music industry by promoting the industry's diversity, sustainability, data use and innovations. Teosto works together with businesses, associations, universities and researchers. (Teosto.fi)

Teosto improves the status of music authors and creative work in society. Teosto influences the music industry's working conditions, promotes the interests of music authors in political decision-making and increases understanding of the creative industry among decision-makers. (Teosto.fi)

## 7.3 Interview structure, themes, and questions

In this section I present the structure of the focused interview in 5 theme areas which are: introduction, background, digitalization effects, money traffic and finally industry trends, predictions and ending.

### 7.3.1 Introduction

The interview starts with an introduction and explanation that the interview is being conducted to gather insights on the effects of digitalization on the music industry's operating models and money traffic from a finance perspective. The framework questions presented in this section were used to drive the interview and these questions were supplemented by additional questions for further clarification when necessary.

### 7.3.2 Background

After the introduction background questions are asked such as, how long has the interviewee worked in the industry, what is the interviewee's role and responsibilities within the copyright society, what are the current operating models and financial practices in the copyright society and questions exploring the interviewee's experience and observations on the changes in the music industry over the years.

### 7.3.3 Digitalization effects

After background questions the interview moves on to the real questions and starts off by discussing the interviewee's perspective on how digitalization has affected the copyright society's financial operations and revenue streams. In this phase challenges or opportunities that have arisen due to digitalization are being explored. Also, the changes in the cost structure and resource allocation because of digitalization are inquired.

### 7.3.4 Money traffic

In this theme the interview continues with questions that ask about the changes in money flow within the music industry caused by digitalization. Moving on to questions that explore how digital platforms and streaming services have impacted revenue distribution and royalty payments. As well as inquiring about any new financial models or strategies that have been adopted to adapt to the changing money traffic patterns.

### 7.3.5 Industry trends, predictions and ending.

In this theme the interviewee's observations on the current trends and future predictions regarding digitalization and its financial impact on the music industry are being discussed. The interviewee is also inquired about their thoughts on emerging technologies or business models that may further disrupt or transform the industry. The interview is then wrapped up by thanking the interviewee for their time and contribution to this research and offering them the opportunity to provide any further comments or ask questions.

## 7.4 The framework questions by theme presented to Teosto copyright society's employee.

### Introduction

1. Could you please introduce yourself, tell me how many years of experience you have in the industry and what is your role within Teosto?
2. Could you shortly explain the purpose of your position and your responsibilities?

#### Background questions

1. How would you describe the current operating model of Teosto (the copyright society) in terms of financial practices?
2. From your experience, how have you seen the music industry change over the years, particularly in relation to digitalization?

#### Digitalization effects

1. In your opinion, what are the major impacts of digitalization on the copyright society's financial operations and revenue streams?
2. Have there been any specific challenges or opportunities brought by digitalization?
3. How has digitalization affected the cost structure and resource allocation within Teosto/the music industry?

#### Money traffic

1. Can you discuss the changes in money flow within the music industry that are taking place because of digitalization?
2. How have digital platforms and streaming services impacted revenue distribution and royalty payments for the copyright society?
3. Are there any new financial models or strategies that the copyright society has adopted to adapt to the changing patterns of money traffic?

#### Industry trends, predictions and ending

1. What current trends do you observe in the music industry regarding digitalization and its financial impact?
2. From your perspective, what are some predictions for the future of the music industry in relation to digitalization?
3. Are there any emerging technologies or business models that you believe may further disrupt or transform the industry?

#### 7.5 The interview framework questions translated to Finnish language.

##### Johdanto (Teoston tekijänoikeusjärjestölle suunnatut kysymykset)

1. Voisitko esitellä itsesi, kertoa kuinka monen vuoden kokemus sinulla on alalta ja millainen rooli sinulla on Teostolla?
2. Voisitko kertoa lyhyesti tehtävistäsi ja vastuualueestasi? (Tutkimuspäällikkönä)

##### Taustakysymyksiä

1. Miten kuvailisit Teoston nykyistä toimintamallia taloudellisten käytäntöjen kannalta?
2. Oman kokemuksesi perusteella miten olet nähnyt musiikkiteollisuuden muuttuvan vuosien varrella, erityisesti digitalisaation suhteen?

