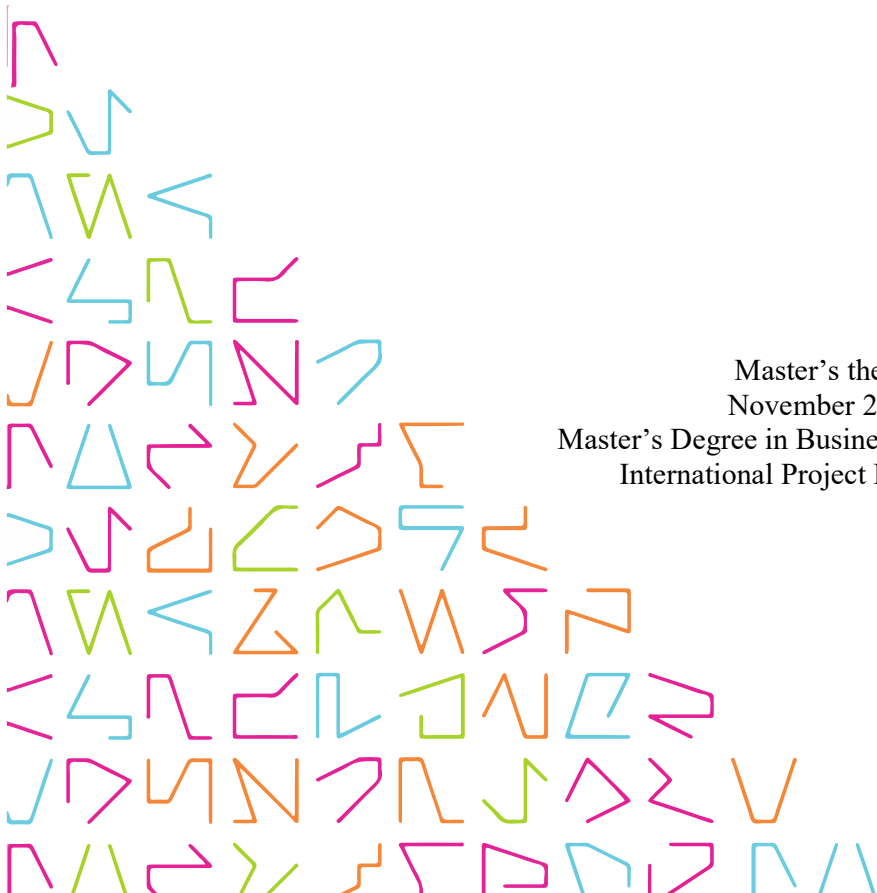


**MUSIC INDUSTRY'S BUSINESS
MODELS IN THE DIGITAL ERA FO-
CUSED ON *INDIE* ARTISTS**

A study Case

Iara Dias dos Santos



Master's thesis
November 2016
Master's Degree in Business Administration
International Project Management

ABSTRACT

Tampereen ammattikorkeakoulu
Tampere University of Applied Sciences
Master's Degree in Business Administration
International Project Management

AUTHOR: Iara Dias dos Santos
Music Industry's Business Models in The Digital Era focused on *Indie* Artists: A Study Case

Master's Thesis 119 pages
November 2016

The music industry faced a severe reorganisation due to the digital revolution that affected directly the way we consume music. This new dynamic opened new markets, created new opportunities for new entrants, vanished some companies, merged others and change the way players are monetizing music nowadays.

This study intends to give some examples of business models created during this era. For the purpose of this study, some of the chosen business models focus on music consumers and others focus on independent (*indie*) artists. Nowadays an *indie* artist's workload goes beyond her/his music, owing to the fact, that they have to manage their careers at least until (or if) they get a deal with some record label. This new reality of the music industry seemed like an opportunity for several companies, which are offering DIY (do it yourself) tools for musicians help them to take care of their careers. By doing jobs that were once, done by some departments on record labels, those business models are mainly subscription plans, which does not affect the artist's finance, and on the other hand, guarantees the sustainability of the business since they have a monthly income. Some new models that recently did not exist like '*crowdfunding*' and influencer marketing also emerged as a source of revenue for artists.

The study case is a Dutch start-up that operates two different business models aiming for *indie* artists to thrive in their careers. One is a DIY tool for musicians build their website and the other is an influencer marketing online platform to help connect artists with brands interested in support them in exchange for the exposure to their fans. They are a SaaS (Software as a Service) and CMS (Content Management System). For three months, this study was performed *in loco*, and it was possible to get a glimpse of their main business model and a secondary business model that emerged right after this study started at

the company. Thus this study will also showcase the development of a new business idea that emerged after the study started. It will be more detailed in the study case section. This start-up offered an opportunity to introduce and test project management methods like scrum, agile and lean start-up concepts like the Business Model Canvas as well as to introduce KPIs (Key performance indicators) to help them improve their results by measuring them. This research aims to explain *'How is the development of an MVP (Minimum Viable Product) as a second business model for Music Industry's (SaaS) start-up?'* For answering that, a participative research is the research method adopted.

In the end, this study presents a new framework based on the Business Model Canvas by Osterwalder and Pigneur to have a visual tool to get a better understanding of the surrounding of the company to monitor what could influence the company's future.

Keywords: music business, business models, risk management, stakeholder, music industry, indie artists, start-ups, lean start-up, business model canvas, it start-ups, music start-ups, SaaS, CMS, influencer marketing.

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GLOSSARY

ARPA	Average Revenue per Account
BMC	Business Model Canvas
BPI	British Phonographic Industry
CAC	Customer Acquisition Cost
CEO	Chief Executive Officer
CMS	Content Management System
CSS	Cascading Style Sheets
D2F	Direct-to-fan
DIY	Do-it-yourself
DMS	Digital Music Service
FBI	Federal Bureau of Investigation
FMC	Future of Music Coalition
FTP	File Transfer Protocol
HTML	Hyper Text Mark-up Language
IFPI	International Federation of Phonographic Industry
Indie	Independent
IRC	Internet Relay Chat
ISRC	International Standard Recording Code
ISWC	International Standard Music Work Code
KPI	Key Performance Indicators
MRR	Monthly Recurring Revenue
MVP	Minimum Viable Product
OBMC	Organic Business Model Canvas
P2P	Peer to Peer
RIAA	Record Industry Association of America
RIN	Record Industry in Numbers
ROI	Return on Investment
SaaS	Software as a Service
USD	US Dollars
URL	Uniform Resource Locator
UX	User Experience

1 INTRODUCTION

1.1 The Digital Era

The Internet came to change everyone's daily life. It changed the way we communicate and interact with each other socially and at work; it changed the way we consume news and among an extensive list of others things; it also changed the way we consume music. In the early 1990's, the record industry was doing well with stratospheric numbers in sales revenue from CDs.

With four record labels commanding the market and their CEOs were earning a salary of eight digits a year, the scenario could not be better. They were busy accounting their success and working to reproduce the formula in a continuous looping. Little did they know, a significant change was knocking on their doors but the sound of the money resonating on their bank accounts was so loud they did not hear the wind of change.

On the other side of that door, a group of German researchers worked for 12 years to develop a compressed music file that kept the audio quality of a CD and could travel faster in the optical fibre cable and be easily stored in the computer - the popular MP3 format. In 1994, they finally reached a format that combined quality with a reasonable size making it possible to transfer more easily. They used a compression rate 12:1, which means that music had 12 times fewer bits. Meaning in practice that they were only removing the parts that would not make a difference for us to hear. With this achievement, they could convince others that their invention worth using and thus, they started to license it to companies. When the Microsoft personal computers with Windows 95 got in the stores, it already came with a program that could read MP3 files provided by the creators of it. What they could not imagine is that their work was going to change the Music Industry forever.

Social media was yet to come at that time, and the web was full of web pages with very simple layouts. A very popular option for the youngest users of the Internet was IRC (Internet Relay Chat). They spent time on IRC to discover what was new on the Internet, to chat with people, get some games, and even some music. Now, 'hashtags' are everywhere (#), but at that time, a '#' was a command to enter in some chat rooms on IRC.

There was the chat room called '#MP3' where was possible to get some music, but it was chaotic and with poor options. In an attempt to organise this chaos of mp3 files spread around the World Wide Web, a 19-year-old college student, Shawn Fanning, has created a peer-to-peer software, called Napster. It allowed users to access each other's library of songs and soon, it became very popular with rapidly growing users and consequently its catalogue of music. In the following years, it was possible to choose among several options of peer-to-peer software like Kazaa, Oink, Pirate Bay, Morpheus, E-mule, Soulseek, just to cite a few. For those who were not tech savvy, MP3.com was a simpler option, since it was a for downloading the music files in the form of links.

What it appeared to be a trend amidst young people, was, in reality, a massive copyright infringement that called FBI's attention after some pressure from Recording Industry Association of America – RIAA. Since crimes over the Internet did not have precedents, only a few investigators knew how to deal with it. Thus, it took five years of investigation for them to have a list of suspects, which wasn't very solid since a 12-year-old girl who downloaded a few songs was among them.

These actions helped to create the idea that consumers who were downloading illegal mp3 files were as Robin Hood. This mentality reinforced after the lawsuits made by RIAA against clueless and random people to make it as an example. However, they did not catch the real pirates. It was as they were punishing the person who was smoking *cannabis* because they failed to arrest the drug dealer.

During those years, billions in copyrights were lost due to piracy. Two significant lawsuits during this period would change the recent history of the music industry. RIAA against Napster and an MP3 player. RIAA won the case against Napster and lost the other one. Afterwards, several companies started to produce MP3 players that were used to play pirated music - this includes the ubiquitous Apple iPod.

Napster, Oink and Pirate Bay (and several others) had created a scenario in which consumers could have the taste of choosing the music they wanted in a vast library which made possible to pick the songs they like in an album and ignore the rest, also known as 'unbundling'. Once the unbundling format was introduced in the record industry, it also changed the strategy of launching a CD in which often, it had only one good song and the

others were just to fill up the CD. The consumers felt empowered with this opportunity of having only the songs they liked of their favourite artists.

It certainly led to a change in consumer's behaviour and desires, so now, after a long hiatus, the record industry had to take some actions to transform the game again in their favour. In the saga of their legal battles to preserve the past, record industry managers failed to recognise that the rules changed and they finally realised that they would need to adapt to the digital era and lot of changes would have to be done (Collins, 2013).

It meant investments. Not only regarding money but also regarding people. Some of their executives were working in the industry decades before the CD was a hit and now they were seeing it becoming obsolete by a technology that would change their whole supply chain (Rogers, 2013). The passion that the 'pirates' voluntarily had to convert music to digital format to make it available to everyone became an obligation to record labels to become digital and then they had to convert the 'pirates' into buyers.

Some reports and studies point that online 'piracy' harmed the music industry, while others are more ambivalent in their findings regarding the effects of file-sharing activities. In fact, some argue that unauthorised file-sharing served to drive consumer spending in other music services, like concert tickets (Rogers, 2013).

To offer an alternative to piracy and taking advantage of the crisis the music industry was facing, Steve Jobs created iTunes charging \$0.99 (USD) per song downloaded. However, comparing to the vast catalogue of Napster and other similar platforms, iTunes was insignificant at that time, opposite to the iPod, which was a hit from the beginning. After some time, the digital sales finally started to grow, and other players entered the market, but iTunes continued to be the leader.

A couple of years later, as the record labels were less frightened with technology, other business models that were betting on streaming music substituting ownership by access, started to arise. One of those streaming music services was the Swedish 'Spotify' that had to pay millions in advance to record labels which make them happy again since they were dictating the terms in the industry again and getting the control back.

Most recently, Spotify came with extensive and continuously growing music catalogue to please consumers and record labels. A person can access millions of songs by streaming them paying a monthly subscription fee or have an account supported by ads. Some rumours might give the impression that Spotify does not care about artists in their vast catalogue. Some things indicate that the record labels are not redistributing their gains to the artists after receiving advanced payments from the streaming music services like Spotify.

The lack of transparency makes room for that kind of rumours. It appears that either the record companies or the most popular streaming services are not interested in having transparency, especially because it might lead them to pay someone. Labels and streaming services argue it would cost a significant number of investments in data infrastructure and on the other hand, musicians associations argue they already have that infrastructure.

The digital format did the job to produce a whole record less expensive, and this became an encouraging factor to independent artists to pursue their career and let their music to reach their fans. There has been a growing number of business models focused on independent artists, also known as indie artists. Those business models recreate the work of several departments of the analogue (although digital) era of record labels, such as publishers, distributors and production.

The recent changes in the music industry opened new markets, created new opportunities for new entrants, vanished some companies, merged others and change the way players are monetizing music nowadays. The whole structure had to be reorganised, and some lessons could be taken from what happened.

There are several studies about the so-called reorganisation the music industry faced in the digital era, and this study intends to give some examples of business models that has been created during this time. For the purpose of this study, some of the chosen business models focus on music consumers and others focus on artists.

Bands that had no appeal for labels now have the opportunity to build their career by their own even if they did not fill up the labels success formula. In many cases, a major record label would hire them, after their first album release if they succeed to build a solid fan base since record labels tend to avoid risks.

Nowadays, an indie artist has to take care of many things besides music to manage their careers - at least until they get a deal with some record label. Because of that, several companies are offering DIY (do it yourself) tools for musicians to help them to develop their career reach the next level. Jobs once done by some departments on record labels are now available mainly as subscription services. Also, some new services that did not exist in the recent past, like ‘*crowdfunding*’ and influencer marketing, now are broadly being used as a source of income for such artists.

1.2 Objectives of this study

The practical part of this study will highlight two business models focused on *indie* artists. One is a DIY tool for musicians and the other is an influencer marketing platform. Two different business models performed by the same start-up in different maturity stages. The main business model is already in its *beta* version, and the secondary one is in its early stage, where they are developing a business idea from scratch in which the focus will be on the development of a Minimum Viable Product using the Lean Start-up concept as guidance. Taking into account that to achieve the sustainability of a start-up, sometimes is necessary to have a secondary business model, also as a form to escalate the business itself. What those two business models have in common is that they are focused on *indie* artists needs and they are practically using the same customer base.

Day after day, the Lean Start-up concept implementation is increasing to optimise investments in product or service development by creating a Minimum Viable Product (MVP). The idea is to test and get customers feedback as soon as possible, by getting rid of wrong assumptions, pivoting the hypothesis and then generating revenue faster.

Since there is not much literature focused on the Music Industry, this research aims to explain ‘*How is the development of an MVP (Minimum Viable Product) as a second business model for a Music Industry’s (SaaS) start-up?*’

1.3 Research Methodology

A qualitative research was a fit to answer the research question and the method adopted was a participative research performed at a start-up in Amsterdam during three months.

Figure 1 compares quantitative and qualitative research. The present study has an ontological orientation in which the data is constructed within the research.

Fundamental differences between quantitative and qualitative research strategies		
	Quantitative	Qualitative
Principal orientation to the role of theory in relation to research	Deductive; testing of theory	Inductive; generation of theory
Epistemological orientation	Natural science model, in particular positivism	Interpretivism
Ontological orientation	Objectivism	Constructionism

FIGURE 1. Fundamental differences between quantitative and qualitative research strategies (Source: Bryman and Bell, 2015).

A participative research was chosen because the managers needed to develop their own business, and through this study was possible to offer the tools the company needed while applying the theoretical framework. Therefore, a participative research was an advantage for both sides. While data was gathered, business tools to boost the start-up were provided.

The study case is about REC Music, a Dutch start-up that offers a tool for musicians to make their website with no programming skills required. They are what is technically called a SaaS (Software as a Service) and CMS (Content Management System). During three months this study aimed to help them in their business models. Further details are yet to be explained in the study case section. REC Music offered an opportunity to introduce and test project management methods (e.g. Scrum and Agile) and lean start-up concepts like the Business Model Canvas. This concept relies on a framework which provides a holistic view of nine crucial areas in the company that is important to make decisions in times of uncertainty and fast pace change.

The current study will apply Business Model Canvas framework to illustrate REC Music business models and will improve it by adding two more building blocks. Those components were added bearing in mind that is important for a new business to be aware of its surroundings and have tools to measure it, especially considering that a start-up faces a very critical time in their first two years.

1.4 Structure of the study

The introduction summarises the so-called ‘digital era’ telling how the music in digital format, the personal computer, the popularisation of the internet connection and the eagerness to discover new music created a revolution in the structure of the music industry by music file sharing software like Napster.

This study is divided into two parts. The first part introduces the perspective of consumers, record labels, and artists as well as the structure of the industry, which despite all the resistance, had to change. The part one of this study also shed light on the sector’s disruptors and the different business models types that emerged during the digital era to fulfil the needs of the growing number of independent artists and music consumers. It also showcases the emerging streaming services and the new challenges that come with it. Some business models are presented to build grounds for the study case presented in the second part to close the first section of this study.

In the second part, is presented the case study of REC Music, a start-up based in Amsterdam that has two different business models in different maturity stages. The first business model is running and being tested by its customers and the second one is in the initial Minimum Viable Product (MVP) development.

A business analysis is made in the first model to define a competitive pricing strategy. Performance indicators, project management and agile tools and are introduced. Customer-centric tools as Empathy Map, Customer Journey, and User Experience are aimed in this study as well.

The second business model is in its initial phase by the time this researched was made. Thus, the MVP is developed by using product and service design tools and strategies.

Finally, a framework based on the Business Model Canvas developed by Osterwalder and Pigneur is proposed to have a better understanding of the corporate surrounding and the issues that influence a given company’s future. After the framework, the conclusion and further discussion are presented.

2 MUSIC INDUSTRY IN THE DIGITAL ERA

The Digital Era is often seen as a threat that would kill the music industry. However, that is not the first time that this kind of statement about some disruptive technology is said in this very same industry. For instance, in response to the widespread diffusion of cassette duplication as standard in home stereo systems in the 1970's and 1980's, the record industry echoed the same sentiment saying that 'home taping is killing music'. (Rogers, 2013). Broadcast radio was perceived as a major threat to the recording industry when it was introduced in the 1930's because they believed at that time that people would not buy music since they could listen to music for free on the radio. A parallel with the current situation regarding illegal downloads and streaming services is evident, with the meta-narrative of and industry under threat being used to lobby for stronger copyright legislation and enforcement (Anderton, 2013).

The Digital Era started after a group of German engineers from Fraunhofer Institute for Integrated Circuits compressed the music to a format possible to travel by the optic cables through the Internet. They reduced the bits of a song in the rate 12 to 1 eliminating all sounds that the human ears could not hear (Witt, 2015). By doing that, the digital format, also known as MP3, was easily transferrable throughout the internet. What they did not plan was this would change the music business forever. The MP3 format made possible to have a great deal of songs in a hard drive and it made possible to share the files on the Internet.

The importance of music in physical formats, reduced drastically while the importance of Internet media has exploded which created a high connectivity and little control the use of the intellectual property (Wikström, 2013). According to Leyshon (2014) by the early twenty-first century, the music industry began to suffer from falling sales, negative growth, and financial losses. Explanations internal to the music industry quickly and decisively identified the cause of the crisis as the rise of internet file sharing, or 'piracy' in the industry's terminology.

The Internet has transformed the structures of the music industry by replacing physical structures for virtual structures and network structures replacing sequential ones (Graham *et al.*, 2004). It has also decreased barriers to entry once eliminated the need for physical

distribution and the retailing of products to some extent. In this sense, the flexibility and dynamic of the current music industry are wider, and this has made way for companies such as Apple and Spotify (Salo, 2012).

Digital music distribution via unauthorised consumer peer-to-peer (P2P) file sharing became one of the most popular Internet activities throughout the world via the renegade pioneer Napster followed by others such as Kazaa (Vaccaro et al. 2004).

The Internet eliminates the physical distribution and retail of products. It also facilitates the communication between consumers and those involved in making and distributing. Therefore, new specialist companies had entered the market to replace the dominance of the major record labels (Graham *et al.*, 2004).

There is a trend, made possible by digital distribution toward unbundling in entertainment industries. Since costs are lower in online channels, the Internet enables companies to offer individual products that previously, were only sold as part of bundles. For example, with the advent of online stores such as Apple's iTunes, now, music is sold in the form of individual tracks instead of albums with a dozen or so songs (Elberse, 2010).

The industry has been confronted with a necessity for dramatic change as the Internet was increasing its usage as an electronic channel that affected existing business practices (Dolfsma, 2004), which consequently lowered the entry barriers to the music industry with decreasing transaction and production costs (Graham *et al.*, 2004).