#### Digitalisaation vaikutukset

1. Mitkä ovat mielestäsi digitalisaation suurimmat vaikutukset Teoston taloudelliseen toimintaan ja tulovirtoihin?
2. Onko digitalisaation takia ilmaantunut erityisiä haasteita tai mahdollisuuksia?
3. Miten digitalisaatio on vaikuttanut Teoston/musiikkiteollisuuden kustannusrakenteeseen ja resurssien allokointiin?

#### Rahaliikenne

1. Voitko kertoa digitalisaation tuomista muutoksista musiikkiteollisuuden rahavirtoihin?
2. Miten digitaaliset alustat ja suoratoistopalvelut ovat vaikuttaneet Teoston tulojen jakautumiseen ja rojaltimaksuihin?
3. Onko Teosto omaksunut uusia rahoitusmalleja tai strategioita mukautuakseen rahaliikenteen muuttuviin malleihin?

#### Toimialan trendit, ennusteet ja lopetus

1. Millaisia tämänhetkisiä trendejä havaitset musiikkialalla liittyen digitalisaatioon ja sen taloudellisiin vaikutuksiin?
2. Millaisia ennusteita sinulla on musiikkiteollisuuden tulevaisuudelle liittyen digitalisaatioon?
3. Onko olemassa uusia teknologioita tai liiketoimintamalleja, joiden uskot voivan edelleen muuttaa alaa?

### 7.6 Interview results

In this section I present the results of the interview which are divided into the 5 theme areas.

#### 7.6.1 Introduction

The interview began with an introduction of the interviewee and his background in the music industry. The interviewee chose to be anonymous, so he shall be called Mr. X.

Mr. X has studied musicology and also conducted market research in the IT industry. He eventually started working on his doctoral dissertation, and all these experiences converged into his career at Teosto, involving both the tech side and the music industry. In his various roles, there has also been a research angle, and currently, he is focused on forecasting and the future of where the music market might be heading. His goal is to maintain an image that enables planning for what Teosto should do to keep up with the changes in the industry.

At Teosto, Mr. X has worked as a research manager, led product development teams, managed Teosto's IT and reporting, as well as licensing and development. Since the beginning of this year, he has been working in an anticipatory role and leading it.

### 7.6.2 Background questions

When Mr. X was asked about the current operating model of copyright society Teosto in terms of financial practices Mr. X describes Teosto's current operating model in general terms: they make agreements. When thinking about Teosto's activities, there are two types of customers: author- and publisher customers with whom they make agreements regarding the use of works, allowing Teosto to represent them. They also make agreements with music user customers, which include a wide range of entities, starting from TV and radio companies, public broadcasting, commercial operators, various online services like Netflix, Spotify, YouTube, Finnish Live Concerts (Suomen LiveKeikat), restaurants and stores background music. There is a broad customer base, totaling around 30,000 customers, but a significant portion of revenue comes from large user customers. In practice, Teosto operates in a two-way market: through agreements, Teosto obtains rights from authors and publishers, and these are packaged as licenses and usage agreements directed towards user customers. Teosto then receives reports from music user customers, for example, radio stations or online platforms, on a monthly basis and invoices them for the use of music represented by Teosto.

According to Mr. X, digitalization has made a significant change in the music industry. He joined Teosto in 2008, at a time when physical record sales were declining from their peak in the early 2000s. There were various phases of piracy and free usage that had a significant impact. In 2008, the current phase began, with the emergence of services like Spotify and YouTube. It has been a major and lengthy shift towards the streaming model, where the music industry, in a way, had to compete with free offerings, leading to the creation of models like ad-supported streaming services. Additionally, over the past decade, the use of subscription-based streaming services has grown, which has become a parallel trend. From a consumer perspective, the ability to access all the world's music from a single service has been revolutionary. Looking at it from an economic standpoint, it took quite a while to reach the economic figures of the early 2000s through the streaming model. Even though it's fluid, one can generally say that the music industry has been in the streaming world since around 2010-

2011. However, when considering the mainstream market and the fact that in most countries, it's the most common way to consume music, it took more than ten years for this change to occur. Looking ahead, it feels like a significant disruption is on the horizon, but changing consumer behavior always takes its time. In the case of streaming, it has been observed that it started consciously with young people and has gradually spread to other age groups as well. Changing consumer habits doesn't happen very quickly. To emphasize, it is noticeable that when Teosto represents authors and publishers, the income structure still shows that over half of the authors' income (Teosto's collected royalties) comes from the Radio and TV sector. However, over the past 10-15 years, the share of the Online sector has been growing and is becoming a very significant portion of the income.