With freely available standards such as MP3, music can be comprised and sent through the Internet without loss of quality. Copying is quick and cheap. In combination with a view of Internet as a medium of the free (both in economic and in political terms), this has posed great problems for the record companies (Dolfsma, 2004).

2.1 Peer-to-peer music sharing

In June 1999, the 18-year old, Shawn Fanning debuted a software he called Napster that was a peer-to-peer (P2P) file sharing service which connected users to a centralised server where they could trade one another mp3s. With Napster, music piracy was available to

everyone and almost overnight, it became one of the most popular applications in software (Witt, 2015). Napster gave consumers the incredible gift of all of the world's music in one place, at no cost and with a mouse click. It transformed the relationship between music and music fans (Mulligan, 2015).

By 2001, Napster had become one of the world's most popular P2P file-sharing services because consumers could access a vast catalogue of MP3 files (Rogers, 2013). The keyword 'MP3' was the most searched word on internet search engines from 2002 to 2003 (Kwong and Park, 2008).

RIAA started to file lawsuits against individuals engaged in file sharing on September 8, 2003, and this immediately resulted in bad press for the RIAA. Among the 261 individuals named in the first wave of lawsuits was a 12-year-old girl living in a city housing authority project (Channel, 2004).

2.2 Consumers in the Digital Era

According to the leading music distribution model of the last century, consumers acquire music recorded on plastic discs or cassettes. They keep the discs in their houses, sometimes on expensive wooden cabinets that have been designed and made for this particular purpose. The music collection was as important as other material possessions such as vehicles, clothes and furniture and they have a strong emotional attachment and sense of ownership of the music they value. Record labels tend to reinforce this feeling of ownership by using verbs such as "buy", "own", "steal" in their marketing, even though in practice they only grant their users a limited license to listen to the music. This model can be referred to as the "ownership model (Wikström, 2012).

Before the Internet, TV and radio were responsible for the majority of the new music, which has reached the consumers, and they purchased CDs and cassettes by visiting a physical retail store or using a mail-order catalogue (Graham *et al.*, 2004).

In the digital Era, consumers started to have more options on how to consume music. Personal computers came with CD recorders; MP3 players storage capacity was often amplified; there were many channels for getting pirated music for free that seemed to have a better user experience than the legal channels; it became possible to buy a song

instead of a whole album. Among other things, explore more music seem to be easier than before so, tastes could be broadened and lately the concept of ownership are being replaced by the access model, which consumers stream the music they want to hear. Thus, consumers were in a certain way empowered since they could choose the most convenient way to listen to music.

Later on, ownership was perceived by digital files on consumer's hard drive or in the cloud, and not measured regarding rows of CDs or LPs on a shelf (Mulligan, 2015). There is a plethora of new devices and platforms, across which it is possible to access and share quantities of music far exceeding earlier generations (Rogers, 2013).

The convenience of getting music at home was first explored by P2P music services that led the users comfortable with this option despite being illegal. Many consumers perceive the process of purchasing CDs in a store as slow, inefficient, and inconvenient. The time and effort spent travelling to a music store, searching for music, waiting in line to check out, and being in an often unpleasant store atmosphere have contributed to lower sales at bricks-and-mortar retailers (Vaccaro *et. al.* 2004).

When competing against free, the legal alternatives have to be as convenient as they possibly can be, because if not, the new empowered digital consumers just stay away. Digital era consumers expect digital experiences and not analogue era products squeezed into digital wrappers (Mulligan, 2015).

The Internet conditioned listeners to seek and obtain songs online and unfortunately, in the process, the perceived value of music dropped from around \$15 per album to nearly nothing, driving a massive hole in the industry's revenue model (Rethink Music, 2015). Some studies point to online 'piracy' inflicts significant harm on the music industry. Others argue that unauthorised file-sharing serve to drive consumer spending on other music services like concert tickets, for instance (Rogers, 2013).

A process known as 'unbundling' started to rise. It consists of purchasing one song instead of an entire 'bundled' album or collection. The "unbundling" of albums into single tracks allowed consumers to purchase only those tracks they desired most for USD 0,99per track (Rethink Music, 2015). According to the British Phonographic Institute

(BPI), sales of singles in the United Kingdom grew by 33 percent in 2008 alongside a 3.2 percent decline in album sales (Rogers, 2013).

Apple's music service iTunes introduced one of the most successful models for online music retailing, "single-song download" to the mainstream audience. Despite being a true innovation, iTunes closely mimicked traditional music distribution logic, which made was a good strategy to gather rights holders and consumers to comprehend and embrace the service (Wikström 2009 *apud* Wikstrom 2012), but it was not as attractive as the free model to which consumers had quickly become accustomed.

A previous study investigating how people spend their money on music concluded that 31% are spent on live music, 10% on music festivals and 5% on DJ events (Figure 2). It corroborates with the argument that piracy drove growth in live music spent, especially if compared with the devoted to digital tracks or physical formats such as CDs, and Vinyl. Unsurprisingly, streaming music subscriptions respond for only 7% on the dedicated to music, according to this study.

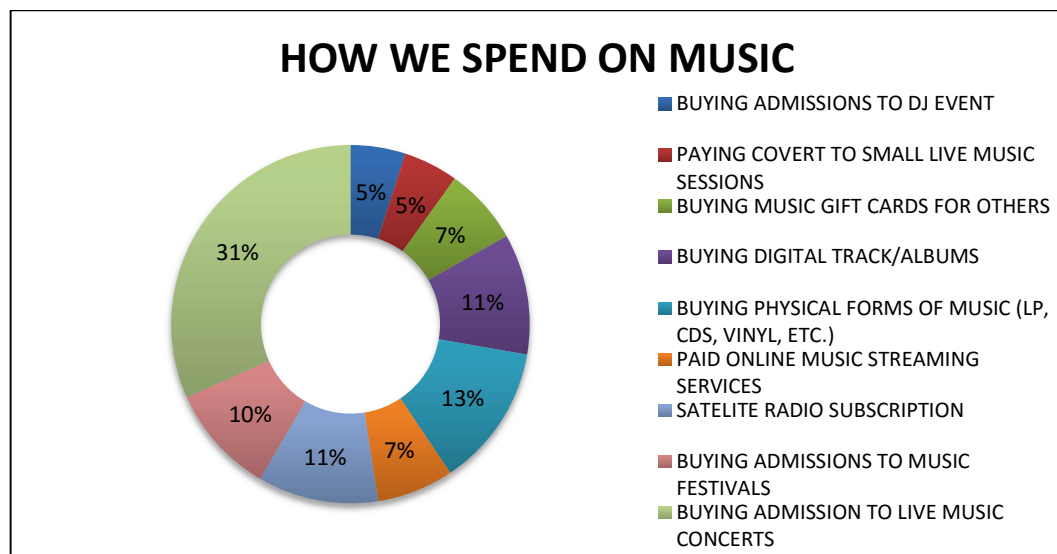


FIGURE 2 – How we spend on music (Source: Music Business Worldwide)

Now, streaming services are becoming more and more popular enabling providers to acquire millions of listeners making their sources of income to be substantial. They often, let users listen to music for free in exchange for advertising. Streaming services work to convert a significant number of listeners to paid, ad-free subscriptions that generate more revenue than advertising (Rethink Music, 2015).

Apparently, 91% of the US population is listening up to 24 hours of music a week. It suggests that demand for free streaming is strong since demand for recorded music continues to fall. However, there is a long path to convince users to pay for streaming services. Almost four-fifths of Americans surveyed claimed that they were ‘unlikely’ to join a paid subscription service within the next six months. The problem is that free streaming does not generate much revenue through advertisements. A paying user’s value is greater than a freemium user, but freemium users could be persuaded to become paid subscribers with the right incentives (Ritche, 2015).

YouTube is seeing a higher user growth than all other interactive streaming websites combined. The fact that YouTube does not own the music that the public listens the most, as Spotify, Apple Music and Tidal could be seen as a problem (Ritche, 2015).

2.3 Record Industry in the Digital Era

The business model of record companies and music publishers depends on controlling copyrights. Its violations are nothing new in the music industry, but a real difference now is that music can not only be recorded and duplicated but also distributed by using computer networks (Dolfsma, 2004). The loss of control over content distribution has threatened the industry foundation according to the EMI CEO, Roger Faxon (Mulligan, 2015).

The traditional model started when the artist created initial value through his/her composition and arrangement. Then record companies provided the necessary initial capital as well as the knowledge to create, market, and distribute music on a large scale. Record companies have the expertise in creating superior sound quality and packaging. The artists who have a record deal, benefits from the key relationships with the press, radio stations and music TV channels and retail stores the record companies maintain (Graham *et al.*, 2004).

Historically, recording industry deals offered advanced payment against future album royalties, and after the album was recorded and sold, the initial advance was then 'recouped' from future royalties, and over time the money was paid back. Under this system, artists earned a low percentage of their overall album sales which could take years to recoup and most of the artists never earned them back at all, which led musicians to complain about 'never seeing a cent' in royalty payments. On the other hand, in the labels perspective, the risk of failure was considerable, so that is why they retained a high percentage of the initial investment (Witt, 2015).

The Napster boom coincided with the two best years in the recording industry, what made some wonder if digital piracy hurt the music industry. The explanation was that one could not bring mp3 collections anywhere and if one burned a CD with hundreds of mp3, there were not many CD players equipped to play the files. Thus, for a while, digital piracy was driving album sales, since costumers were buying more music in 2000 than ever before or since, with the average American spending USD70.00 a year on CDs (Witt, 2015).

Major music companies misjudged the potential associated with developments in the digital domain. Proof of that is the inclusion of enhanced CD/CD-ROM tracks as bonus tracks. It became a standard concomitant to the early digital start-ups such as MP3.com

in the 90s. The widespread use and promotion of such format for pitching products at PC-using music consumers suggests that the major music companies treated the personal computer primarily as a stand-alone reproduction device without considering or engaging with the possibilities associated with networks (Rogers, 2013).

Labels became locked into a process of fighting to retain control, with the legal action against Napster and MyMP3.com focused on preventing digital copyrights precedents that would have threatened the control labels have (Mulligan, 2015). Large companies tried to establish their online sales services to combat illegal distributors, but none has been successful (Graham *et al.*, 2004) on that. Music executives have failed to meet their prime objective, which is to preserve their longstanding business model dominance (Collins, 2013).

While Napster was transforming consumers' way of consuming music, the business of selling music remained all, but intact. In 2003 Peter Jamieson, then chairman of the British Recorded Music (BPI), argued that the record labels understood that changes were necessary but they needed time to adapt (Mulligan, 2015).

When it comes to the record's industry response to the digital transition challenge, there is much criticism indicating a failure to respond as quickly and effectively as it might have been done (Rogers, 2013). One of the many reasons that record labels found it difficult to adapt to digital standards is related to the digitalizing process on their business. It took large-scale investments in technology architecture and the implementation of entirely different ways of doing business to be organizationally prepared to support the new digital music economy (Mulligan, 2015).

Few firms adequately manage their distribution in the way of taking advantage of electronic channel business models and capabilities despite the importance of carefully design electronic channel strategies (Dolfsma, 2004). However, label conservatism held the digital market back at exactly the time it needed liberating and empowering (Mulligan, 2015).

In 2009, the International Federation of Phonographic Industries (IFPI) estimated that 95% of all music online traffic were related to unauthorised file sharing and distribution. That led them to predict a cumulative loss of € 240 billion to European Creative Industries

from the 2008-2015 period, with the simultaneous loss of 1.2 million jobs in these sectors (Rogers, 2013).

The litigation has educated the general public about the risks of file sharing. Individuals, as well as organisations, were well advised to download only files whose authorization was granted by the copyright holder (Channel, 2004).

Piracy may have an adverse impact on recorded music sales, but it probably has an active role in the music industry considering that revenues yielded from live performances and ancillary products (such as ringtones, T-shirts, and caps.), increase with the diffusion of an artist's music. Incorporating these sales in their business model could allow record companies to compensate for the loss in CDs revenues or even to benefit from piracy (Curien and Moreau, 2009).

The digital era also changed the way record companies interacted with consumers. They started to interact online, and businesses could learn more about consumer needs. However, the overarching reach of the internet made them feel overwhelmed. Before, to promote an artist, it was necessary to talk to journalists, editors, and magazines. Now, the contact list grew exponentially since many people have some online site related to music (Graham *et al.*, 2004).

One of the last changes in the music industry is related to streaming music services, which a consumer can listen to any music they want to buy paying a monthly subscription or have an account sponsored by ads. Consumers moved from an ownership model to an access model (Rethink Music, 2015).

There has been a growth in streaming services revenue in 2014. According to RIIA's CEO, the trend has continued to rise in the first half of 2015; wholesale revenues have increased, and income from streaming music services continued to grow at a healthy double-digit rate (Music Week, 2015). In 2016, Warner Music Group's revenue growth coincided with streaming becoming the largest source of income in its recorded music division (Peoples, 2016).

2.4 Artists in the digital era

File sharing was an important milestone for artists and their attitudes towards it was strongly divided throughout the first half of the 2000's. Some artists were in favour and others were against it. The artists who came out in favour of file sharing did so because they saw P2P networks as an opportunity to get their music available to an even larger number of potential fans (Mulligan, 2015) and this could be later converted into sales income of concert tickets and merchandising to cite a few. The ones who were against had the discourse aligned with the record labels, saying file sharing was destroying the music industry. Both of them were right.

Record companies were very conservative after the boom in piracy and at the same time, with technology being more accessible, there were more people making music and fewer people buying it. During the crisis in 2008, the recording companies were avoiding risks and reduced their catalogue and cut down on their record financings. This way, a high number of artists stopped receiving investments and, therefore, had to review their strategies (Campos, 2011). There was an increase in the competition for the same money and gigs. More bands were coming up which is great culturally, but it also means that less money goes around (Mulligan, 2015).

In the early days of the digital era, many artists viewed the internet as a land of opportunity since some of them felt constrained by their record label contracts and mistrustful practices. Many artists were naïve to think that only by having a website they would be able to defeat record labels and reach fans (Mulligan, 2015) and some of them had good results. However, a record label plays an important role regarding marketing, promotion, and distribution of music (Rogers, 2013).

In 2007 Radiohead decided to self-release their album 'In Rainbows' on their own website as a download in which fans could pay what they wanted, including nothing. The initiative was innovative, and although they could not beat the online piracy even with free music, they could shape their business the way they wanted and inspire some artists and new business models with fairer models (Mulligan, 2015).

Many musicians began to earn more from touring than recording and at the same time an increased demand from advertisers and sample-driven music producers led to a period of

growth in the music publishing business. Thus, music executives started to push artists to sign '360°' deals that guaranteed not only a percentage of album sales but live music and publishing rights as well (Witt, 2015). While 360° deals were controversial, artists still seemed to need labels, even in the digital era, and many signed on.

The main sources of revenue for artists during the digital era were live concerts, associated sponsorship, and merchandise sales. Whereas from 2000 to 2013 music sales declined, all three of the previously mentioned artist revenue streams grew. Music sales accounted for 31% of total income in 2000, by 2013 its contribution had fallen to 20%, while live grew from 39% to 45%, merchandise from 4% to 9% and publishing from 26% to 28% (Mulligan, 2015).

The multiple revenue streams for artists also means the way of measuring success is also changing. In the analogue era success was measured regarding units sold and chart positions. However, in the digital era, there are many artists who, when measured regarding album sales look underwhelming at best, but when measured against social metrics transform into hyper-successes (Mulligan, 2015).

Now artists often establish themselves with international footprints through social tools and other online platforms before they get to the point of signing a record deal. Labels now have to be more cautious about how they invest their money and want to see that artists can build their own fan bases and demonstrate it through YouTube Views, Facebook Likes and Twitter Followers. Although no sensible label would sign an artist on social metrics alone (because all of those metrics can be gamed), they nonetheless provide strong supporting evidence to validate a band with good music, image, and presence (Mulligan, 2015).

Thus for all digital era artists, social metrics are much more important because they are tools that can generate revenue opportunities. For some artists, the disconnect between album sales and social metrics is pronounced, as the case of the superstar Pitbull. He sold 9 million albums, but on the other hand, he has more than 2.7 billion views on Youtube. However, the importance of social metrics varies depending upon the size of the artist (Mulligan, 2015).

The digital era created a new tier of artists who are big enough to sell out mid-sized venues but are unlikely to become mainstream artists. These artists can build strong online fan communities and dedicated live following. They can manage to sell tens of thousands of albums without appearing in the charts (Mulligan, 2015).

Nowadays, the discussion is regarding fairness of streaming music services when it comes to payment to artists. This discussion will be more detailed in Section 2.8 – New Challenges in the Digital Era.

What it is important to highlight is the fact that artists who have contracts with record labels (signed artists) and artists who do not have it (unsigned artists) experience different aspects in the digital era. Thus, in the next session, two perspectives are presented in the form of examples.

Below is a representation and comparison of the music business in the standpoint of an artist developed by Reverbnation which the ‘old model’ would be the signed artists and the new one the unsigned artists.

MUSIC BUSINESS 2.0	
Old Model	New Model
<i>Compartmentalized</i>	<i>Integrated</i>
<i>Multiple Service Providers</i>	<i>DIY</i>
<i>Large up-front investment</i>	<i>Pay as you go</i>
<i>Sale of rights/Ownership</i>	<i>Retain Rights</i>
<i>Driven by monopoly</i>	<i>Powered by meritocracy</i>
<i>Get Signed or get lost</i>	<i>Fan relationships create a value pipeline</i>

TABLE 5. Music Business 2.0 (Source: Reverbnation, 2009).

2.4.1 Unsigned

A large record label will not sign a contract with a band or artists that are not mainstream enough, even if they are very talented. Before the digital revolution, there were two alternatives for musicians: one was to seek a deal with an independent label, and the other was to modify their music to sound more marketable (Barnet and Burriss, 2001). The digital age triggered a time when music has become so accessible that anyone with a computer can potentially become an overnight phenomenon (Stafford, 2010).

The proliferating range of digital platforms for marketing, promotion, and distribution of music offers endless possibilities for established and aspiring artists to access an audience to a level that would have been inconceivable before. The opportunities to 'do-it-yourself' (DIY) have never been greater with aspiring musicians having an indubitable arsenal of digital resources upon which to draw (Rogers, 2013).

It became predominant for artists to build their independent business model, using effectively the newly available DIY tools. Some tasks previously performed by labels and partners now can be done at home with free or low-cost tools. Instruments and home studios are better and affordable. Online marketing can be free through social networks. Sales can quickly be made through iTunes, Facebook and the artist's website (Campos, 2011).

Some artists saw the arrival of the internet as an opportunity to leverage their career (Mulligan, 2015) but first, an artist needs to build a fan base and some people believe the minimum number of fans an artist should have before trying to sell their music is 2,500 fans (Passman, 2014).

With the proliferation of social networks and other online avenues for self-promotion combined with relatively cheap and reliable digital recording technologies for the home computer and spread of knowledge about produce records, make them digitally available and promote them via the internet, the do-it-yourself (DIY) approach became more feasible (Rogers, 2013).

For instance, indie artists have the option to publish their music digitally by using services like CD Baby, TuneCore. They pay a fee for publishing a song or a CD, and they keep

90% of the generated revenue on streaming services or digital platforms like iTunes, and they remain to own the copyrights.

Apparently, the experience with streaming services could be rewarding for some independent artists. Last year the singer-songwriter, Perrin Lamb started to receive Twitter messages from fans he never knew he had, from all over the World, saying that they loved his song “Everyone’s Got Something” on Spotify. Mr Lamb, despite not using Spotify, learned that “Everyone’s Got Something” was on a popular playlist on the service, and the song had been listened to some 10 million times by the end of the year, earning Mr Lamb more than \$40,000 (Sisario, 2015).

Indie artists can achieve many things. However, the marketing, promotion, and distribution offered by a major label, remains attractive to many artists and managers. Even so, it is not necessary to commit with a major label at an early stage. One good strategy is to increase the stature of the artist, engage the interest of a major label and enhance the bargaining power of the artist or independent label when it comes to dealing with the major (Rogers, 2013).

Many unsigned artists are still aiming for signing a record deal, but for that to happen, they have to be able to wait patiently sometimes without earning a cent. To be noticed by a record label, emerging artists must develop a sophisticated range of social media, marketing, and business skills to ensure they can survive financially and to build a demonstrably solid following while improving as an artist. However, surviving long before getting signed by a record label is not the only challenge artists face. More artists are getting dropped by labels earlier than in previous decades, for instance, their contract is terminated if a single is not a radio hit (Mulligan, 2015).

A growing number of artists have managed to find ways to pursue their careers without a record deal. For achieving that, sites and services such as PledgeMusic, Topspin, Bandpage, and Kickstarter have given artists the tools (DIY) to go directly to their fans (D2F) without the support of a record label or simply changed the way artists work with labels. For emerging artists en-route to a label deal, D2F tools enable them to build engaged fan bases and to generate income from these fans. For artists who terminated their contract with a label and want to do something different, these tools enable them to sell directly to their established fan base (Mulligan, 2015).

The British progressive band Marillion was very successful in 1980's but was dropped by a major label in 1995. In 1997 the keyboardist Mark Kelly sent emails to their fans informing they would not be able to do the US tour unless they collect \$60.000 to cover their touring shortfall. In response, several fans raised funds by themselves. Afterwards, inspired by 1997, in 2000, Mark Kelly again sent an email to their database of 6.000 fans asking if they would consider paying for the album in advance if they sent a special version of the album when it was ready. Eventually, they took over 12.000 orders which added up to more than a typical label advance (Mulligan, 2015).

Marillion set an important precedent that established the business case for many of the digital D2F services existing today. It also revealed that artists could extend their recording careers after ending their contracts with a record label if they had a loyal fan base (Mulligan, 2015).

In 2012, after leaving her major label deal years before, Amanda Palmer turned to Kickstarter to raise money to record and promote her 'Theatre is Evil' album. Palmer started the campaign stating that it was 'the future of music' and had set out for the target of \$100.000. The fundraising was a great success in the DIY movement, with nearly 25.000 people backing the project to the total of \$1,2 million. With such success, the backlash was inevitable. Palmer soon found herself having to explain and justify exactly how she had spent the \$1,2 million, which came as a surprise for someone who felt she was merely carrying on her tradition of fan intimacy (Mulligan, 2015).

Some artists go as far as to build their own label-like teams, thus becoming a business. When they start to hire teams of people to run marketing, distribution and other such functions, opting for the self-release route, some DIY artists have found that once they have become a record label in all but name, it makes sense actually to be one for other like-minded artists. (Mulligan, 2015).

The artist Ani DiFranco started her label, Righteous Babe Records, from her apartment in New York. Her initial thought was to make her own marketing and creative decisions and after she moved aggressively towards promoting her records over the Internet. Soon she became successful and started to sign other recording artists to her label (Barnet and Burriss, 2001).

It is common nowadays for indie artists to use record labels services such as distribution, in which artists partner up with the label to only distribute their music by using their solid infrastructure. The artist retains the copyrights, and they have more choice and more autonomy (Mulligan, 2015).

2.4.2 Signed

Some artists like Taylor Swift argue that music is undervalued. For her, music is valuable because music is art and art is important and rare. In that sense, valuable things should be paid. Individual artists and labels will someday decide what an album's price point is and hopefully, they will not underestimate or undervalue their art (Swift, 2014).

Considering the shift of artist revenue away from music sales, labels attempt to capitalise with the introduction of the so-called 360° Degree Deals that requires artists to sign over percentages of their additional income to the labels (Mulligan, 2015). A signed artist generally gives up the control over their recordings as well as other aspects such as the ability to make music for films, commercials, and concert videos. They also give up of other possibilities of income from the record and non-record areas. So, to a record deal make sense or not, the artist has to evaluate if a record deal would generate more money. This model works best for a mainstream artist than for a niche artist (Passman, 2014).

Record labels make an initial investment in the artists to be then recouped after the album is released and after that, the artists start to make money. However, some artists argue that these funds never return to the artist. They say that record labels are keeping the money they get in advance from streaming services and there is no transparency about how artists are paid.

Thus, musicians are struggling to balance their passion for music with the need to be aware of the financial rewards for their talents since beyond the initial recording advances only a small portion of the money ultimately makes its way to artists as ongoing revenue (Rethink Music, 2015).

According to the study conducted by Berklee College of Music called Rethink Music, streaming services do not distribute revenue directly to artists. The mediation is made by

record labels or digital aggregators as previously showed on Figure 10. According to a study by Ernst & Young and the French trade group SNEP, record labels receive a greater share of licensing revenue from streaming services, and in contrast, artists' shares are significantly smaller.

Artists receive approximately 68 cents of a \$9.99 monthly subscription fee. Songwriters and publishers get ten percent of the subscription fee split between them. Out the royalties paid to right owners by streaming services, record labels keep 73 percent of it. Worth saying that the data provided to artists and writers with these royalty payments is often opaque. Thus, major labels and publishers benefit from the currently complex and inaccurate system, and streaming services have no incentive to invest in transparency on their reporting and accounting systems because they are expensive (Rethink Music, 2015).

During a discussion on copyright issues at Belmont University in Nashville, the songwriter Kevin Kadish said that he earned \$5,679 for more than 178 million streams of the song "All About That Bass", a hit song he co-wrote with the singer Meghan Trainor (Heisler, 2015). The artist Pharrell Williams said in 2014 that earned \$2,700 in royalty payments for his hit song "Happy" after it was played over 43 million times on Pandora (Heisler, 2015).

Taylor Swift created a stir in 2014 when she sent an open letter to Daniel Ek, CEO of Spotify complaining about payment to artists. He replied explaining Spotify had paid more than 2 billion dollars to artists from 2008 until August 2014. He continued saying they were trying to increase transparency, improve the payment speed, and offer to artists the opportunity to promote themselves and connect with fans (Ek, 2014).

Some artists are finding alternatives to get back the control over their intellectual property and even their public image, and in the next paragraphs, some stories are being told. For instance, the late pop star Prince launched an artist subscription service in 2000 in which fans could have access to exclusive music, concert ticket offers, listening sessions and interviews. Although in the beginning, he achieved some success, by 2004, after the decline of the use of his platform, Prince returned to a major label – Sony Music's Columbia Records. He had learned the importance of record labels regarding marketing. He also learned that the internet is a channel and not a business model (Mulligan, 2015).

The musician David Lowery also learned the same lesson: His deal with Virgin were about to end, and he uploaded the first three songs as videos on YouTube and nothing happened. He believes that without the label's resources he was only selling music to the same core group of fans, and probably reaching 10% of them. His digital utopianism started to sour, as his thoughts of disintermediation begun to fail" (Mulligan, 2015).

Adele is an interesting case, and probably because her music reaches an older audience, she can manage to sell physical CDs and sell millions of it. Her strategy was to launch singles at Vevo and physical CDs and put her songs available on streaming music services only after few months of the release. Her latest album sold 17.4 million (physical) copies in 2015 (GMR, 2016) and it is still selling a lot.

Another interesting case is Taylor Swift who, despite having mainly youngsters as her fan base (which are digital native consumers of music), managed to sell 3.5 million of her '1989' album in 2015. Her strategy was to make a CD booklet as a Polaroid photo album giving the sense of closeness with her fans, so they wanted to have it and keep it.

In 2015, Taylor Swift asked Spotify to launch her new album only for paying subscribers, and they refused to do it and then she decided not to launch her music on Spotify. A month later, Spotify decided to offer this option for artists, but it is still not possible to find her album 1989 on Spotify.

In 2014, a streaming service in which they promised to deliver a better sound quality was launched in Norway by the name of Tidal. In 2015, a group of 16 reputed artists such as Jay Z, Beyoncé, Rihanna and Alicia Keys, bought a stake and now they control it with a promise to give the control back to artists by giving exclusive content to fans/subscribers. However, since its launch, while accumulating losses, Tidal is still fighting to survive.

2.5 Supply chain in the digital era

The traditional product of a record label is a package of pre-recorded music captured on a compact disc (CD). After recording, editing, creating master tapes and producing the CDs, it comes the packaging, promotion and distribution of the product (Dolfsma, 2004). Despite the change of physical product itself, the distribution channels and the division of labour within the industry have remained relatively the same: artists create music,

record labels promote and distribute it, and finally the fans consume it (Graham *et al.*, 2004).

Record-making is an economically and a technically complex process, because is rarely just a product. It is not only difficult to identify, develop and manage successful artists, but also the artistic record's value depends on their consumers' aesthetic preferences, which are neither stable nor predictable (Graham *et al.*, 2004).

The combination of the Internet and peer-to-peer (P2P) software programs for exchanging music via the Internet changed the dynamic of the supply chain. The physical product, such as the CD, is being replaced by a digital product that is distributed via the Internet.

The chain of physical distribution will become less and less crucial. The big players in the music industry are likely to lessen as other players find it easier to enter the market. Taking into consideration that each intermediary between the artist and the consumer adds costs and takes profit, the final product will have a higher price (Graham *et al.*, 2004).

In the Internet Era, the costs of distribution dropped even though the record companies had to invest in digitalization. When considering the costs, it is important to take away unnecessary costs of the retail channel such as CD manufacturing, distribution, and retail overheads, which leaves the costs of finding, making and marketing music (Anderson, 2004).

2.6 Digital Sales

To offer a legal option for those who were already used to digital music, digital music service (DMS), started in 2004 to provide legal digital music downloading and streaming services to consumers as opposed to file-sharing. Subscription to a DMS was required for downloading songs to one's computer (Kwong and Park, 2008).

Steve Jobs, who disapproved illegal file-sharing, has created a legally alternative - a music application called iTunes (Witt, 2015) where a customer could buy a song for \$0,99 (USD) and download it legally to one's computer. As mentioned before, the sense of

ownership changed from rows of CDs or LPs in a shelf to digital files on hard drives or in the cloud (Mulligan, 2015).

Below it is possible to check few tables about the digital sales in the last years. The tables 1, 2 and 3 shows the growth from 2014 compared to 2013 regarding revenue of digital content.

TABLE 1 – On Demand Music Streams in Billions (Source: Nielsen, 2015).

ON-DEMAND MUSIC STREAMS			
(INCLUDES AUDIO + VIDEO DATA FROM AOL, BEATS, CRICKET, GOOGLE PLAY, MEDIANET, RDIO, RHAPSODY, SLACKER, SPOTIFY, XBOX MUSIC, YOUTUBE/VEVO - IN BILLIONS)			
	2014	2013	% CHG
STREAMS	163,9	106,1	+54,5%
AUDIO	78,6	49	+60,5%
VIDEO	85,3	57,1	+49,3%

TABLE 2 – Digital Track Sales in Millions (Source: Nielsen, 2015).

DIGITAL TRACK SALES			
(IN MILLIONS)			
	2013	2014	% CHG
TOTAL UNITS	1.102,5	1.259,3	+12,5%

TABLE 3 – Digital Music Consumption in Millions (Source: Nielsen, 2015).

TOTAL DIGITAL MUSIC CONSUMPTION			
(DIGITAL ALBUMS + TRACK EQUIVALENT ALBUMS + STREAMING EQUIVALENT ALBUMS - IN MILLIONS)			
	2014	2013	% CHG
TOTAL UNITS	326	314,2	+3,7%

Digital sales are growing while physical sales are declining regarding revenue as is possible to notice in the figure the 3, 4 and 5.

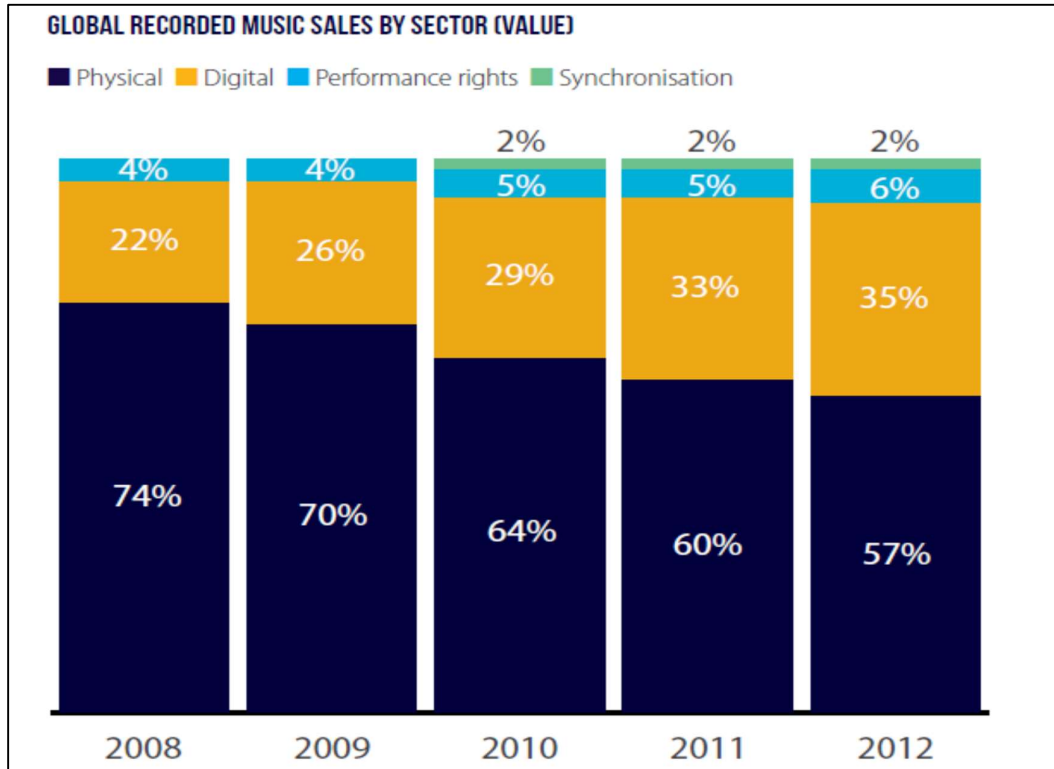


FIGURE 3 – Global Recorded Music Sales by Sector – Value (Source: IFPI Global Music Report 2016).

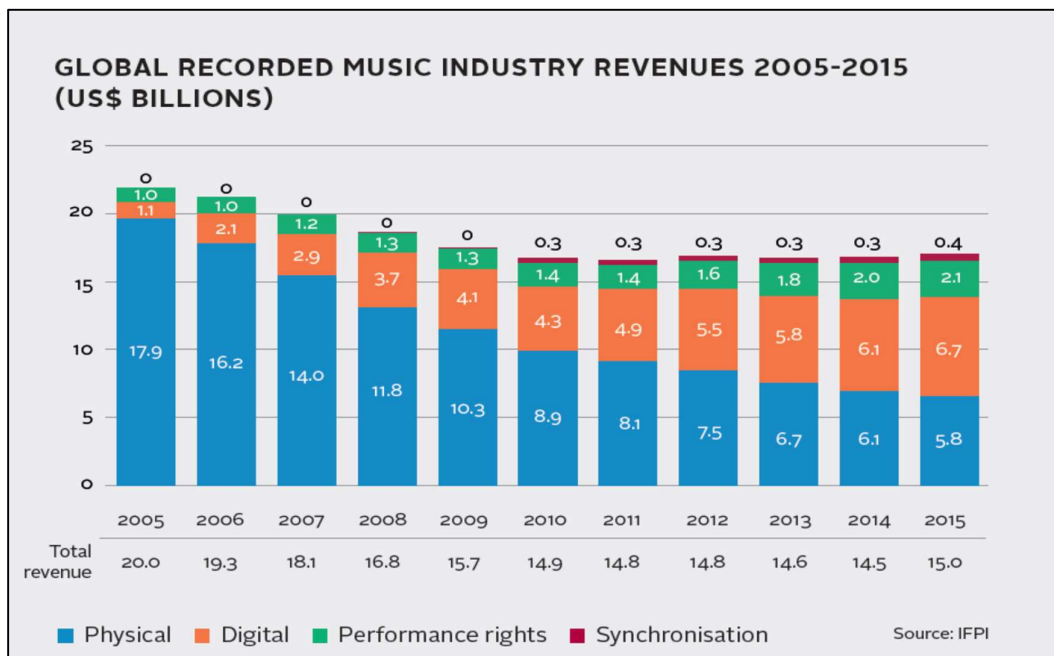


FIGURE 4 – Global Recorded Music Industry Revenues 2005-2015 (Source: IFPI Global Music Report 2016).

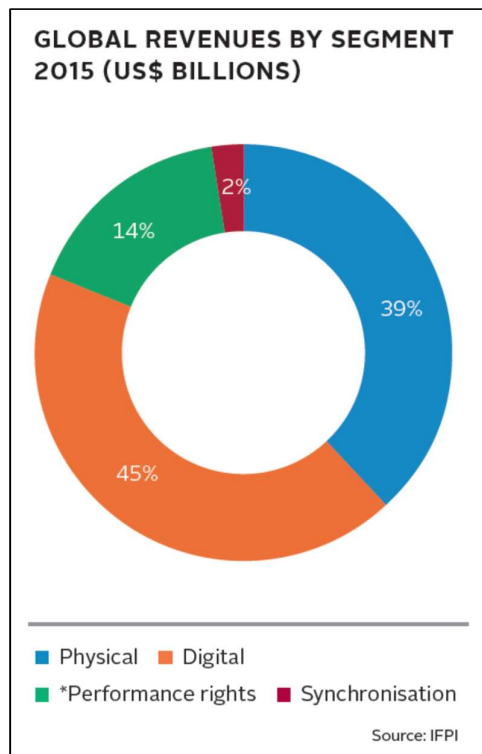


FIGURE 5 – Global Revenues by Segment 2015 (Source: IFPI Global Music Report 2016).

2.7 Streaming Music Services

The new generation of streaming services arrived on the scene just when the record labels needed them. The RIAA notes that the growth in revenues from streaming services offsets the decline in revenues from permanent downloads for the first half of the year. Music streaming services contributed 33% of total industry revenues in the first semester of 2015, compared with 26% for the same period of 2014. First half revenues from music streaming services topped \$1bn for the first time, growing 23% in 2015 to \$1.03bn – up from \$834m for the same period of 2014. The RIAA report includes revenues from subscription services, non-interactive streaming radio service revenues, and other non-subscription on-demand streaming services (Music Week, 2015).

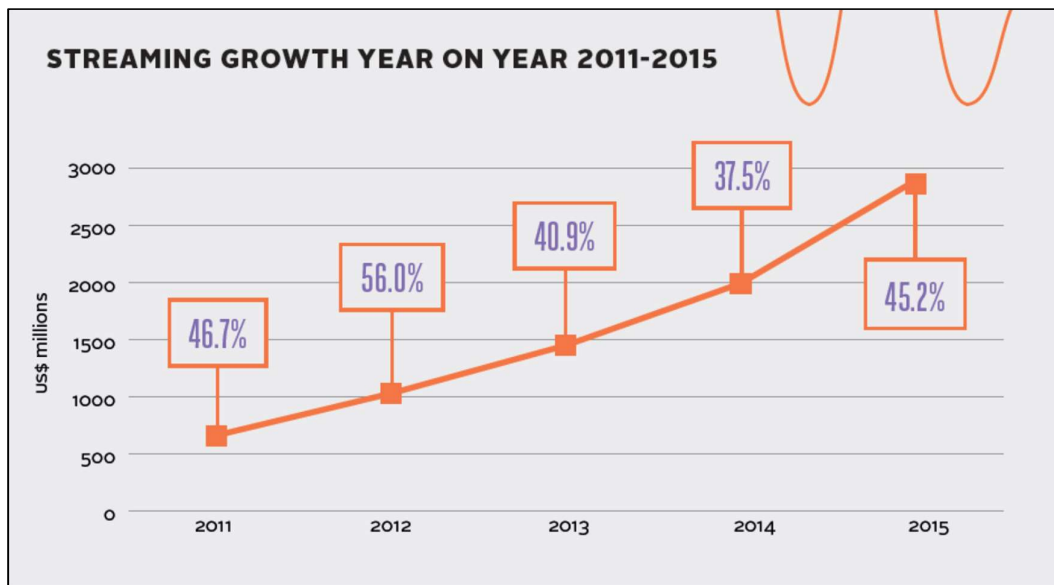


FIGURE 6 – Streaming Growth Year on Year 2011-2015 (Source: IFPI Global Music Report 2016).

	2012	2013	2014	2015
PAID SUBSCRIBERS TO SUBSCRIPTION SERVICES (MILLIONS)	20	28	41	68

FIGURE 7 – Paid Subscribers to Subscription Services in millions (Source: IFPI Global Music Report 2016).