### 7.6.3 Digitalization effects

Mr. X describes that the biggest changes in Teosto's financial operations and revenue streams due to digitalization have been the rise of on-demand services both in the music and audiovisual sectors. This includes platforms like Spotify, Apple Music, YouTube on the music side, and services like Netflix, as well as domestic platforms like Yle Areena and the online usage of commercial services on the audiovisual side. This shift towards online services has been the most significant change. Of course, Teosto's agreements have had to adapt to these new areas, requiring the creation of new compensation models and other adjustments. This has been a major shift. Another noticeable impact has been the significance and growth of online revenue in the overall context of Teosto.

In the interview Mr. X highlighted several significant challenges associated with digitalization in the music industry:

1. **Data Challenges:** Managing and processing vast amounts of data, especially usage data from streaming services, has been a major challenge. While traditional radio channels generate fewer data points, streaming services produce thousands of plays for individual songs. Teosto must process and combine data from these services to distribute royalties accurately to authors and publishers.
2. **Differences in Compensation:** The compensation structure for streaming is fundamentally different from traditional radio, with streaming generating considerably less revenue per play. This has posed a financial challenge for all music industry stakeholders due to the massive volume of plays that must be handled.
3. **Data Quality:** Data quality is a persistent issue. While audio metadata often accompanies music through distribution channels, comprehensive information about composers and other relevant details may be missing. This presents challenges in identifying and compensating the right creators.

4. **Manual Work:** While a substantial portion of data processing is automated, there is always a portion that requires manual intervention, such as identifying unknown or missing information about songs and artists. Deciding when and where to allocate human resources for this task is a complex decision.
5. **Music Identification:** Music identification services are employed to match songs played on streaming platforms with their corresponding rights holders. However, in smaller countries like Finland, where the volume of Finnish music use is much smaller compared to international music, this presents challenges in accurately identifying songs and creators.
6. **AI-Generated Content:** The emergence of AI-generated music and content poses a new challenge, as distinguishing between human-created and AI-generated works becomes crucial. This may further increase the volume of content that needs to be managed and monitored.
7. **Discoverability:** Digitalization has increased the volume of music available, making it challenging for artists and labels to stand out and get their music noticed among the vast array of content. This has led to increased efforts in data analysis and promotion strategies.

To summarize, digitalization has significantly impacted data management, compensation structures, data quality, and the overall workflow in the music industry. These challenges affect various stakeholders, including collecting societies like Teosto, and require ongoing efforts to find effective solutions.

Teosto and other music industry stakeholders are facing the necessity to invest in new systems and data capabilities to handle the challenges brought about by digitalization effectively. This investment is crucial for streamlining operations and modernizing processes across the industry. It is a challenge that impacts all music industry participants.

Investments are required in system development and process innovation. This includes developing solutions to provide information to creators on online platforms, improving data visibility for Teosto's customers. Behind-the-scenes systems, such as reporting and royalty distribution, are also being completely overhauled to enhance processing capacity and improve the integration of all relevant data, including third-party data, into Teosto's systems. This represents a move to a new level of efficiency and data compatibility.

These investments come with associated costs, and effectively managing these expenses is a complex task. Given the nature of digitalization, this is a common challenge faced by all industry players. Therefore, addressing these challenges requires a coordinated effort across

the music industry to ensure that investments are made sensibly and efficiently to meet the demands of the digital era.

#### 7.6.4 Money traffic

The interviewer asked about the changes in money flow within the music industry due to digitalization, and the interviewee highlighted several key points:

**Direct-to-Online Services:** Major record labels and publishers now deliver their content directly to online platforms, bypassing country-specific organizations like Teosto. This means that in online services, Teosto primarily represents Finnish creators.

**Representation at Festivals:** When festivals with international performers take place in Finland, Teosto still collects royalties for foreign songs and forwards them to the respective organizations of those foreign songwriters. For example, if an American or British band performs in Finland, Teosto collects and redistributes royalties.

**Online vs. Traditional Representation:** The online world has a different representation model compared to traditional music representation, leading to a shift in how revenue streams are managed, particularly in the online sphere.

In summary, digitalization has transformed how music is represented and how revenue flows within the industry, with a particular focus on direct dealings with online platforms and festivals hosting international artists

**Teosto's operating income and expenses in 2022**

<b>Area of usage</b>	<b>Operating income</b>	<b>Income from investments</b>	<b>Operating expenses</b>	<b>Expense%</b>
Television	23 377 152	904 198	-3 140 580	13,4 %
Radio	9 806 573	394 151	-1 541 658	15,7 %
Concerts and other events	10 847 539	426 548	-2 020 332	18,6 %
Background music	10 571 475	425 488	-2 554 043	24,2 %
Internet	17 289 807	-	-668 988	9,8 %
Recording and synchronization	901 225	-	-153 208	17,0 %

Table 2: Teosto's operating income and expenses in 2022. (Teosto.fi)

The impact of digital platforms and streaming services on the distribution of Teosto's revenues and royalties can be observed in Teosto's financial figures in the table above. These figures reflect how the royalties are distributed and provide insights into the changes brought about by digitalization in the music industry.

Teosto has adopted new funding models and strategies in response to the changing financial landscape resulting from digitalization and data processing. One notable change is the increased frequency of royalty payments. In the past, royalties were typically paid to creators once a year, but now they are distributed four times a year, with a goal of eventually moving toward monthly or even more flexible payments. This acceleration in payment cycles is aimed at getting royalties to creators as quickly as possible.

Regarding funding models, the emphasis has shifted towards expediting the flow of funds to creators instead of annual payouts. This is a trend that affects the entire music industry. In addition to money, data is also a valuable currency for all stakeholders. Teosto recognizes the importance of providing creators with data on how their music is used, including details such as which songs were used, when, and on which platforms. Therefore, ensuring timely and accurate data access is another crucial aspect of Teosto's services.

#### 7.6.5 Industry trends, predictions and ending.

Mr. X identifies several current trends in the music industry related to digitalization and its financial impacts:

**Artificial Intelligence (AI):** AI and its effects on music creation, production, consumption, and recommendation systems are significant trends. AI plays a crucial role in various aspects of the music industry, from assisting in music creation to enhancing user experiences by providing personalized music recommendations.

**Virtual Experiences:** Virtual worlds and experiences, such as Web 3.0 metaverses, are becoming increasingly relevant in the music industry. These virtual environments create new opportunities for music consumption and engagement, which in turn necessitate novel approaches to handling financial and data flows and ensuring fair compensation for creators.

**Discussions and Conferences:** Discussions and conversations in the music industry are currently focused on these trends. For example, AI's broad influence on industry processes, operations, and the impact of legislation on its development are central topics. Additionally, existing social media platforms are continuously evolving and changing how music is used and consumed. This includes using short clips of songs and experimenting with different forms of music usage, such as accelerated versions and novel ways of engaging with music.

**Future Generations:** Future trends will likely be shaped by how young people and children use music, as they are expected to set the next mainstream music consumption patterns.

These trends highlight the dynamic nature of the music industry in response to digitalization, technology advancements, and changing consumer behaviors.

Mr. X emphasizes that the music industry is constantly evolving and undergoing changes, but it remains an intriguing field because it adapts to new ways of using music. Despite the challenges that arise, the music industry has been successful in finding solutions to address them. He believes that the music industry will continue to find its way and adapt to changing models. This adaptability is rooted in the deep and intrinsic human need to create and listen to music, which forms the foundation of the entire music-related economy.