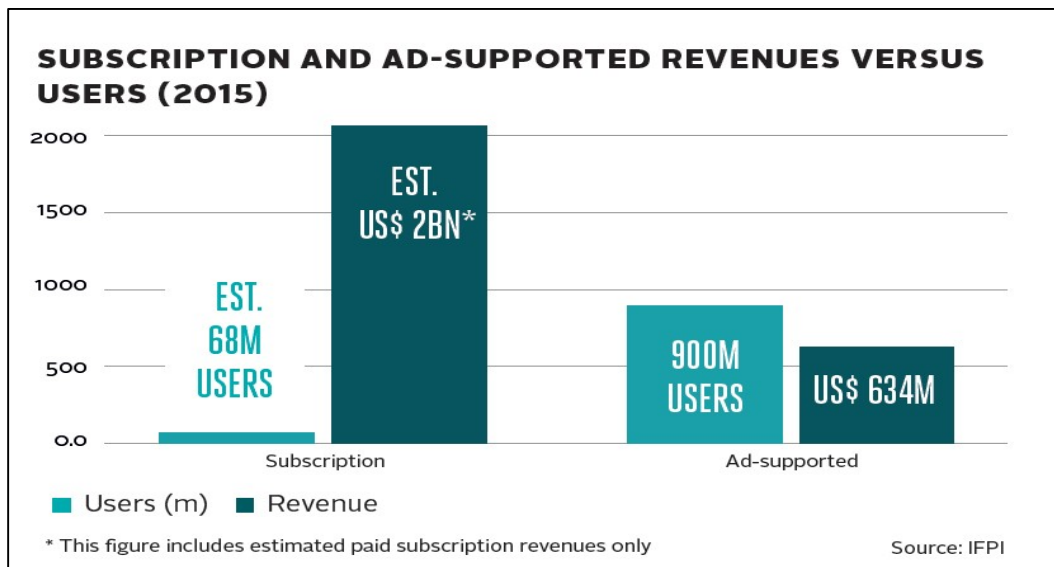


FIGURE 8 – Subscription and ad-supported revenue versus users in 2015 (Source: IFPI Global Music Report 2016).

2.8 New challenges in the digital era: Transparency

Recorded music is a global commodity that comes with intellectual property rights that can differ slightly from nation to nation, and the task of attributing the earned money from sale and performance of recorded music has always been a complicated logistic. Billions of small transactions a year make the tracking complicated (Lahrs, 2015).

The modern music business involves millions of daily micro-transactions that generates revenue from songs and albums. It is not rare to see stakeholders are earning fractions of pennies spread across thousands or millions of transactions. New technologies should have the ability to create a high degree of transparency for this process (Lahrs, 2015).

It appears instead of being transparent the industry has applied less transparent processes, technology and frameworks that have evolved in an era of music-as-a-product into a transformed, music-as-a-service landscape (Rethink Music, 2015). Taking this into account, the organisation Rethink Music created a list of recommendations to achieve transparency in the record industry:

TABLE 4. Recommendations to have a transparent and fairer music industry (Source: Rethink Music, 2015).

1. Every music creator deserves: <ul style="list-style-type: none">▪ To be compensated for the use of his/her works.▪ To know exactly where and when his/her work is used or performed.▪ Up-to-date reporting on the use of his/her works (30 days for digital/90 days for other purposes).▪ To be recognised for his/her works via identification of digital performances or users.▪ To know the entire payment stream for his/her royalties (e.g. who much is the cut of each part).▪ The right to set a price for his/her works based on fair-market value.
2. A 'fair music' certification of transparency for digital services and labels.
3. Decentralised rights database.
4. Find ways to manage and track online payments through the value chain directly from fans to music creators (<i>blockchain</i> technology and <i>cryptocurrencies</i>)
5. Music creators should learn their rights and the operations of the music industry.

One could argue that the cause of this lack of transparency is the business model of a record company that still operates as it operated 30 years ago. Thereof, many artists, have

their reservations when it comes to signing a record deal. Thus, nowadays, they tend to invest in their career, being as how, a record deal could lock any possibility of making extra money without having to give a bigger stake to a record label, since as is explained in the next session, a 360 record deal is becoming natural.

The scheme below showcases how the money flows in streaming music services based on articles and information provided by streaming music services websites, explaining how it works for artists. To have music available for streaming, the deal is made between the Record Label and the Streaming Music Service Company, bearing in mind that the Record Label detain the rights for the music.

Considering that a Record Label pay the artist in advance to record an album, all the revenue generated by the artists stays with the Record Label, until the whole investment is recouped, and then, theoretically, the artist start to earn a part of the profit according to the contract signed. Thus, the money received by a Record Label from Streaming Music Services does not necessarily go to the artists who generated that revenue.

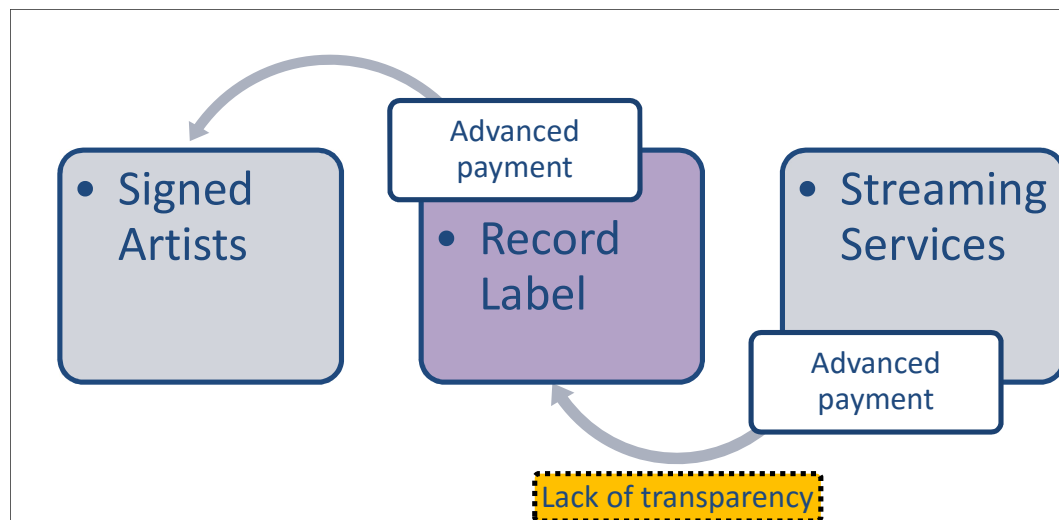


FIGURE 9. How the Money Flows in Streaming Music Services.

The Record Label manage their monies according to their strategy, which is reasonable for business. What is at stake is that an artist does not have a way to know in detail how they are doing regarding revenue. The monies in advance are recouped when the record label says so. It is a source of frustration for artists hence by the majority of record deals, the labels only have an obligation to be audited once in a period of two years with the

expenses to be paid by the artist, which makes perfect sense but anyhow is not encouraging or feasible.

Below is presented a detailed infographic about how money flows to publishers, songwriters, artists, and labels when it comes to streaming services. It is taking into account three different perspectives: **a)** Record Labels with a direct deal with streaming services; **b)** Record Labels represented by Aggregators/Distributors; **c)** Artists who own their record copyrights.

In figure 9, it is possible to see the perspective of **'a'**, which is the case when the record labels have a direct deal with a streaming music service. It is also showcased in figure 10 in the first part of the infographic. The letter **'b'** is the case of minor record labels who use aggregators or distributors to get their music catalogue on digital platforms. They are not big enough to have a direct deal with a Streaming Music Service, in general. The letter **'c'** showcases the situation of *indie* artists who own their copyrights and use services like TuneCore and CDBaby to put their music available on digital platforms for a fee. They usually keep 90% of the generated revenue. The income distribution for the case **'a'** and **'b'** is related to the contract signed with the Record Label in the case of **'a'** or with the distributor or aggregator in the case of **'b'**.



HOW THE MONEY FLOWS BACK TO **songwriters, artists, publishers & labels**

How are musicians and songwriters compensated when their music is played on the radio, sold on digital platforms, webcast or streamed on interactive services?



For **interactive streams**, how the money flows depends on what entity negotiated the license.

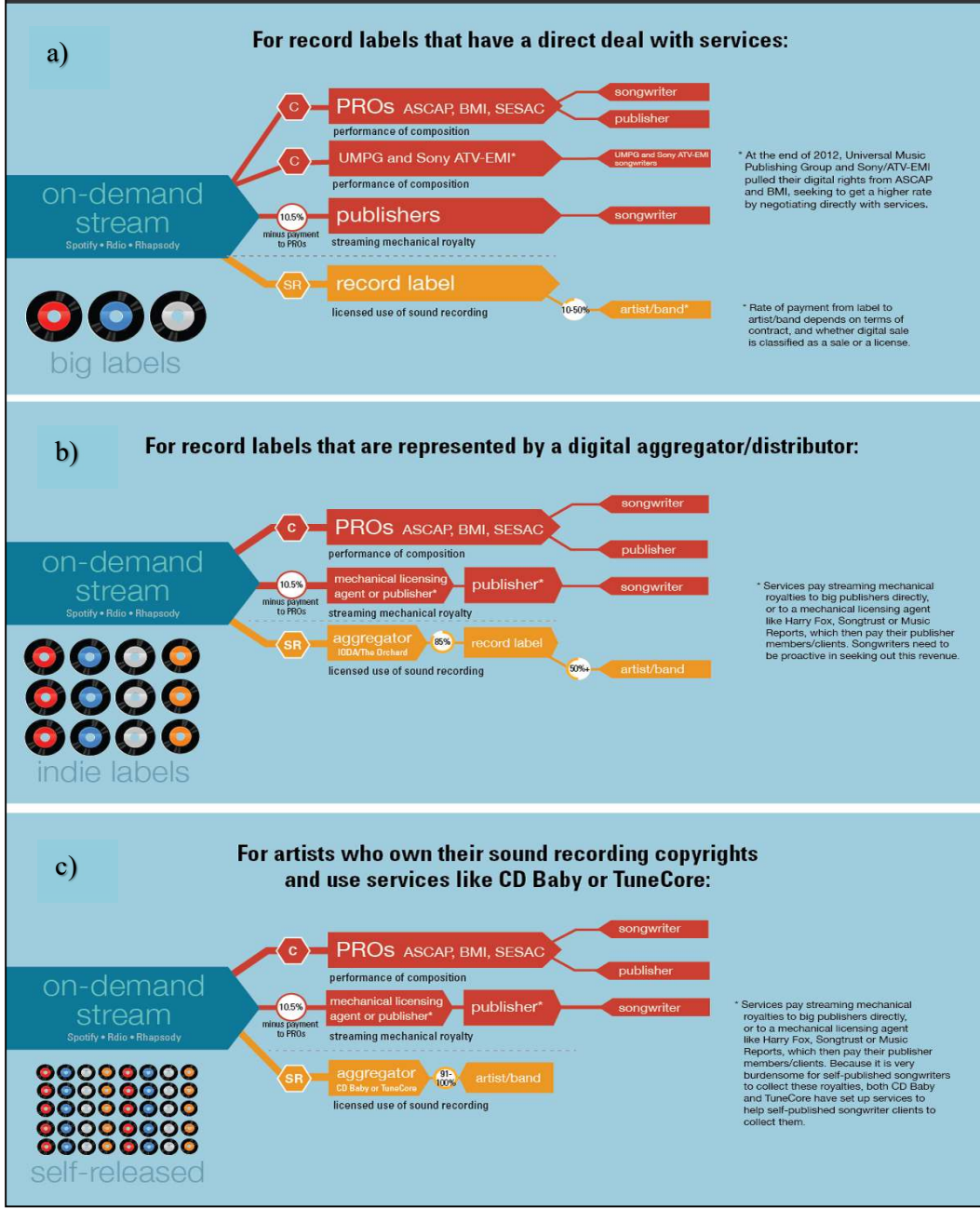


FIGURE 10. How The Money Flows (Source: FMC, 2013).

3 MUSIC INDUSTRY BUSINESS MODELS IN THE DIGITAL ERA

A business model is a conceptual tool that contains a set of elements and their relationships and expresses the company's logic of earning money. It describes the value a company offers to one or several segments of customers. Business models captures visualise, understands, communicates and shares the business logic of a firm (Osterwalder, 2004).

Business models show how a company intends to make money. The nine blocks cover the four main areas of a business: Customers, offer, infrastructure, and financial viability. It is a blueprint for a strategy to be implemented through organisational structures process and systems. The structure of a Business Model Canvas is designed like the human brain in which the left side of the brain is dedicated to logic, and the right side is devoted to emotions with the Value Proposition in the middle (Osterwalder and Pigneur, 2010).

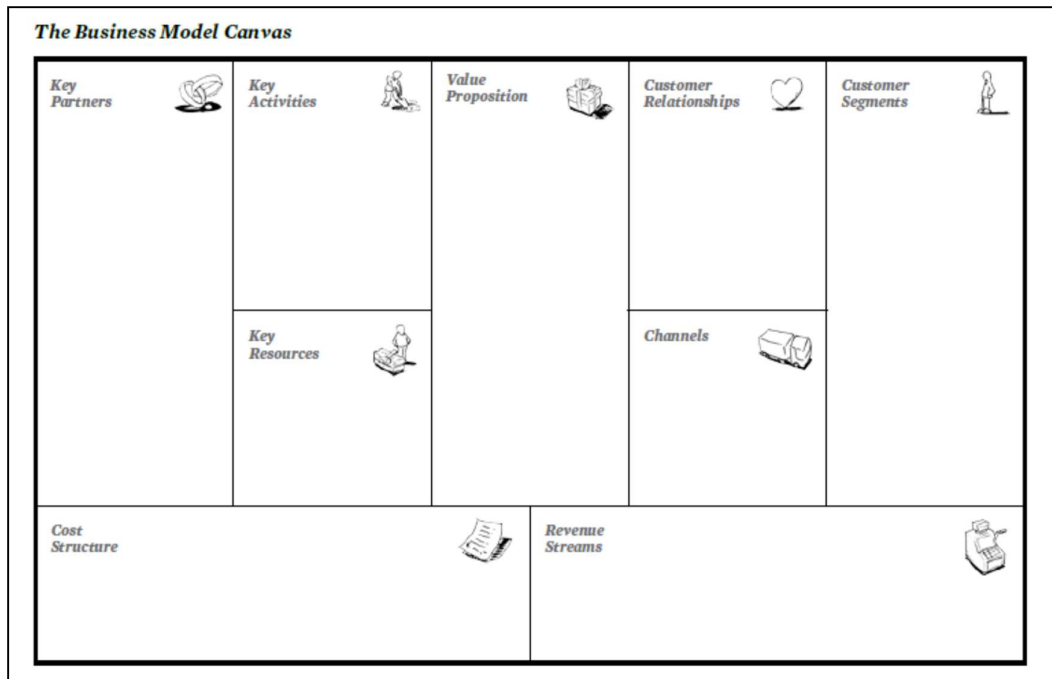


FIGURE 11. The Business Model Canvas (Source: Osterwalder and Pigneur, 2010).

TABLE 6 – Business Model Canvas explained (Source: Osterwalder and Pigneur, 2010).

Key Partners (8) <i>Describes the network of suppliers and partners that make the business model work</i>	Key Activities (7) <i>Describes the most important things a company must do to make it work</i>	Value Proposition (2) <i>Describes the bundle of products and services that create value for a specific Customer Segment</i>	Customer Relationships (4) <i>Describes the types of relationships a company establishes with specific Customer Segments</i>	Customer Segments (1) <i>Defines the different groups of people or organizations an enterprise aims to reach and serve</i>
	Key Resources (6) <i>Describes the most important assets required to make a business model work</i>		Channels (3) <i>Describes how a company communicates and reaches its Customer Segments to deliver Value Proposition</i>	
Cost Structure (9) <i>Describes all expenses incurred to operate a business model</i>		Revenue Streams (5) <i>Represents the cash a company generates from each Customer Segment in which cost must be subtracted from revenues to create earnings</i>		

Within the digital era, the way of doing business in the music industry changed and thus, some business models emerged to substitute the role of some departments in the big labels, aiming for the indie artists. Technology made possible for small artists to thrive in the business. For instance, it is feasible to emulate the producer’s work in a laptop and buy simple gears and transform the bedroom into a fair enough studio by spending only a couple of thousand Euros.

Due to the losses on piracy, record labels were very careful. They are cutting investments by only investing in less risky artists. As previously said, jobs made by departments inside the record labels, where now arising as small companies interested in the emerging indie artists that couldn’t spend much money on their promotion, so most of them adopted the DIY (do- it-yourself) strategy. Record label decisions about what innovation gets licensed and what doesn’t, determine whether it would ever make it to the market (Mulligan, 2015).

Consumer experiences changed dramatically, and music industry business models turned upside down, but fundamental, the music technology remained relatively constant, part because much of the investments goes to marketing, operations, and rights instead of product development (Mulligan, 2015).

Since the huge rights infringement that happened during the Napster ‘boom’, it became more expensive and more difficult for entrepreneurs to license a business that depends on music. It does not matter how well a technology has been build, how good the management team is, or how bold the vision is if the record labels do not license to it, it will not make it to the market. There are different strategies to respond to it and the innovators, will fall into one of those three examples in the table below to license their music (Mulligan, 2015).

TABLE 7. Digital innovators and rights holders (Source: Mulligan, 2015).

RIGHTS ALLY	RIGHTS FRENEMY	RIGHTS REFUSENIK
Works in close cooperation with rights holders from an early stage to get their service licensed. They pursue a cooperate strategy.	They try to maintain a good relation with rights holders on one side of their business and, test the limits on the other side. They pursue and ‘do first, ask forgiveness later’ strategy.	They rail against copyright and often see themselves as waging war against copyright. Little or no interest in licensing their services and will take their fight to court. They pursue a push on regardless strategy.
Spotify and Apple	YouTube, Google, and Amazon.	Napster, The Pirate Bay, and Megaupload.

The Rights *Frenemies* and Rights *Refusniks* achieve most from an innovation perspective despite the fact that they work less with rights holders. These innovations go to the market without licenses, either intending never to acquire them or to negotiate from a position of power later on (Mulligan, 2015). Innovators who had the Rights Ally approach have found themselves having to launch with products that tall far short of consumer’s expectations. Below there’s a table showing some examples of business models that emerged with the change of doing business in the music industry.

TABLE 8. Examples of New Business Models in Music - (Source: FMC, 2013).

SERVICE	CATEGORY	FORMAT	CONSUMERS	PERFORMER
CD Baby	Digital Retail	Online mail order and digital retail store. Delivers digital music to iTunes, Amazon, Spotify, etc.	Consumers can buy physical CDs or buy digital albums or singles via their website.	It charges USD4,00 for each CD sold. Artist keeps 75% of digital sales from sales on CD Baby and 91% of net revenue from iTunes, Amazon, Spotify, etc.
Bandcamp	Artist-to-fan	Digital and physical music sales. Option for <i>merch</i> sales as well to a band's website or blog. It can serve as a web host for the artist.	Provides streaming and downloads of and artists' catalogue. Artists set prices, and Bandcamp provides the web interface.	Artists get 85% of sales under \$5000 and 90% of sales beyond this value. So Bandcamp gets 15% or 10% of each transaction.
Kickstarter	Crowdfunding	A creative incubator that facilitates project funding by helping artists build project pages, create incentives, tracks fundraising projects.	Musicians set up a goal and offer different incentives to funders to contribute. If the project does not meet the target, the artist does not get the money.	If the project goals are met, the artists get 95% of the money collected by Kickstarter, which keep 5%. If a project does not meet the goal, the money cash returns to the funders.
YouTube	Online Video	Online Streaming Videos	On demand streaming videos for free supported by ads.	YouTube's Partner Program can pay an artist.
Last.fm	Radio / Webcasting	UK-based internet radio and music community site that offers streaming on demand.	Free for users. Create custom radio stations and playlists.	Artists get 45% of digital performance royalties paid by SoundExchange or Last.fm Artist Royalty Program.
Soundcloud	Social platform to share music	Online audio capturing and sharing service.	Visitors can search, listen and share embedded audio tracks.	Artists use it only for promotional purposes but may add links for selling songs

In 2001, Apple introduced the iPod as a standalone product at first where consumers stored the music they copied from a CD and downloaded from the internet. It represented a technology platform for storing music from various sources. At this point, though, Apple was not exploring the iPod as a platform in its business model. Apple introduced in 2003 the iTunes Music Store, which was closely integrated with the iPod. The store allowed users to buy and download digital music in an incredibly convenient way. The software also provides a logical connection to Apple's online store allowing users to purchase and download content. This combination of device, software, and online store quickly disrupted the music industry and gave Apple a dominant market position because it had a better business model comparing to its competitors.

The online store was Apple's first attempt at exploiting platform effects. Essentially, iTunes connected "music rights holders" directly with buyers. It also offered users a seamless music experience by combining its iPod with iTunes software and the iTunes online store. Apple's value proposition is to allow customers to search buy and enjoy digital music easily. To make it possible, Apple had to negotiate deals with all the main record companies to create the world's largest online music library and its music related business earns more revenue from selling iPods while integrating with the online music store to protect itself from competitors. This strategy catapulted Apple to its position today as the world's largest online music retailer (Osterwalder and Pigneur, 2010).