Mr. X expresses confidence that the music industry will discover ways to navigate these changes. While it is possible that new entrants may better seize new opportunities, he does not foresee music consumption or the associated economy disappearing. Instead, he believes that solutions will be found to address these challenges. The ability of music creators,

producers, and distributors to adapt to these transformations gives him confidence that this trend will persist into the future.

Mr. X believes that new technologies and business models will continue to reshape the music industry, and these changes are closely related to the trends he mentioned. He specifically highlights the potential of artificial intelligence (AI) and the emergence of what is currently referred to as Web 3.0, which encompasses decentralized technologies and services. He anticipates that these technologies will inevitably have an impact on the industry.

There are two key questions that arise concerning these developments. First, in the context of creating new music and recordings for Web 3.0 and blockchain-based services, where often the creator and artist are the same individual, the ability for creators to choose how they distribute their music through such models becomes important. Second, there is the challenge of adapting existing catalogs and music to these services and models, including the creation of licensing and compensation structures.

Mr. X acknowledges the presence of streaming services like Audius and similar platforms and believes that they will certainly play a role in altering the overall landscape of the music industry in some way. These emerging technologies and business models hold the potential to disrupt and transform how music is created, distributed, and monetized.

## 7.7 Conclusions

As we explore the impact of digitalization on the music industry, its operators and its money traffic, these insights from the interview with Mr. X clarify the evolving landscape. Mr. X, with a background in musicology and IT market research, has played pivotal roles at Teosto, the copyright society. The organization operates in a two-way market, making agreements with both author- and publisher customers, as well as music-user customers, ranging from TV and radio companies to online platforms like Spotify and YouTube.

The digital era, which is marked by the rise of streaming services, has significantly altered the music industry's financial practices. Notably, over the past decade, Teosto has witnessed a shift towards on-demand services, impacting revenue streams and demanding adjustments in compensation models. Despite all the challenges, digitalization has opened new avenues, offering consumers revolutionary access to global music.

However, this transformation is not taking place without any obstacles. Mr. X outlines several challenges associated with digitalization, including data management difficulties, imbalances in compensation structures for streaming, and persistent data quality issues. The interview highlights that adapting to these challenges requires industry-wide investments in system development and process innovation.

Money traffic within the music industry has undergone major changes due to digitalization. Major record labels now directly deliver content to online platforms, changing how Teosto represents Finnish creators in the online space. To address the evolving financial environment of music, Teosto has introduced new funding models, advancing royalty payments and prioritizing up-to-date and accurate data access for creators.

Looking ahead, Mr. X identifies current trends, such as the strong influence of artificial intelligence and the increasing relevance of virtual/digital experiences in the music industry. These trends are subjects of ongoing industry discussions, reflecting the dynamic nature of the field. Despite the challenges introduced by emerging technologies and business models, Mr. X expresses confidence in the music industry's adaptability. He envisions continued transformation of the industry through technologies like A.I and Web 3.0, acknowledging the potential for both, disruption and transformation.

In conclusion, the digitalization of the music industry has led to a new era of challenges and opportunities. Teosto, along with other industry stakeholders, is actively navigating these changes, investing in innovation, and anticipating the continued evolution of the music industry in response to emerging technologies and shifting consumer behaviors.

## 8 Artist production company income statement & balance sheet benchmarking

In the benchmarking study I compare the financial statements of the companies Kaija Koo Tuotanto Oy and Oy Shadowland Ltd. These companies are production companies for Finnish musical acts. The first company Kaija Koo Tuotanto Oy is the production company of the Finnish musical act Kaija Koo. The second company Oy Shadowland Ltd is the production company of the Finnish musical act The Rasmus.

There are some differences between the two companies/musical acts that may be noticeable in their financial statements due to a few reasons: Kaija Koo focuses only on the Finnish music market and the language used in Kaija Koo's music is Finnish whereas The Rasmus focuses on the international music market and the language used in The Rasmus' music is English. Kaija Koo is one of the most popular Finnish musical acts but The Rasmus is one of the most popular Finnish bands to garner international success. Kaija Koo has sold over half a million albums in Finland but The Rasmus has sold 5 million albums worldwide and approximately 350,000 albums in Finland alone. (Wikipedia, Kaija Koo, The Rasmus.)

In the study, financial statements from the years 2004 and 2018 are studied. Financial statements from the year 2004 are considered to be in the pre-digital era and financial statements from the year 2018 are considered to be in the digital era (after digitalization). The study will be conducted by looking at Kaija Koo Tuotanto Oy and Oy Shadowland Ltd income statements

and balance sheets from both of the aforementioned years. The accounting periods between the companies vary slightly: Kaija Koo Tuotanto Oy's accounting period in the first financial statements is 01.01.2004 - 31.12.2004 and Oy Shadowland Ltd's accounting period is 1.8.2003 - 31.1.2005. In the second financial statements Kaija Koo Tuotanto Oy's accounting period is 01.01.2018 - 31.12.2018 and Oy Shadowland Ltd's accounting period is 01.02.2018 - 31.01.2019. It is also notable to mention that The Rasmus was going through a major breakthrough during the years 2003 and 2004, selling the most records (2 million) and performing the most concerts (296) during the band's career (Wikipedia, The Rasmus.). This will most probably show in the band's production company's financial statements.

The aim of the benchmarking study is to find notable changes in the financial statements when looking at the pre-digital era and the digital era, which could be explained by the transition from selling physical records to digital music streaming. The financial statements from the two companies will be benchmarked to one another to find similarities which further confirm the visibility of the transition in the production companies financial statements.

#### 8.1 Similarity or differences in financial statements between music artist production companies

The most notable similarity in financial statements between Kaija Koo Tuotanto Oy and Shadowland Ltd is the clear reduction in material purchases and the clear increase in external services. The reduction in material purchases and the increase in external services took place when comparing the years 2004 and 2005 to the years 2018 and 2019.

Differences found in financial statements between Kaija Koo Tuotanto Oy and Shadowland Ltd were not relevant to this study, as they did not refer to changes taking place due to digitalization in the music industry.

	1.1.2004
<b>Rahayksikkö EURO</b>	<b>- 31.12.2004</b>
<b><u>LIKEVAIHTO -Revenue</u></b>	<b>83 708,62</b>
<b><u>Materiaalit ja palvelut - Materials and services</u></b>	
<b><u>Aineet, tarvikkeet ja tavarat -Raw materials and consumables</u></b>	
<b><u>Ostot tilikauden aikana -Purchases during the financial year</u></b>	<b>-929,81</b>
<b><u>Ulkopuoliset palvelut - External services</u></b>	<b>0,00</b>
	<b>-929,81</b>

Figure 1: Kaija Koo Tuotanto Oy Income statement highlighted rows 2004.

	01.01.2018 - 31.12.2018
<u>Liikevaihto - Revenue</u>	675 834,31
<u>Materiaalit ja palvelut - Materials and services</u>	
<u>Aineet, tarvikkeet ja tavarat - Raw materials and consumables</u>	
<u>Ulkopuoliset palvelut - External services</u>	-20 532,88
<u>Materiaalit ja palvelut yhteensä - Raw materials and services</u>	-20 532,88

Figure 2: Kaija Koo Tuotanto Oy Income statement highlighted rows 2018.

<b><i>Tuloslaskelma</i></b> - Income statement	1.8.2003-31.1.2005
<b><u>LIIKEVAIHTO - Revenue</u></b>	<b>2.360.141,00</b>
Valmiiden ja keskeneräisten tuotteiden	
Liiketoiminnan muut tuotot	1.890,00
<u>Materiaalit ja palvelut - Materials and services</u>	
<u>Aineet, tarvikkeet ja tavarat - Raw materials and consumables</u>	
<u>Ostot tilikauden aikana - Purchases during financial year</u>	18.819,04
<u>Ulkopuoliset palvelut - External services</u>	217.351,44
<u>Materiaalit ja palvelut yhteensä - Raw materials and services</u>	-236.170,48

Figure 3: Shadowland Ltd Income statement highlighted rows 2003-2005.