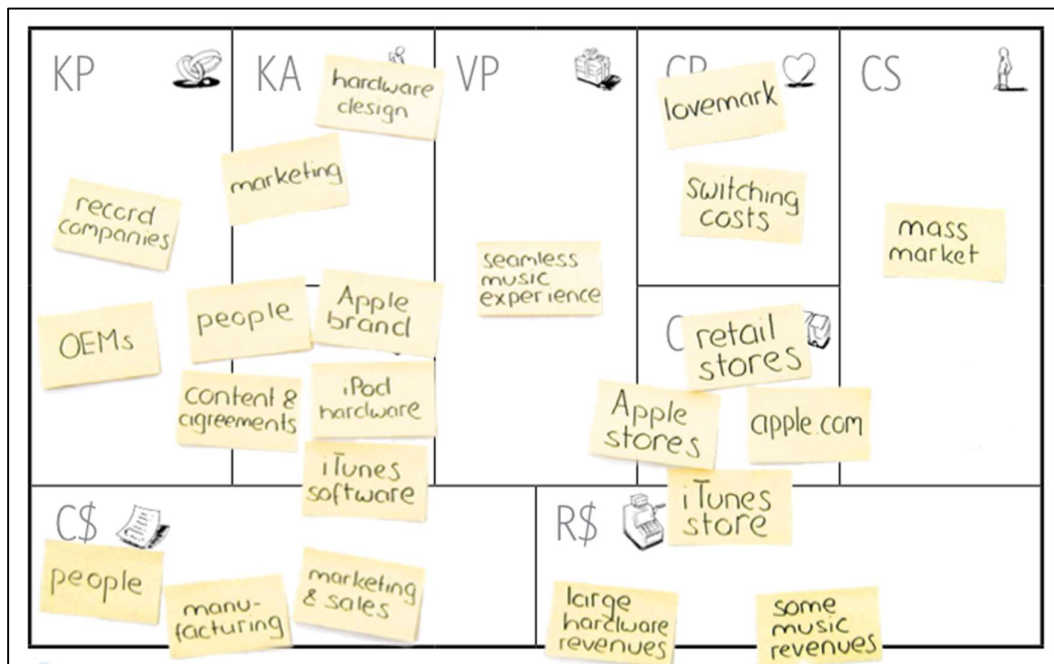


FIGURE 12 – Apple iPod/iTunes Business Model Canvas (Source: Osterwalder and Pigneur, 2010).

Spotify is one of the most popular on-demand and download music streaming service. They offer millions of songs for free (supported by advertising) or with added benefits available through subscription plans. Spotify primarily makes its revenue from advertisement fees and subscription fees. These two customer groups cannot exist without each other: the music seeker and the advertiser. Spotify manages both segments by providing legal access to free music. For those who do not want ads, there is the paid (premium) model in which the user can listen to unlimited music by paying a subscription. For those who do not want to pay, all they have to do is put up with advertisements.

The user buys off the rights to listen to the music through Spotify. Specifically, there are two pricing tiers for the users: 1. Free: The user can download the Spotify desktop application and listen to it for free with limited access, and there are ads (audio and display). 2. Premium: At €9.99/month, the user can have unlimited listening time without ads and can take songs mobile on other devices (Berklee, 2013).

The application also provides the user with many opportunities and options how to build a playlist and music library. Moreover, the user can easily share it with his/her friends, via email, Facebook or any other social networking platform. The user starts using the free version of Spotify, with advertising, and after a while, the user starts getting bothered with advertising and shifts towards the paid subscription model. This concept ‘free drives paid’ is fully understood by Spotify and built into their business model (Berklee, 2013).

According to Spotify, almost 60 percent of their revenues comes from subscriptions and rest comes from advertising. In 2009, Spotify had a total of 7 million users with around 250,000 paying subscribers. The company said in July 2010, it had 500,000 paying users, and in late October 2010, it was rumoured to have 650,000 paying subscribers. Roughly speaking, Spotify adds approximately 41,600 new paying subscribers per month (Berklee, 2013).

Spotify added a few dimensions to the existing industry framework with its new value system, e.g.: Inclusion of bandwidth cost and salaries under Cost Structure. Key Activities

for Spotify is platform maintenance and development, similarly on offer is both music and advertising (Berklee, 2013).

Spotify appears to have a low marginal cost per subscriber. The key cost-per-subscriber is the royalties Spotify must pay to content owners in advance. Once the initial payment is made, there is less transaction cost because it does not have the cost of each new subscriber. It provides a platform akin to a peer-to-peer architecture where users can share their music with others. Once the "emotional connection" is accomplished, it becomes much more compelling to convert the free user into a paying subscriber (Berklee, 2013).

As the co-founder, Daniel Ek says that ownership is great, but access is the future. Customers just want to have access to all of the world's music. With Facebook integration, users can do exactly this and also almost instantaneously. With a wave of expansion on the cards and further integration with social networking sites, Spotify is clearly changing the way music had been perceived till now and distributed (Berklee, 2013).

A contract between Sony Music Entertainment and Spotify from 2011 leaked on the Internet, and it gives an idea how record companies and streaming services make a deal. In this contract, Spotify agrees to pay USD25 million in advance for two years of the contract. In the first year USD 9 million and the second year, USD 16 million should be given. Additionally, USD17.5 million could be paid in advance for the optional third year to Sony Music (Singleton, 2015). Moreover, does not say what Sony Music can and will do with the advance money (Verge, 2015).

Key Partners RIGHTHOLDERS	Key Activities BUILDING AND MAINTENANCE THE APPLICATION USER EXPERIENCE	Value Proposition ADVERTISING FOR A LARGE AUDIENCE UNIQUE INSIGHTS ABOUT CONSUMERS THROUGH USER'S COOKIES ACCESS TO LEGAL MUSIC VIA STREAMING SPOTIFY FOR BUSINESS	Customer Relationships AUTOMATED ONLINE RELATIONSHIP 3 RD PARTY APIs COMMUNITIES	Customer Segments ADVERTISERS MUSIC FANS BUSINESS
	Key Resources MUSIC BANDWIDTH HUMAN RESOURCES SERVERS		Channels DESKTOP APPLICATION MOBILE APP WEB APPLICATION	
Cost Structure ROYALTIES TO RIGHTHOLDERS SALARIES BANDWIDTH COSTS			Revenue Streams AD FEES SUBSCRIPTION FEES FROM USER SUBSCRIPTION FEES FROM BUSINESS	

FIGURE 13 - Spotify Business Model (Source: Spotify's website).

TABLE 9. Spotify royalty system explained (Source: Spotify).

1	2	3	4	5
<p>SPOTIFY MONTHLY REVENUE</p> <p>The total revenue Spotify makes in a month from subscriptions and advertising. It varies from country to country depending on how many users are in that country, how many of them are paying subscribers and how much revenue in advertising that country generates.</p>	<p>X $\frac{\text{ARTIST'S SPOTIFY STREAMS}}{\text{TOTAL SPOTIFY STREAMS}}$</p> <p>Calculates the popularity of an artist's on the service, their "market share." By dividing an artist's streams by the total streams on Spotify, it is possible to know the percentage of the total payouts that should be paid for that artist's rights.</p>	<p>X 70% TO MASTER & PUBLISHING OWNERS</p> <p>Spotify negotiates the royalty with labels and publishers in each territory they operate. Currently, they distribute ~ 70% of the gross revenues to master recording and publishing rights (both mechanical reproduction and performance) holders. The division between these types of rights holders varies by territory by local laws and negotiated agreements. In the United States, for instance, statutes dictate that publishers receive ~21% the amount that master recording owners receive.</p>	<p>X ARTIST'S ROYALTY RATE</p> <p>Spotify pays the total royalties due for their accumulated streams to the label or publisher and then, they pay each artist according to that artist's contractual royalty rates. Takes into account several factors including recoupment status. Independent artists can retain up to 100% of their royalty payouts from Spotify by using one of their aggregator partners by paying a small fee.</p>	<p>= ARTIST PAYOUT</p> <p>The end royalty paid out to the artist after the rights holder royalty split and any other deductions have been applied.</p>

4 CASE STUDY

The company is a start-up based in Amsterdam, Netherlands. Two music executives who worked for a variety of artists founded it in 2014. It is a SaaS (Software as a Service), and a CMS (Content Management System). The main product/service is a DIY (Do it yourself) tool to build websites focused on musicians. For the purpose of this study, the name of the company has no interference in the context, so the company will be called **REC**. The product is in development, and a beta version is already active, and it already has paying customers. The Front End and Back End is also being developed, and once it achieves the level expected by the CEO, it will be officially launched on the market with proper marketing strategies. They are shaping the business model while getting customer's feedback.

The SaaS business model makes possible to monitor how the customer is using the service, which can give insights for improvements and since all clients access the same code base, they all benefit from improvements and upgrades. The predictable payment schedule in a subscription model provides significant financial benefits to the provider, regarding being able to forecast revenues and cash flow. Acquiring subscribers online has significant economies of scale and efficiency. The cost to acquire a customer reduces as the process is automated through online signup. From a client perspective, the ease of implementing a SaaS option is necessary. Customers can use the SaaS application from any computer connect to the internet through a web browser (Sukow and Grant, 2013). It simplifies the job of an indie artist that only wants to have his/her website but cannot afford to pay a web designer and hosting costs or instead of spending time making their music; they would be spending several hours programming HTML, CSS and using FTP client. Not to mention, that usually those are paid programs. There are some free options in the market, but they have their limitations. The advantages for the target group of consumers are obvious, but how to make them subscribe and keep using and paying is the key to the business model success.

The company is in a building with other music related companies, which is strategic for them. This building has more than 50 music studios available to rent for rehearsals and recording, a restaurant, music stores, a conservatory, a DJ school, agents, and other music related business. Besides that, it has a shared workspace for rent, which a person can pay by the hour.

For three months of participative observation, it was possible to help REC to analyse their business model and give them strategic tools to develop it to measure and aim growth. Analysis of their current subscription plan (pricing strategy) was made to give pricing model suggestions based on deeper analysis and their target group. Risk analysis, stakeholder analysis and a new framework based on the business model canvas considering risks and stakeholders were suggested.

Parallel to that, a brand new business model that was built from scratch with help from this study. The development of the MVP (Minimum Viable Product) for an influencer marketing platform will be presented in section 5.2 as a second business model.

4.1 Main Business Model

A business model contains a set of elements and their relationships and allows visualising, understanding, communicating and sharing the business logic of making money. It describes the value a company has to offer to one or several segments of customers and how the firm is structured and its network of partners for creating, marketing and delivering this value and relationship capital, to generate profitable and sustainable revenue streams (Osterwalder, 2004). It contains nine building blocks that cover the four main areas of a business: Customers, offer, infrastructure, and financial viability. It is a blueprint for a strategy to be implemented through organisational structures process, and systems (Osterwalder and Pigneur, 2010). Due to the dynamic of a firm, especially start-ups, sticky notes are used to fulfil the nine building blocks of a business model canvas.

REC is shaping its business model, and the canvas is an excellent tool to visualise the dynamic of a company by replacing the sticky notes on it every time a change is made. REC is developed to help musicians to set up, design and host a website with no coding needed. Two different templates are available on their beta version, and it is easy to build and customise a website by using REC's platform. The team is growing, and the platform is being improved both in the backend and frontend.

Their priority now is first to work on the development of the product and afterwards take care of business strategies since the resources are very limited now and they are relying on a third part backend development, which is expensive. An important aspect to be taken

care of is to use project management tools to manage time and costs of the backend development execution in order not to lose control over the project and make it as fast as possible to start the growth strategy and get an investor.

Below is possible to check REC Business Model Canvas. This canvas already represents the revenue streams to be implemented soon. Interviews with the CEO were used as an input the business model canvas in the figure below. The CEO was very open and aware of the importance of this for his business. The model below is already considering the free forever plan as one of the revenue models which will be explained thoroughly in the next session.

KEY PARTNERSHIPS (3) Spinnin' Records Amsterdam DJ School	KEY ACTIVITIES (7) Design the templates Provide a simple tool for building a website for artists	VALUE PROPOSITION (2) It offers all the features a musician need to create a website in a simple way. It's possible to upload tracks and offer a free mp3, integrate social media feed, add tour dates, add soundcloud, spotify links embeded in the website. Have the control over the fan base via email subscriptions. Tips for managing the career and growing the fan base	CUSTOMER RELATIONSHIPS (4) Music Website Fan Academy Blog Online Support Emails FAQ Easy to customize No hidden costs	CUSTOMER SEGMENTS (1) Indie Artists Labels Paying customers Freemium customers Companies interested in sponsorship
COST STRUCTURE (9) Cloud computing Domains Outsourced coding Staff Operations	KEY RESOURCES (6) Staff Market knowledge Equipments Technology Frontend and Backend Development		CHANNELS (3) Music Website Fan Academy Blog Spinnin' Records	
		REVENUE STREAMS (5) Subscription plans: FREE FOREVER: FREE DOMAIN ONLY = 4,99 PRO = 9,99 PRO PLUS = 59,90 Affiliate fees		

Created by Iara Dias

FIGURE 14 – REC Business Model Canvas (Source: This Study).

4.1.1 Revenue Model

REC now offers three different plans for its customers with a 14-day trial and the plans and features could be seen in the image below. It has three options starting from 10 euros per month on its entry level subscription plan, followed by a 15 euro per month on an intermediary level and at last, the third option with a subscription of 20 euros per month.

The founders think this pricing model has to be revised. This participative research will propose different pricing strategies. Thus, in the following section, the benchmarking of subscription plans and the proposition of a new pricing model for REC will be showcased

as previously displayed in the business model canvas. The figure 15 shows the current subscription plans REC has to offer and wants to revise.

GOLD	DIAMOND	PLATINUM
€ 10 /month	€ 15 /month	€ 20 /month
Up to 5.000 visitors a month	Up to 25.000 visitors a month	Up to 50.000 visitors a month
Unlimited pages & storage	Unlimited pages & storage	Unlimited pages & storage
Mobile website	Mobile website	Mobile website
Music & social widgets	Music & social widgets	Music & social widgets
Custom domain	Custom domain	Custom domain
Phone support	Phone support	Phone support
HTML & CSS access	HTML & CSS access	HTML & CSS access
Google Analytics	Google Analytics	Google Analytics
GET STARTED	GET STARTED	GET STARTED

Figure 15. Subscription Plans – REC (Source: REC’s website).

4.1.2 Pricing Strategy Comparison

A benchmark of the plans of similar services was done to propose a new pricing model for REC, using different services to compare different price tiers among them, allowing REC to understand the market. Below it is possible to see those different prices from different services and it was possible to see that the *freemium* model was adopted for several researched services.

BIG CARTEL PRICING MODEL

\$9.99	\$19.99	\$29.99	Free
Platinum	Diamond	Titanium	Gold
25 products	100 products	300 products	5 products
Quick setup Order management Five images per product Inventory tracking Digital products Sell in-person Sell on Facebook Seamless checkout Real-time dashboard Awesome stats Custom domains Search engine optimized Fast & stable No coding required Coder-friendly Discount codes Guides & videos Friendly support	Quick setup Order management Five images per product Inventory tracking Digital products Sell in-person Sell on Facebook Seamless checkout Real-time dashboard Awesome stats Custom domains Search engine optimized Fast & stable No coding required Coder-friendly Discount codes Guides & videos Friendly support	Quick setup Order management Five images per product Inventory tracking Digital products Sell in-person Sell on Facebook Seamless checkout Real-time dashboard Awesome stats Custom domains Search engine optimized Fast & stable No coding required Coder-friendly Discount codes Guides & videos Friendly support	Quick setup Order management Five images per product Inventory tracking Digital products Sell in-person Sell on Facebook Seamless checkout Real-time dashboard Awesome stats Custom domains Search engine optimized Fast & stable No coding required Coder-friendly Discount codes Guides & videos Friendly support

Extensive list of features.

FIGURE 16 – Big Cartel Pricing Model (Source: Big Cartel website).

SOUNDCLOUD PRICING MODEL

	PARTNER	PRO	PRO UNLIMITED
Price	Free	€5/month	€9/month
Upload quota	3 hours	6 hours	Unlimited
Basic Stats	✓	✓	✓
Extensive stats		✓	✓
See			
Plays by country		✓	✓
Plays by city			✓
Plays by SoundCloud page			✓
Plays by app			✓
Plays by website			✓
Control tools		✓	✓
Turn comments on or off		✓	✓
Turn public stats on or off		✓	✓
Pin tracks and playlists to the top of your profile		✓	✓
Update source files for your tracks without losing stats		✓	✓

FIGURE 17 – Soundcloud Pricing Model (Source: Soundcloud website).

WIX PRICING MODEL

	€16,17/month	Unlimited	Combo	Connect Domain
Price (year)	€16,17/month	€12,42/month	€8,25/month	€4,08/month
Free Domain	1 year	1 year	1 year	Wix brand ads
Free Premium Apps	2 Apps - \$118 value	2 Apps - \$118 value		
Price Monthly plans	19,90/month	15,95/month	10,95/month	5,95/month
Wider Bandwidth	10GB	Unlimited	2GB	1GB
Bigger Storage	20GB	10GB	3GB	500MB
Connect your Domain	✓	✓	✓	✓
Google Analytics	✓	✓	✓	✓
Premium Support	✓	✓	✓	✓
Free Hosting	✓	✓	✓	✓
Remove Wix ads	✓	✓	✓	
Get a Free Domain*	✓	✓	✓	
No Mobile Ads	✓	✓	✓	
Customized Favicon	✓	✓	✓	
Google AdWords Voucher*	\$75	\$75	\$75	
Form Builder App*	✓	✓		
Site Booster App*	✓	✓		
Online Store	✓			

FIGURE 18 – Wix Pricing Model (Source: Wix website).

BIG COMMERCE PRICING MODEL

Leading ecommerce solutions that grow with your business
 Try Bigcommerce free for 15 days and see what plan is right for you

<p>STANDARD</p> <p>Everything you need to sell more online</p> <p>\$29.95</p> <p>Billed monthly up to \$50k in online sales per year</p> <p>Start your free trial</p>	<p>PLUS</p> <p>Powerful marketing and conversion tools to grow sales</p> <p>\$79.95</p> <p>Billed monthly up to \$120k in online sales per year</p> <p>Start your free trial</p>	<p>PRO</p> <p>Enterprise-grade features for fast-growing brands</p> <p>\$199.95</p> <p>Up to 3k orders per year</p> <p>Start your free trial</p>	<p>ENTERPRISE</p> <p>Premium features and services for high-volume brands</p> <p>Custom order-based pricing tailored to your business</p> <p>For stores making \$1M+ in online sales per year</p> <p>Get in touch</p> <p>1-855-884-6731</p>
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FIGURE 19 – Big Commerce Pricing Model (Source: Big Commerce website).



FIGURE 20 – Volusion Pricing Model (Source: Volusion website).

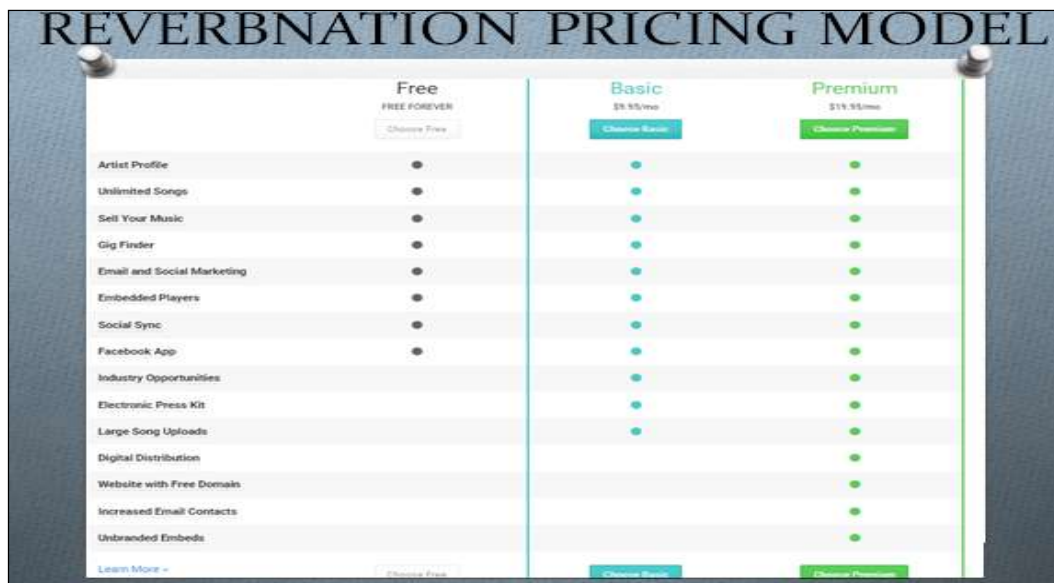


FIGURE 21 – ReverbNation Pricing Model (Source: ReverbNation website).

HOSTBABY PRICING MODEL

YOUR OWN WEBSITE FOR JUST \$20 /MONTH

Includes all the great HostBaby website building features. (see below)

INCLUDES \$245 IN FREE CD BARY COUPON CREDITS!
(a program a year)

TRY IT FREE TODAY FOR 30 DAYS
(no obligation cancel anytime)

BUILD YOUR WEBSITE
Designer website themes
Live and share online
Responsive website ready design

FEATURE YOUR MUSIC
Audio, video, and image gallery feeds
Built-in social sharing and more
100+ fully featured templates

GROW YOUR FANBASE
Send newsletters
Sell your products online
Blog and social media features

DOMAIN PRICING

.COM & .NET = \$12.99 /YEAR

.ORG = \$14.49 /YEAR

.ROCKS = \$12.99 /YEAR

.band = \$28.99 /YEAR

+5 FREE MUSIC SUBMISSIONS TO USE THROUGHOUT THE YEAR

Free website you could distribute your album or single through CD Baby and also the part of the deal where you pay? Here you get 500 free CD Baby submissions every year of HostBaby.com with a \$245 CD Baby submission credit. How to use HostBaby you like to get your music on sites like iTunes, Google Play, Amazon, Spotify, iDol and more more. That's a huge value!

SALE!
Expires March 31

FIGURE 22. Hostbaby Pricing Model (Source: Hostbaby website).

BANDZOOGLE PRICING MODEL

LITE	OUR MOST POPULAR PLAN STANDARD	PRO
<p>\$8.29 /month</p> <p><small>Billed annually, or \$9.95/month</small></p> <p>10 pages, 10 tracks, 100 photos</p> <p>100 mailing list members</p> <p>Free domain name</p> <p>Commission-free music store</p>	<p>\$12.49 /month</p> <p><small>Billed annually, or \$14.95/month</small></p> <p>20 pages, 50 tracks, 500 photos</p> <p>1000 mailing list members</p> <p>Free domain name</p> <p>Full design customization</p> <p>Commission-free music store <small>+ Sell physical merch</small></p>	<p>\$16.95 /month</p> <p><small>Billed annually, or \$19.95/month</small></p> <p>Unlimited pages, tracks & photos</p> <p>Unlimited mailing list members <small>+ Advanced mailout reports</small></p> <p>Free domain name</p> <p>Full design customization</p> <p>Commission-free music store <small>+ Sell physical merch + Sell tickets + Download codes + Sell videos, PODs & other media files + Automatic inventory tracking + Discount Codes</small></p> <p>SoundScan reporting</p>

FIGURE 23. Bandzoogle Pricing Model (Source: Bandzoogle website).



FIGURE 24 – Teachable Pricing Model (Source: Teachable website).

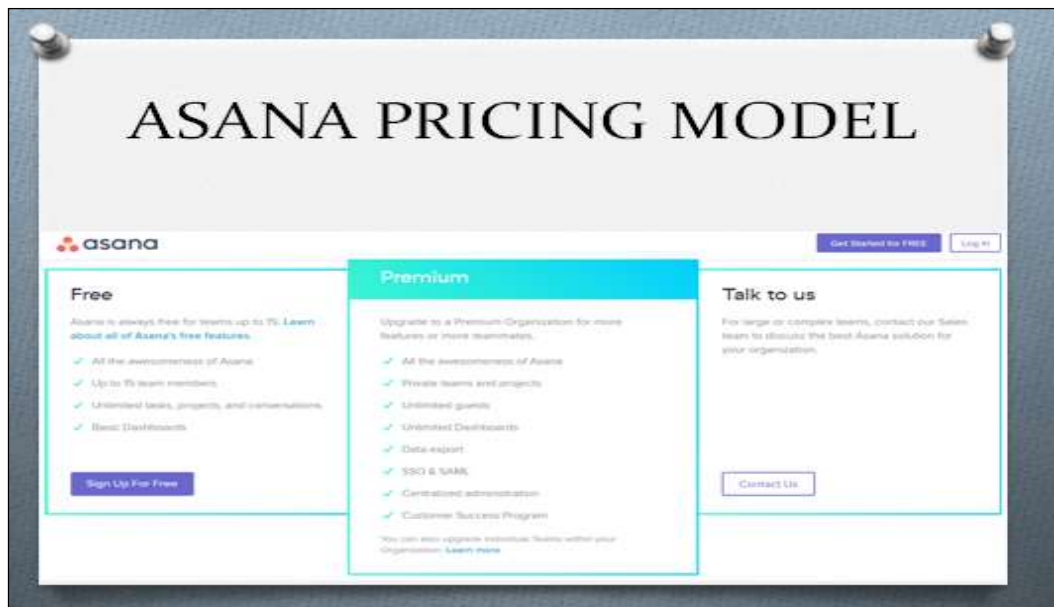


FIGURE 25 – Asana Pricing Model (Source: Asana website).

4.1.3 Freemium Model Strategy

After analysing the pricing models of competitors as well as other types of business, it was suggested to adopt the ‘freemium’ model strategy as a hook to gather more users and then afterwards convert them into paying users. It would be a valuable and strategic step for the company, once they are not well known and with the free plan, it is possible to reach out more people.

It is common to use the multi-sided platform concept to make it viable: One side attracts users with free content, products, or services and the other generates revenue by using their data (Ostewalder and Pigneur, 2010). For instance:

- o Access to their mailing list (fans)
- o They might receive some emails from partners
- o The freemium user base will be valuable to whom is targeting musicians
- o Can't use personalised domain
- o Customers will have access to only a few templates. Upgrade for more.

Since the product is being shaped as mentioned before, the features of every plan were revised, as well as the prices and revenue models. Strategically, the features should be revised from time to time, and those revisions must be predicted in the *Terms and Conditions* to avoid disputes with customers in the future.

Some features were revised and added to be more attractive to users in the future. To have the team participating with ideas, a board with features on sticky notes was placed on the wall. So every time someone had an idea of a feature, this person would write it down on a sticky note and put it on the wall. Most of the features have yet to be developed, and lots of them are co-dependent and complex to develop so that they would be probably just as ideas for a while.

- o The goal is to convert the freemium users into premium users.
- o Offer 30-day trial by mail and in the dashboard.
- o Unlock professional features with our premium account

Several companies adopt the strategy of free forever to attract users because then it is possible to make the product known by the customer because if a company does not offer a free forever plan probably, a competitor will offer it. Unless the brand is very well known, users tend to opt for a competitor that offers an unpaid option. Is easier to convince a customer to upgrade than to convince them to sign up for a paid subscription without knowing the product.

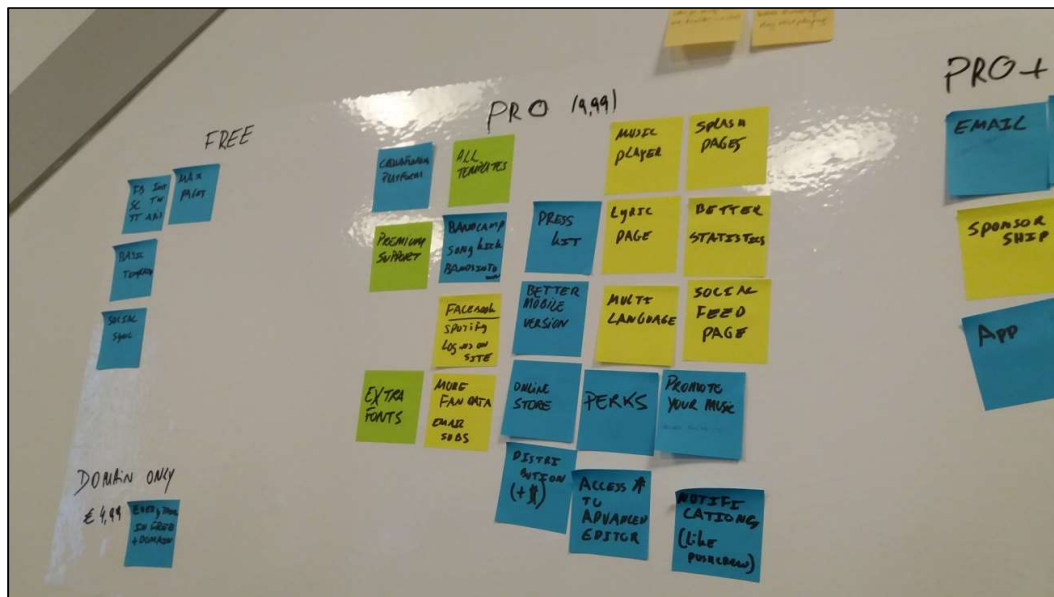
In the case of REC, the current free trial for a user that does not know the product is not very attractive, since, to test, the user has to build a website. Meaning that they will spend

time and effort to test a product that they might not like. On this perspective, many possible customers will be discouraged once they realise that they only have a 14-day trial.

With the free forever plan, after finishing the web page, the customer will get a chance to try out the pro plan for 30 days. After it she/he can decide to continue using it for € 9,99 a month, come back to the free forever plan or choose the domain only. The upgrade can be offered by email and can stay as a notification on their dashboard.

After a revision in the Business Model, the pricing strategy changed to contemplate the *freemium* model to gather subscribers and exchange for their data aiming to convert them into paying subscribers. The tiers should be as follows:

- o **FREE FOREVER:** € 0,00 (Similar to the 14-day trial)
- o **DOMAIN ONLY:** € 4,99 /month
- o **PRO:** € 9,99 /month
- o **PRO PLUS:** € 59,90/ month



PICTURE 1 – Features per tier board at REC’s office.

FREE FOREVER	PRO	PRO +
FREE	€ 9,99	€ 59,90
Connect your Facebook, SoundCloud, Instagram, Twitter and Youtube	All features of the Free Forever Plan	All features of the Pro Plan
Social Sync	Online Store	Member Club
Up to 5 pages	Bandcamp, Songkick, Bandsintown and more	Sponsorship Platform
Tour dates	Instagram Gallery	Crowdfunding
Limited Templates	Discography	Donation
Online Support	Press Kit	Animated Background
	Lyrics / Chords	Impressive Mobile Version
	Band Members Page	Promote your music
	More Templates and Fonts	Crowdfunding
	Spotify Login	Email campaigns
	Preemium Support	Advanced editor
	Spinnin' Records Login Page	App
	See More...	See More...
Get Started	Try now	Try now
DOMAIN ONLY € 4,99 OK, GO AHEAD		

FIGURE 26. Mock-up of an option of price tiers for REC.

FREE FOREVER 0,00	PRO € 9.99	PRO + € 59.90
Facebook, Soundcloud, Instagram, Twitter and Youtube Integration	More Templates and Fonts	Email
Social Sync	Bancamp, Songkick, Bandsintown and more	Sponsorship
Up to 5 Pages	Spotify Login	App
APIs	Smart Statistics	Newsletter
	Animated Background	Phone Support
	Press Kit	Member Club
	Impressive Mobile Version	Multi User
	Tour Dates / Discography / Lyric Page /Chords/Band Member's Profiles	Store without comission
	Online Store	Advanced CSS (Highly customizable)
	Music Player	Crowdfunding / Donation platform
	Splash Pages	
	Advanced Editor	
	Multi Language	
	Social Feed	
	Promote your Music	
	Notification (like Pushcrew)	
	Perks	
	Preemium Support	
DOMAIN ONLY € 4.99		

FIGURE 27. Mock-up of a choice of price tiers for REC.

4.1.4 Cost Structure

REC's financial control consists of a spreadsheet with the main information about the company's expenses and earns. However, it was not possible to make some calculations due to the lack of detail in costs. It was not possible to breakdown the costs to understand their cost structure.

The CEO understood this need and asked the main supplier (server and hosting) to give the cost per MB. It is interesting to break down the cost to know the costs per unit (in this case per subscription or customer). By calculating the average megabytes a user has on their website, the average cost per customer would be known. However, the supplier was vague saying that REC should not be worried about this because they have much room for growing. This was a source of frustration since knowing the costs are truly necessary, and in the case of REC, some reasons are stated below:

- o See what can be offered in the free forever package
- o See what we can be delivered in the domain only package
- o Estimate how much REC can grow

4.1.5 Risk Assessment

The risks associated with REC have yet to be brainstormed. Below is possible to see some identified risks, but it certainly has to be updated. Mitigation strategies and the probability of occurrence have to be added. Due to the time limitation, this study faced, the brainstorming session about risks could not be performed. However, some risks were presented, and the CEO was excited about this and said those risks were a good exercise since it should be concerned that the investors would probably have. The other fields of the form might apply for some identified risks but not necessarily has to be filled.

TABLE 10 – Risk Assessment.

RISK ASSESSMENT FORM							
REVOLVE KEY RISKS							
IARA DIAS							
28.03.2016							
Risks Identified	Description	Mitigation Strategy	Probability Of Occurrence	Existing Measures	Impact Intensity	Additional Measures	Contingency Plan
Customer sign up and stays inactive	Sign up and don't build a website						
High demand for free forever package	Server goes down						
Inactive User	Don't login for more than 3 months						
Customer downgrade to free forever	Changes the pro plan to free forever or domain only						
Customer fail to pay	3 days after payment failing due						
Inactive User	Don't login for more than 3 months						
Payment error							
Error after an update							
Functionality							
Customers make a bad review about Revolve							
Programmer quits before finishing something	Before finalizing a certain task, the programmer quits	Agree to finalize in spare time					
Designer quits before finishing something	Before finalizing a certain task, the programmer quits	Agree to finalize in spare time					

4.1.6 Partnerships

Partnerships are critical for a company to grow, minimise risks, reach new markets, save time and money in development, and several other things. Thinking of it, a DJ School was contacted in March to understand if a collaboration could be made. They were impressed with the partnership REC has with the main label for DJs in the world based in Amsterdam. In the meeting, they seem eager to have a partnership with REC as soon as the product is ready to advertise. They have about 600 students per year, which appears to be an excellent opportunity. Other neighbours were mapped to see if other partnerships could be made. The number of associations REC can do is close to infinite. REC could partner with PR and marketing agencies, agents, managers, music Schools, music stores, music studios, musician’s associations, photography studios, concert venues, restaurants, pubs, bars, just to name a few.

4.1.7 Agile

Agile is a set of methods and methodologies that help a team to think more effectively, work more efficiently, and make better decisions by making use of practices that are streamlined and optimised to make them as easy as possible to adopt (Stellman and Greene, 2014).

Agile is also a mindset which helps people on a team share information with one another so that they can make indispensable project decisions together, instead of having a manager who makes all of those decisions alone. In an agile team, the same information is shared with everyone, and each person on the team has a say in how the practices are applied (Stellman and Greene, 2014).

SCRUM were suggested, but it was not adherent at REC. Most likely it would be more important to be reintroduced when the team is bigger. REC already works with some concepts as Roadmap, and once its processes get more complex with more people working on projects, agile methods are extremely recommended. However, for now, REC is doing well.

SCRUM

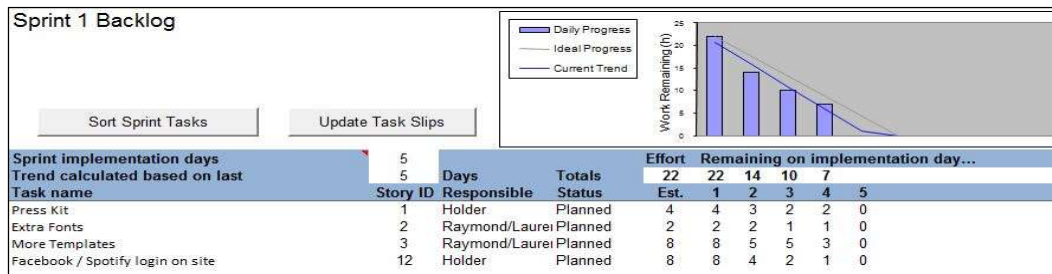


FIGURE 28 - Sprint 1 Backlog of REC.

Story ID	Story name	Status	Size	Sprint	Priority	Comments
1	Press Kit	Planned	4	1		
2	Extra Fonts	Planned	2	1		
3	More Templates	Planned	8	1		
12	Facebook / Spotify login on site	Planned	8	1		
13	Online Store	Planned	8	2		
4	Crowdfunding Platform	Planned	8	2		
5	Better Mobile Version	Planned	8	2		
9	More fan data - email subscribers	Planned	8	3		
10	Bandcamp / Songkick / Bandsintown	Planned	4	3		
11	Premium Support	Planned	3	4		
14	Access to advanced editor	Planned	4	4		
15	Spash pages	Planned	6	4		
16	Better Statistics	Planned	6	4		
17	Social Feed Page	Planned	4	5		
18	Promote your Music	Planned	4	5		
19	Notifications (like push crew)	Planned	4	5		
20	This is an unallocated sample story	Planned	5	5		
6	Multi Language	Planned	12	6		
7	Perks	Planned	12	6		
8	Distribution	Planned	20	6		

FIGURE 29 - Product Backlog of REC.

4.1.8 Project Management Tools

Trello was introduced to the team as part of this study. It is a project management tool presented during one of the courses offered in the Master's degree in International Project Management at the Tampere University of Applied Sciences. In the beginning, it was a little difficult to insert it on the office routine, but little by little, the level of adoption was increasing. It took about one month for the whole team start to use it and insert on their routines. After almost three months this tool was widely utilised by the team, and the fact that is free for small teams were certainly one of the key factors for the adherence. The fact that the CEO was excited about the tool also encouraged others from the team to use it. Every member of the team was trained, except for a new employee that already knew how to use it. It is a straightforward and intuitive tool. It presents some limitations that are not a big problem for a start-up with a small team and few projects. Below is possible to see some boards created for and by the team by the time of the participative research were made.

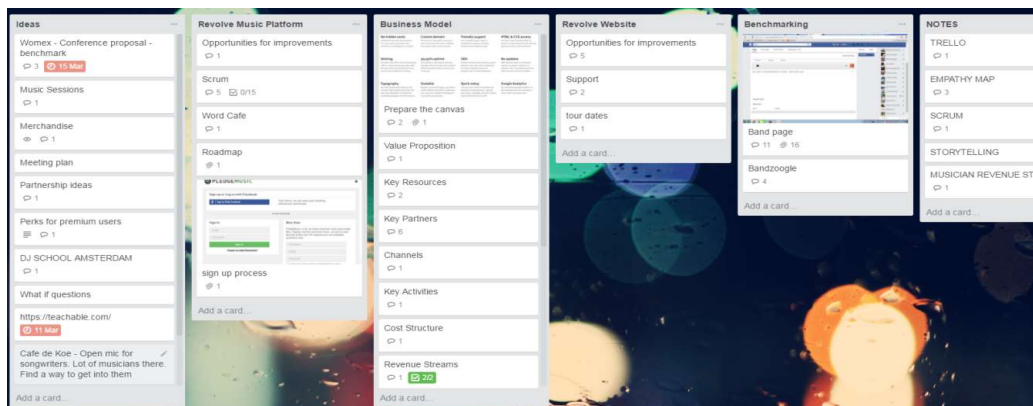


FIGURE 30. Trello Board for REC.

4.1.9 KPIs

Research about the Key Performance Indicators (KPIs) for a SaaS company was done throughout the internet. Those KPIs were adapted to REC's reality, and real projections were used to have key performance indicators measured and show its importance to the CEO.

REC already has sound spreadsheet file with the main financial information and financial projections. It was used as input to build the KPIs file. An important thing to do for the

future, as mentioned before, is to breakdown the costs, making possible and less risky to play with different scenarios and predict with accuracy the results of decisions or even market changes that the company cannot control. REC should know the average cost of a user (the free user and premium user are the key in this case) to plan a marketing strategy, for example.

For a start-up, it may seem pointless to have control over KPIs, but it actually can guide the decision-making process since those KPIs are measuring the customer response to the service. It is also possible to see the revenue generated by each tier of plans and if a marketing investment is giving the expected return. Besides that, it is possible to see which tier is more profitable which is important to know to maintain customer's interest on that tier.