Rahayksikkö EURO	01.02.2018 - 31.1.2019
<b><u>LIIKEVAIHTO - Revenue</u></b>	<b>1 070 404,24</b>
Liiketoiminnan muut tuotot	0,00
<u>Materiaalit ja palvelut - Materials and services</u>	
<u>Aineet, tarvikkeet ja tavarat - Raw materials and consumables</u>	
<u>Ostot tilikauden aikana - Purchases during financial year</u>	-2 946,85
Varastojen lisäys / vähennys	0,00
<u>Ulkopuoliset palvelut - External services</u>	-420 452,38
<u>Materiaalit ja palvelut yhteensä - Raw materials and services</u>	-423 399,23

Figure 4: Shadowland Ltd Income statement highlighted rows 2018-2019.

## 8.2 Benchmarking results

From Kaija Koo Tuotanto Oy's income statements (Figure 1 and Figure 2) we can see that purchases during the financial year dropped from 929,81 € to 0 €, while external services increased from 0 € to 20 532,88 €.

From Shadowland Ltd's income statements (Figure 3 and Figure 4) we can see that purchases during the financial year dropped from 18 819,04 € to 2 946,85 €, while external services increased from 217 351,48 € to 420 452,38 €.

From these results I can hypothesize that material purchases dropped due to the transition from physical record sales to digital music streaming. As CD's are not commonly sold anymore I would presume that artist production companies are not buying CD's to produce and re-sell them as the artist's album. This is just a hypothesis, because an artist's record label may have been responsible for buying the CD's.

Even though material purchases have decreased a lot in this study, it might still be possible for material purchases to increase in certain years. This could happen for example in a case where an artist releases a new album and buys artist merchandise (e.g. tour t-shirts) to sell to fans. It is also possible for an music artists production company to buy the merchandising service as an external service from an merchandising company, and in that case the artists production company would not have any material purchases as they would be considered external services.

I can also hypothesize that digitalization would explain the increase in external services, as material purchases are not as necessary as external services in the digital music era. External services could be considered to make up for most if not all of an artist production company's purchases. External services are essential components that can help enhance various aspects of the music production process, promotion and overall business operations.

Examples of external services that an artist's production company would pay for are: recording studios, music mastering services, session musicians, graphic designers, music producers, music mixing engineers, publicists, merchandising companies, tour managers and booking agencies, legal services, financial advisors, health and wellness services.

The most important and essential external services for an artist's production company due to digitalization would be;

**Distribution Platforms:** Services that help distribute music to various online music streaming platforms, such as Spotify, Apple Music, and others.

**Marketing Agencies:** Agencies that help with digital marketing, social media promotion, and advertising strategies to increase the artist's visibility.

**Streaming Analytics Platforms:** Services that provide detailed analytics on streaming platforms to help artists understand their audience and track the performance of their music.

**Collaboration Platforms:** Platforms that facilitate remote collaboration between artists, producers, and other collaborators.

## 9 Conclusions

In the dynamic world of the music industry the transformation from the pre-digital era to the digital age has not only modified melodies but has created a transformation in the financial management of artist production companies. This benchmarking study reviewed the financial statements of two relevant Finnish music production entities, Kaija Koo Tuotanto Oy and Shadowland Ltd, with a specific focus on the years 2004 and 2018. The aim was to bring forth significant changes in financial statements brought by the evolution from physical record sales to the era of digital music streaming.

The noticeable reduction in material purchases showed up as a distinctive note on both Kaija Koo Tuotanto Oy and Shadowland Ltd's financial statements. From physical records to music digitalization, the habit of CD purchases faded away. This trend, which we see in the drop from 929,81 € to 0 € for Kaija Koo and 18,819,04 € to 2,946,85 € for Shadowland Ltd, underlines a fundamental transformation in the means of music distribution and consumption.

In a harmonious contrast so to say, the increase of external services was visible across the financial statements. Kaija Koo's external services increased from 0 € to 20,532,88 €, while Shadowland Ltd had a rise from 217,351,48 € to 420,452,38 €. The hypothesis I draw from this: in the digital music era, external services have taken an essential role and made the role of physical purchases less relevant for music artists production companies. These services, ranging from recording studios to marketing agencies, represent the pulse of music production, distribution and promotion in the digital age. This is of course only my hypothesis based on the publicly published financial statements, which were bought from the Finnish patent and registration administration. The financial statements which are made available to purchase publicly are not in-depth and present only the mandatory rows without details. The benchmarking analysis would have been much more valuable to this research, if I would have gotten access to the balance sheet and income statement breakdowns of these companies. Even though access to the breakdowns could have strengthened or even proven my hypothesis to be true, I still believe strongly in my hypothesis regarding all the research I provided before this benchmarking research.