A start-up that keeps track of its KPIs from the beginning will have valuable data in the future. Below, there is a shortened version of the KPIs just to illustrate it. Further, is possible to see the KPIs graphs with the purpose of visualisation only, since there is no disclosing of any information of the company for strategic reasons. Thus, the projections showed in the graphs are real, but the numbers are not because the actual financial figures are confidential and strategic.

Since the aim of this study is to display an MVP in a Music Industry's start-up, the KPIs will not be broadly explained on this thesis. Thus, further investigation is advisable since indicators are a great tool to measure a company's success.

TABLE 11 – List of KPIs for REC

VISITORS & SIGNUPS
New signups
Visitor-to-Signup Conversion Rate
PAYING CUSTOMERS
Customers beginning of the month (Free Forever, Domain only, Pro, Pro Plus)
New customers (Free Forever, Domain only, Pro, Pro Plus)
Conversion rate (Free Forever, Domain only, Pro, Pro Plus)
Lost customers (Free Forever, Domain only, Pro, Pro Plus)
Churn rate (Free Forever, Domain only, Pro, Pro Plus)
Plan Upgrades (from Free Forever to Domain Only; Free Forever to Pro)
Plan Downgrades (from Domain Only to Free Forever; Pro to Domain Only)
Net change (Free Forever, Domain only, Pro, Pro Plus)
Customers end of month (Free Forever, Domain only, Pro, Pro Plus) <i>m/m growth</i>
MRR
MRR beginning of the month (Free Forever, Domain only, Pro, Pro Plus)
New MRR (Free Forever, Domain only, Pro, Pro Plus)
New MRR from existing customers (upgrades) (from Free Forever)
Lost MRR (Free Forever, Domain only, Pro, Pro Plus)
Lost MRR from retained customers (downgrades) (from Domain Only to Free Forever)
MRR churn rate (Free Forever, Domain only, Pro, Pro Plus)
Net new MRR
MRR end of month (Free Forever, Domain only, Pro, Pro Plus)
ARPA (p.m.)
ARPA new customers (p.m.)
CAC
Marketing spendings
Sales spendings
Sales spendings per new paying customer
Total CAC (for paid signups)
Gross Profit per new customer p.m.
Time-to-recover CAC for paid signups (months)
CASH
Cash beginning of month
Cash coming in
Cash going out
Net cash burn
Cash end of month
Runway at current burn (months)

TABLE 12 – Main SaaS KPIs explained – adapted (Source: Sukow and Grant, 2013).

Main SaaS Key Performance Indicators		
KPIs	BRIEF EXPLANATION	HOW IS CALCULATED
CHURN RATE	<p>It is also known as rate of attrition. It measures the percentage of subscribers that discontinued to use the service during a giving period. The churn rate is higher at the start of the subscription since the subscriber is more likely to leave at the beginning of the subscription. However, the cancellation probability is reduced once a subscriber has actively used the application and received value from the service and that makes the churn rate decrease. Also, as the subscriber's behaviour changes over the life cycle of the subscription, using a continuous churn rate over the term of the subscription will result in an incorrect subscription analysis.</p>	<p>Churn Rate = $a = \frac{\Delta C \text{ cancels}}{C * \Delta t}$</p> <p>Where 'a' is the monthly churn rate, 'C' = number of subscribers</p>
MRR	<p>It means '<i>Monthly Recurring Revenue</i>' and is the amount of subscription revenue earned based on the value of services delivered in a single month. These businesses typically bill for service on a monthly basis, with discount incentives to encourage clients to commit to yearly contracts. Subscription-based billing models produce a reliable and predictable source of recurring revenues.</p>	<p>$MRR = \text{Total Subscriptions} * P$</p>
ARPA	<p>It means '<i>Average Revenue Per Account</i>' or Also can be called ARPU (Average Revenue per User), and it measures which account generates more revenue to make decisions.</p>	<p>$ARPA = MRR / \text{Total \# of Customers}$</p>
CAC	<p>It means '<i>Cost of Customer Acquisition</i>' and is related to the expenses on advertisement versus new customers. It measures the effectiveness of ads and what channels can bring more result.</p>	<p>$\frac{\text{Total cost of Sales \& Marketing}}{\text{Number of deals closed}}$</p>

Visitors and Signups

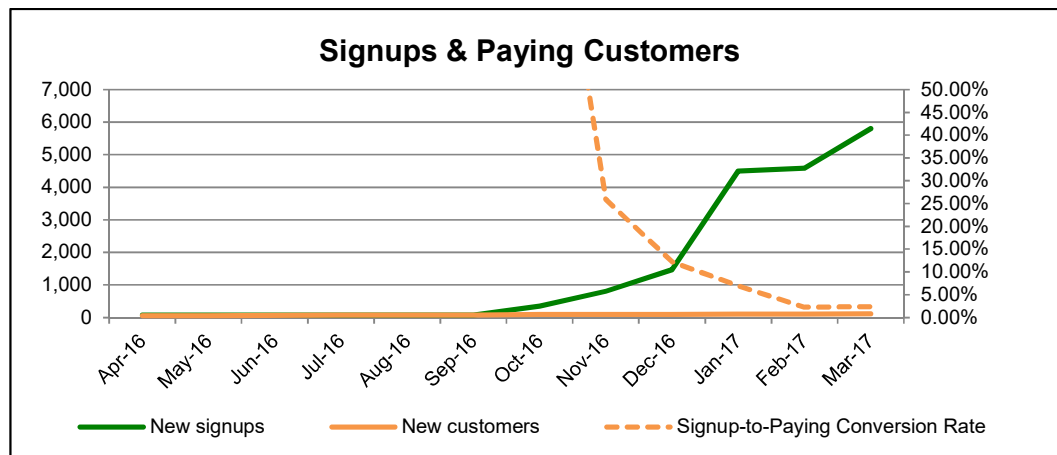
This KPI is for measure how many visitors sign up on the platform. The conversion rate should be as high as possible.



GRAPH 1 – Visitors and Signups.

Signups and Paying Customers

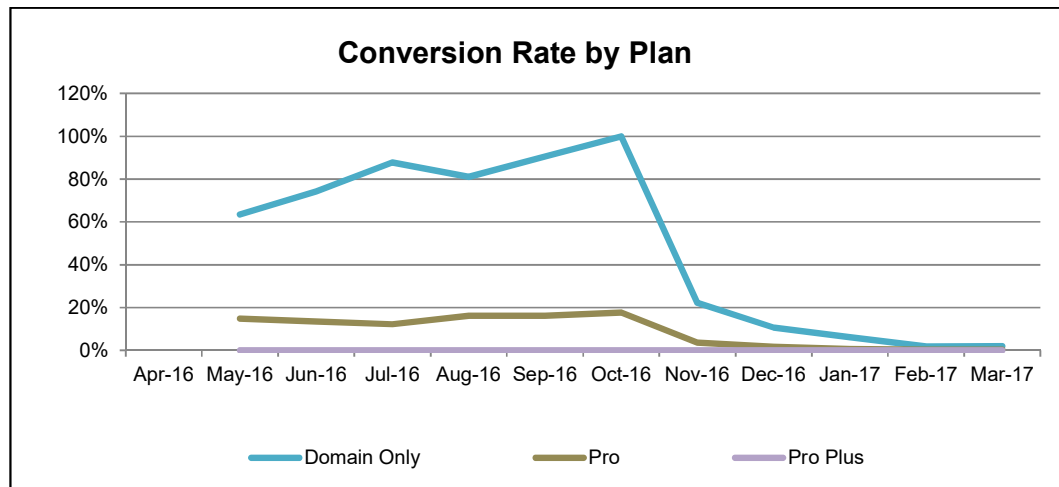
By the time this study was done, the company had a 14-day trial for new customers, and they were still evaluating if they would have the free forever plan. In any cases, this KPI would be critical to be measured since the aim is to have more and more paying subscribers.



GRAPH 2 – Signups and Paying Customers.

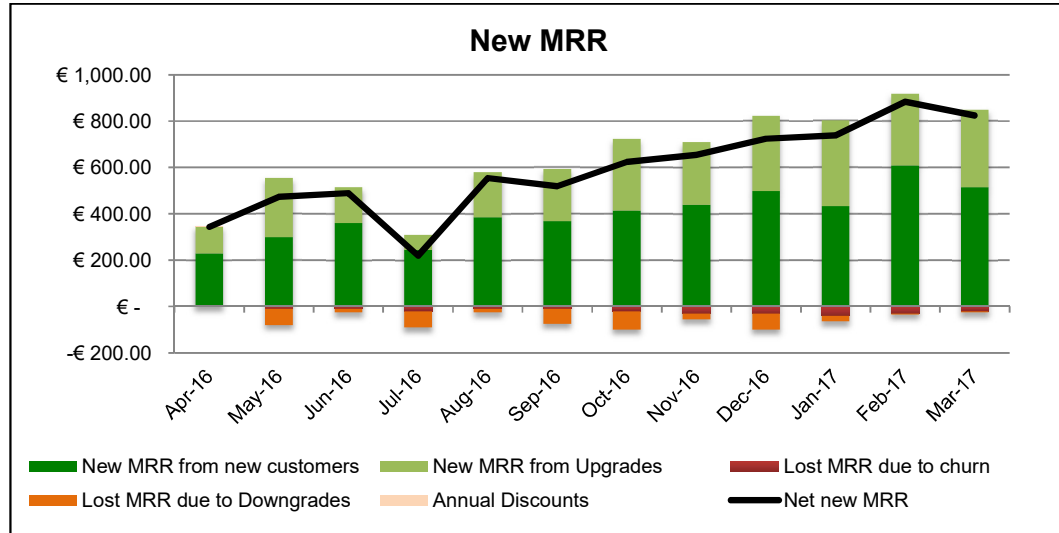
Conversion Rate per plan

This indicator is important to measure if users are migrating between plans. For example, if the users are going from the ‘free forever’ plan to the pro plan. The aim is to have a high conversion rate.



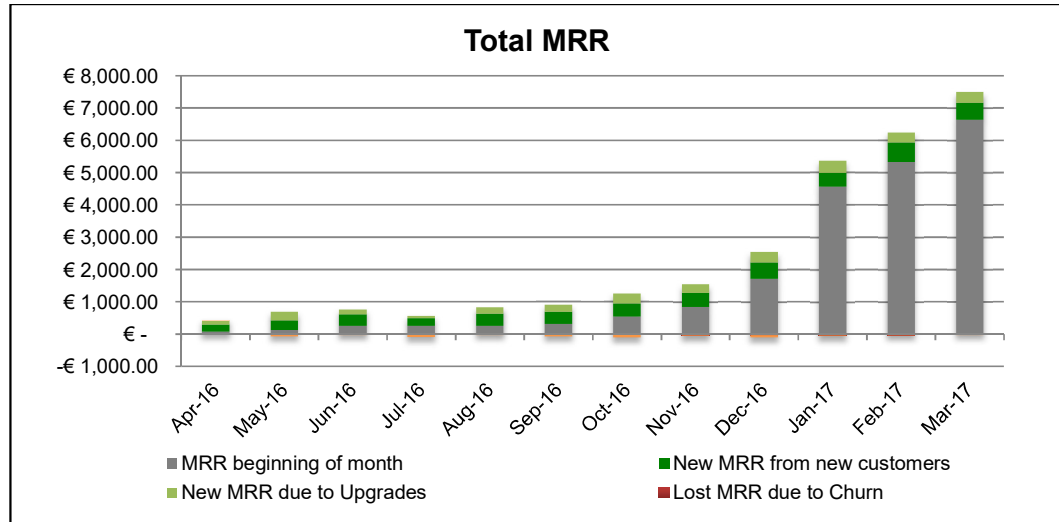
GRAPH 3 – Conversion Rate per Plan.

New MRR



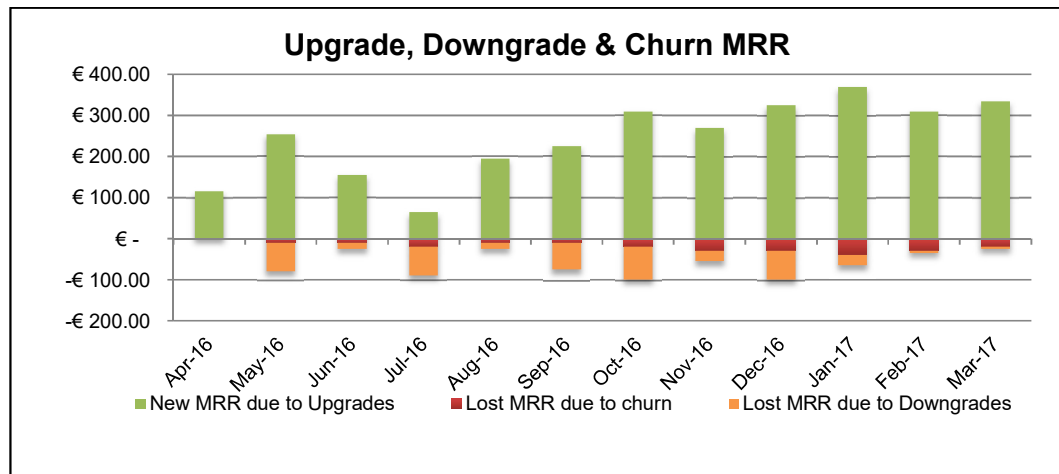
GRAPH 4 – New MRR.

Total MRR



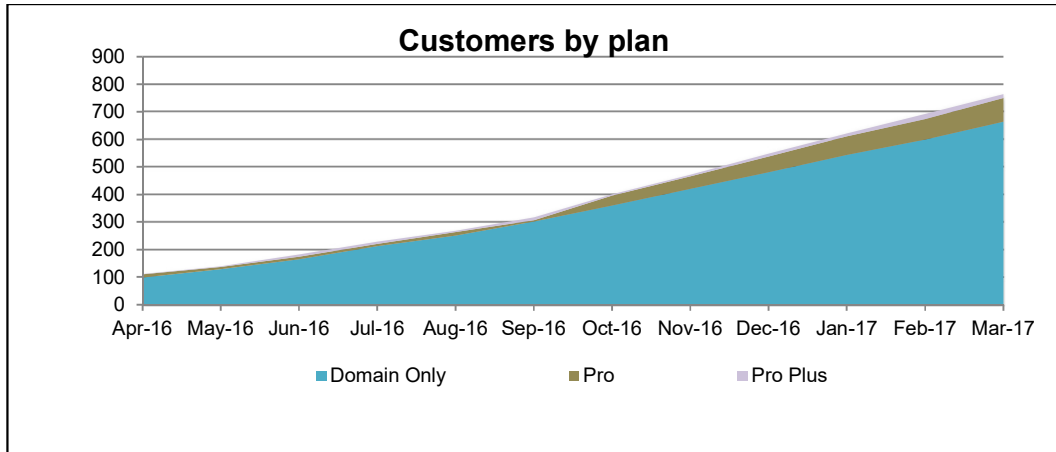
GRAPH 5 – Total MRR.

Upgrade, Downgrade and Churn Rate



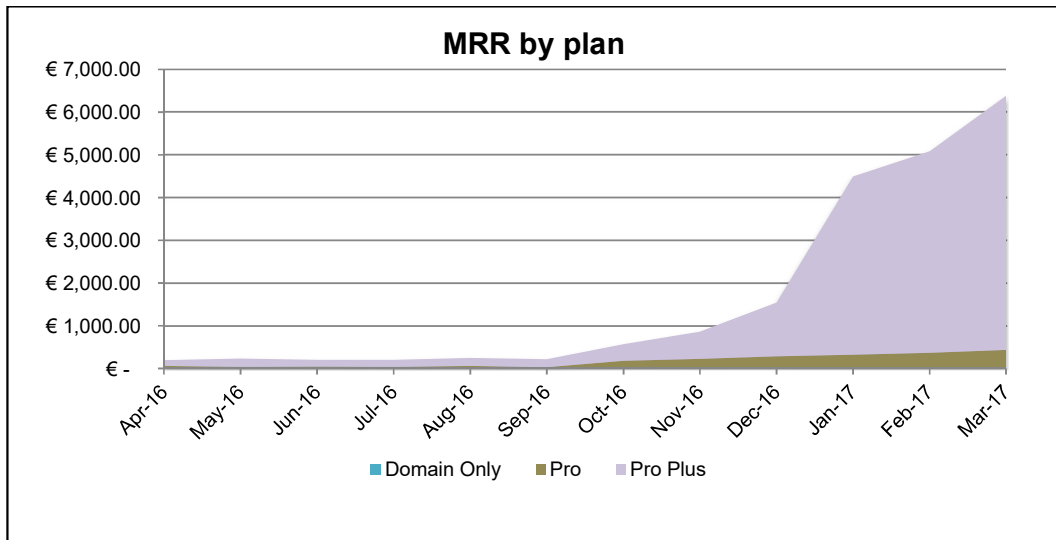
GRAPH 6 – Upgrade, Downgrade, and Churn MRR.

Customers by plan



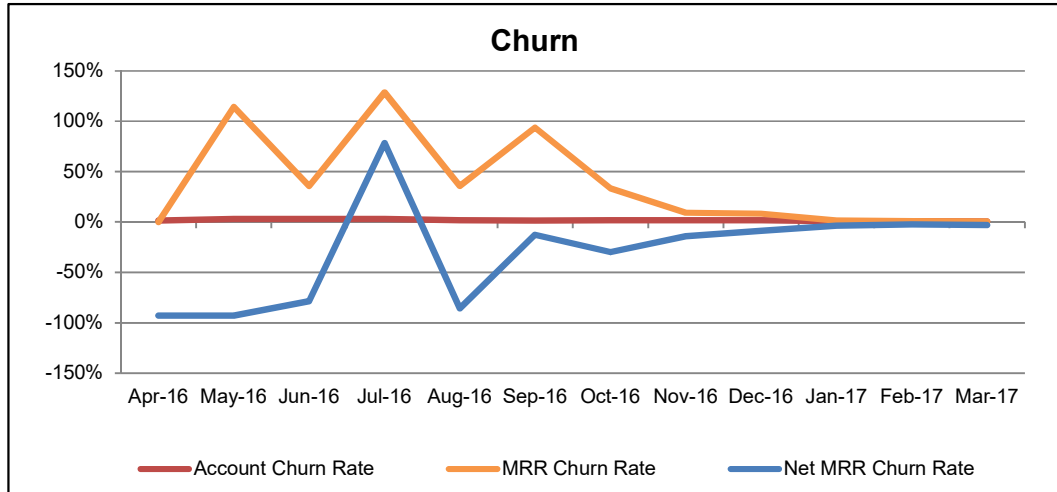
GRAPH 7 – Customers by plan.

MRR by plan



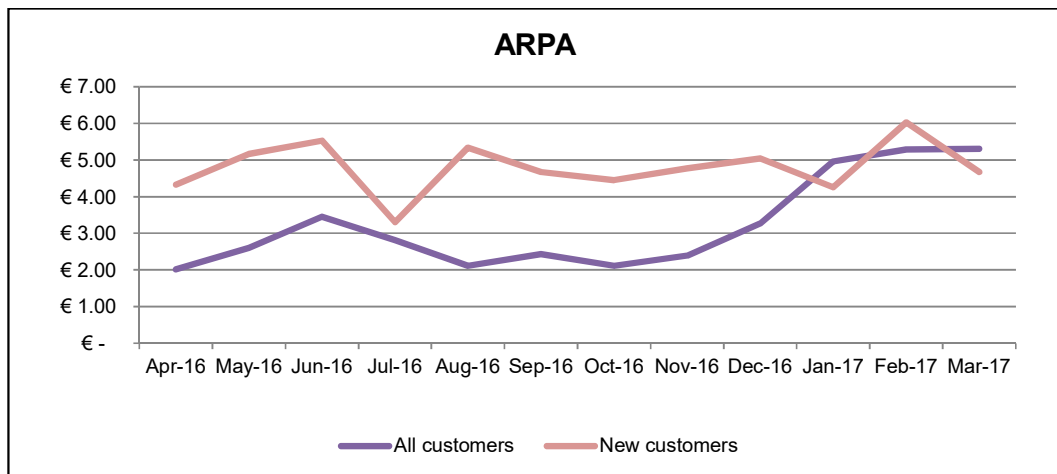
GRAPH 8 – MRR by plan.