The rhythm of digitalization vibrates through essential external services: Distribution platforms, the gateways to streaming realms. Marketing agencies, the messengers of digital promotion. Streaming analytics services/platforms, the experts of audience insight. And also collaboration platforms, which bridge the gaps between artists and collaborators. In this digital harmony, these services form the base notes of industry's adaption, connectivity and sustainability.

To conclude, as we end this research on the financial statements of Kaija Koo Tuotanto Oy and Shadowland Ltd, a resonant narrative unfolds. The transition from physical to digital has

balanced the financial statements of artists production companies, redefining the role of material purchases and highlighting external services as the new essential expense. The future of music production and consumption isn't just about the melodies and notes of the music but in the connected integration of technology, services, and adaptability. This reflects the evolution of an industry adapting to the digital era.

This research only scratches the surface on what is to happen to the music industry due to digitalization. The music industry is transforming at a fast pace and technological innovations such as artificial intelligence is significantly changing the industry even more today. During the time I started my research A.I had started affecting the music industry, but now it has evolved into A.I being able to generate music which adds even more challenges to the already existing copyright and data challenges. An example of a new problem that has risen due to A.I is a situation where A.I is being used to generate songs which use the vocal characteristics reminiscent of some certain artist. This brings new challenges to music artists because it seems that now they would have to start copyrighting the likeness of their voices, not just the music they make. Only time will tell what will the music industry look like in the next 5 to 10 years. I believe this is just the beginning of digitalization and it is going to be interesting to see how will the music business evolve and adapt to the increasingly digital world.

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Attachments

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Attachment 1: The interview framework questions translated to Finnish language.

Johdanto (Teoston tekijänoikeusjärjestölle suunnatut kysymykset)

1. Voisitko esitellä itsesi, kertoa kuinka monen vuoden kokemus sinulla on alalta ja millainen rooli sinulla on Teostolla?
2. Voisitko kertoa lyhyesti tehtävistäsi ja vastuualueestasi? (Tutkimuspäällikkönä)

Taustakysymyksiä

1. Miten kuvailisit Teoston nykyistä toimintamallia taloudellisten käytäntöjen kannalta?
2. Oman kokemuksesi perusteella miten olet nähnyt musiikkiteollisuuden muuttuvan vuosien varrella, erityisesti digitalisaation suhteen?

Digitalisaation vaikutukset

1. Mitkä ovat mielestäsi digitalisaation suurimmat vaikutukset Teoston taloudelliseen toimintaan ja tulovirtoihin?
2. Onko digitalisaation takia ilmaantunut erityisiä haasteita tai mahdollisuuksia?
3. Miten digitalisaatio on vaikuttanut Teoston/musiikkiteollisuuden kustannusrakenteeseen ja resurssien allokointiin?

Rahaliikenne

1. Voitko kertoa digitalisaation tuomista muutoksista musiikkiteollisuuden rahavirtoihin?
2. Miten digitaaliset alustat ja suoratoistopalvelut ovat vaikuttaneet Teoston tulojen jakautumiseen ja rojalTIMaksuihin?
3. Onko Teosto omaksunut uusia rahoitusmalleja tai strategioita mukautuakseen rahaliikenteen muuttuviin malleihin?

Toimialan trendit, ennusteet ja lopetus

1. Millaisia tämänhetkisiä trendejä havaitset musiikkialalla liittyen digitalisaatioon ja sen taloudellisiin vaikutuksiin?
2. Millaisia ennusteita sinulla on musiikkiteollisuuden tulevaisuudelle liittyen digitalisaatioon?
3. Onko olemassa uusia teknologioita tai liiketoimintamalleja, joiden uskot voivan edelleen muuttaa alaa?