Churn



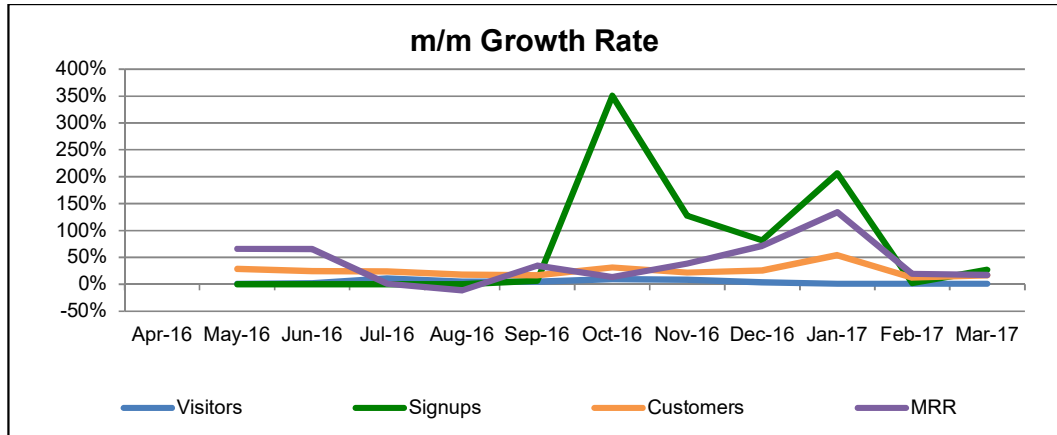
GRAPH 9 – Churn.

ARPA



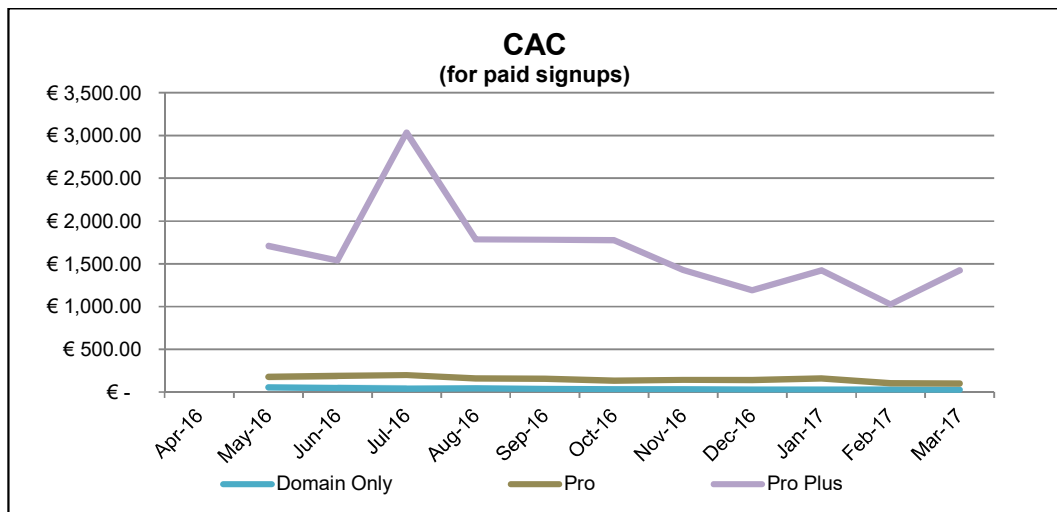
GRAPH 10 –Average Revenue per Account (ARPA)

Monthly Growth Rate



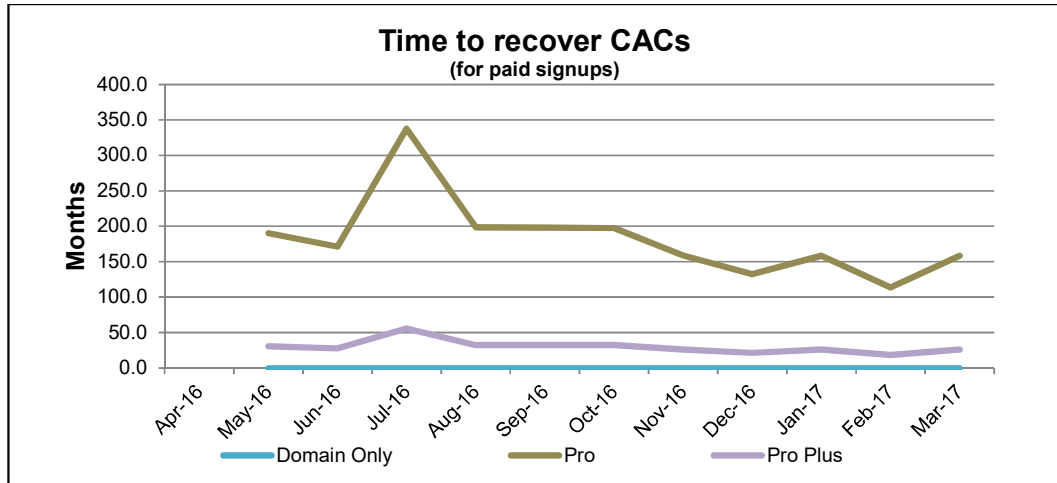
GRAPH 11 – Monthly Growth Rate.

Cac (for paid signups)



GRAPH 12 – Customer Acquisition Cost (CAC).

Time to recover CACs (for paid signups)



GRAPH 13 – Time to recover CACs.

4.1.10 Empathy Map

A company must understand its customers to offer the best product. There is a technique called “Empathy Map” which is an exercise of putting ourselves on the ‘customer shoes’ to understand their needs, aspirations and so on. We gathered the team and made a brainstorm to make a profile of our customer according to the following instructions found on the book Business Models Generation by Osterwalder and Pigneur (2010).

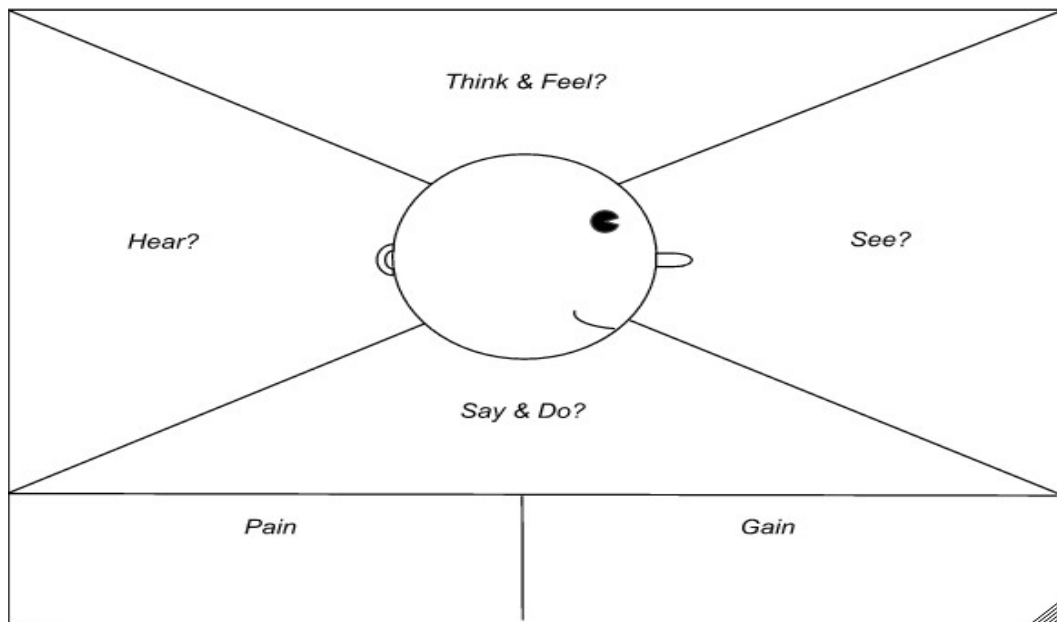


FIGURE 31. Empathy Map Model (Source: Osterwalder and Pigneur, 2010).

The technique consists of brainstorming the possible customer segments by profiling one out of three candidates. More details could be found on page 130 of the book Business Model Generation by Osterwalder and Pigneur (2010). The team should start by giving this customer a name and some demographic characteristics, such as income, marital status, and so forth. Then, the team uses the diagram above (Figure 31) to build a profile for the customer by answering six questions:

1. What does she SEE? (What the customer sees in her environment)
2. What does she HEAR? (How the environment influences the customer)
3. What does she THINK AND FEEL? (What goes on in the mind of the client)
4. What does she SAY AND DO? (What the customer might say or do in public)
5. What is the client's PAIN?
6. What does the customer GAIN?

The meeting for the Empathy Map lasted about 45 minutes, with the presence of five people including the CEO. After the session, a profile was made. It was the 'DJ Heisenberg' about the TV series called Breaking Bad in which Heisenberg is the main character.



PICTURE 2 – Empathy Map – REC.

4.1.11 Customer Journey

Another participative researcher conducted a study about the client's journey as part of her own master's degree. She built this Customer Journey infographic as an ideal scenario for the company in which the customer is positive about the service. However, to have

this scenario is necessary to build a service that gives this feeling to the client, which will be detailed in the next section, User Experience.

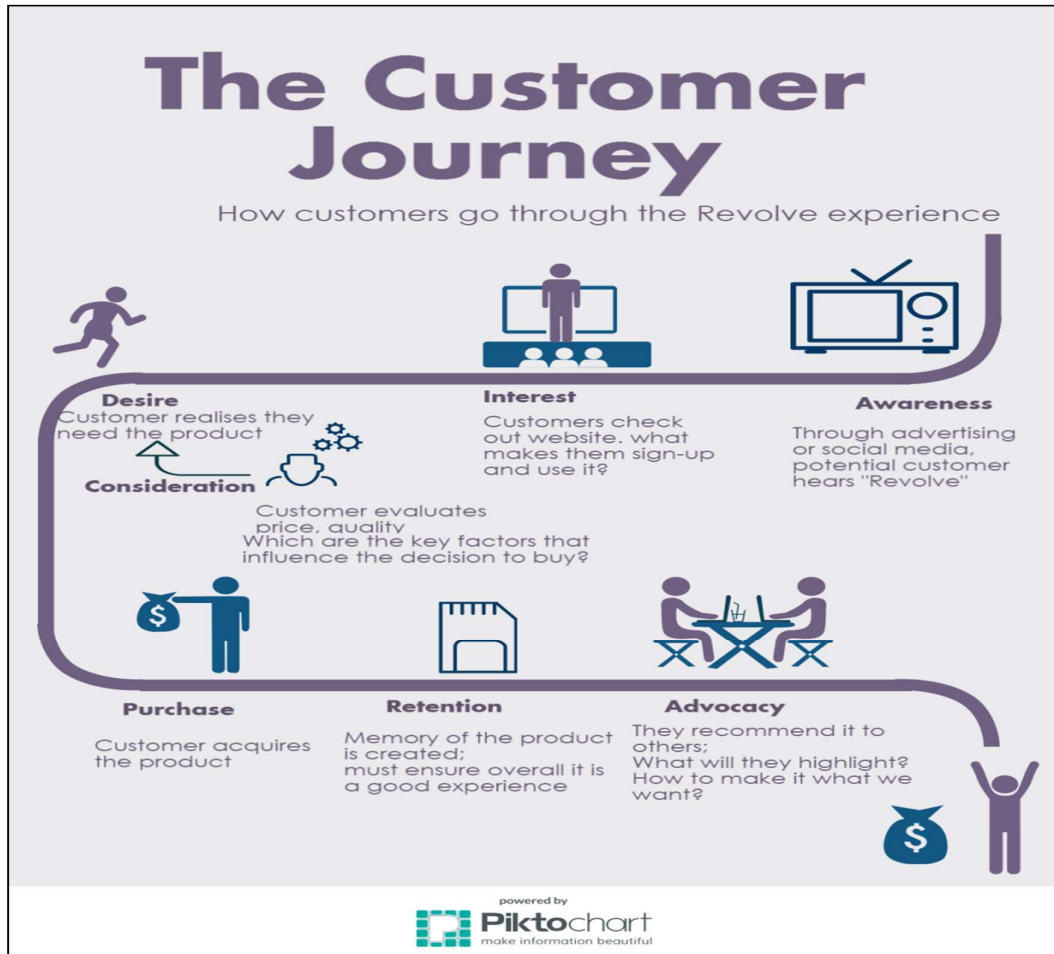


FIGURE 32 - Customer journey created by Radvile Dauksyte.

4.1.12 User Experience (UX)

The design process has typically four stages as shown in the figure below. The research stage is essential to start the design process since it will be the guidelines for the next ones. Questions like ‘who is going to use’; ‘what tasks the user wants to accomplish’; ‘how it will be developed’ are some of the guidelines and the quality and quantity of the research phase will have a direct and relational impact on the quality of the solution created. Rushing to design a solution without key details, such what features they might need, will mean a lot of guesswork that may succeed or not (Hamm, 2014).

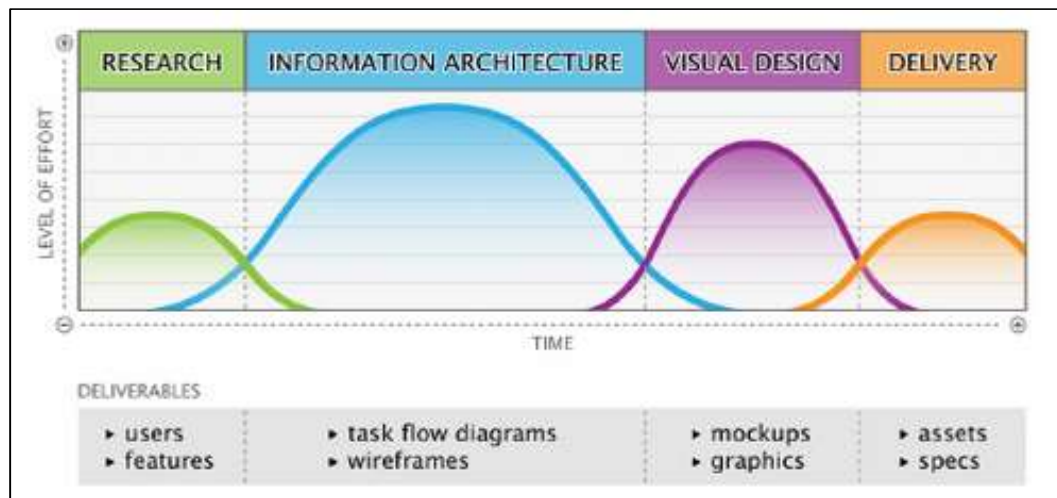


FIGURE 33. User Experience Design Process (Source: Hamm, 2014).

Both business models use this concept. On REC Web design tool, since there's a *beta* version being tested by customers, all those stages were done for having the Minimum Viable Product (MVP) to be tested by customers (More information about MVP can be seen in the section 5.2.1). Now by getting customer responses and by testing the tool several times, improvements are made to improve the User Experience.

All new employee or intern, no matter the background, have the task to use REC's tool to build a website and criticise and suggest what could be improved. It is not relevant to this research to detail the tests made to improve the user experience. Without getting into details, some suggestions about the position of the menu and division and names of actions were given that could be more intuitive for the user.

On the next topic, a different stage of designing process will be exemplified with the influencer marketing business model that was in the initial phase of development, using wireframes (presented in the section 5.2.1) for the User Experience Design Process.

4.2 A Second Business Model

REC decided to work with a second business model to make better use of fixed assets and other resources and develop new income streams (Casadeus-Masanell *et al.*, 2012). During a feedback session with an early adopter customer, the input for the idea emerged from a need described by her. The initial idea was to offer perks to its paying clients in

the most expensive subscription plan. One of the perks were finding ‘sponsors’ and managing it for the artists. For this to happen it would be necessary to attract sponsors, and thus, the idea of a sponsorship platform was born. The term that best describes it is ‘influencer marketing’.

The greater the number of capabilities, resources and critical assets the models share, the more likely the combination of the two models will yield a more valuable result (Casadeus-Masanell *et al.*, 2012). The influencer marketing platform will use many resources that REC has and will generate revenue independently and will attract users to the most expensive subscription plan for REC DIY tool. It seems to be a plan with a high chance to succeed. The influencer marketing platform will be called INFLUENT from now on, to make it easier to identify both business models in this study.

The idea is to create an online platform that connects brands with indie artists and let them set up and execute an influencer marketing campaign. The platform is a great way for brands to connect with *Millennials* through indie artists. The relationship between brands and artists is widely known, and the aim is to make this connection easier and broader. INFLUENT is mainly focusing on smaller artists since bigger artists have been doing this for a long time. Currently, the majority of brands only work with the very top of all musicians. Although brands could have the same impact by working with a group of smaller artists, they do not do it because it requires a bigger effort. This business model aims to connect brands with artists to make meaningful, creative and authentic content to customers and thus improve the ROI for brands and generate revenue for the artists.

In 2010, social influence scoring platforms like Klout began to emerge in an attempt to sort and rank individuals by their perceived influence on the content they shared on social networks. It also measures the frequency they shared content and the size of their audience. Marketers desperate to regain the power of word-of-mouth marketing and in the absence of other options to adequately identify influencers quickly embraced these platforms with mixed results. The resulting level of heated public debate over the accuracy of social influencer scores, their effectiveness in word-of-mouth marketing efforts, and their impact on the authenticity of social conversations is proof that the desire to identify and leverage influencers for brand marketing efforts is still high (Brown *et al.*, 2013).

The term influencer refers to someone who can influence a large number of people. It could be due to a large social media following, a very popular blog or broadcast show, or even other reasons. Public Relations firms have understood the power of influencers for a long time, which is why there are many celebrity endorsements for products in TV commercials. Associating a brand with a highly popular personality has been a good strategy since long before the Internet. However, the online process is a bit different, because, in that, an influencer's endorsement works best when it has not been paid for or at least appears not to. This endorsement may take the form of the influencer sharing a link to an specific content, linking to it directly, write a guest post, or spread awareness over something. Influencer marketing is the development of relationships with influential people that can create visibility for a product or service. This type of marketing depends on producing high non-commercial content that would be of interest to the influencer's audience (Enge *et al.*, 2015).

A brand identifies influencers mainly by looking at the number of followers on social platforms. However, the level of influence is not only measured regarding followers, but it is also, driven by expertise and credibility on a certain subject and the relationship between the influencer and his or hers followers (Wong, 2014).

'Ultimately, music encourages engagement because it arouses energy, emotions and sometimes controversy. There is a meteoric rise of popular social networks like Facebook, MySpace, Last.FM and Twitter. More than half of the visitors go there for the music, and roughly 40% embed music into their personal profile. While being an engine for social interaction, music provides the spark for people to socialise, energise and organise. (Lusensky, 2016).

Brands and artists have been working together for quite a while, but recent trends have created much room for innovation (Wong, 2015) such as using indie artists in advertising seems to be on the rise. Marketers in search of millennials, their growing need for digital content and a music industry reshaping its way of doing business, have helped create a scenario in which two once opposites are now attracted (Beltrone, 2012). Due to their direct relationships with fans, influence and flexibility, emerging artists will be increasingly relevant. Branded experiences also play a role in the evolution of these collaborations. The popularity of music festivals could be because many young consumers value experience over products. The opportunities to interact with consumers these

events have to offer to brands are unique. Brands will associate themselves with events such as concerts, art shows, travel experience and public installations. Innovative companies will go beyond by developing ongoing initiatives like an artist in residence programs to drive regular collaboration (Wong, 2015).

Few brands understand how to engage with artists effectively. That often leads to campaigns that feel forced. However, when the brand is aligned with the artist through a wise strategy, everybody triumphs. Brands will get an engaging content, artists will get a financial reward and fans get more great art (Wong, 2015).

Music can reach a vast number of audiences, but 18-34s have long been a branding sweet spot. According to Deloitte 80% of millennials regularly search, download and listen to music over the Internet versus sixty percent of all consumers. The value of the discovery is associated more strongly with millennials than Gen X and earlier, according to research from Iconoculture. (Beltrone, 2012). Young adults watch less television and do not read printed newspapers or magazines. They skip online commercials and block ads on their browsers and phones. Marketers have begun to shift to music as a primary vehicle to connect commercial brands with this hard to reach consumer group (Ember, 2015) since today's youth seem to have a special affinity for songs (Beltrone, 2012).

After researching the influencer marketing for connecting brands and bands, it is possible to highlight the factors listed below that may help to develop the concept of the new business model.

- Technology empowered artists to build direct relationships with their fans
- Brands face a challenge on how to connect with consumers by creating authentic content that engages and entertain them at the same time
- Influencer marketing is a trend and still has to be developed and improved.
- 7 of the top 10 most liked pages on Facebook belongs to music artists (Augure Report, 2015)
- 7 of the top 10 most followed people are music artists (Augure Report, 2015)
- 18 of the top 20 most watched videos of all time are music videos (Augure Report, 2015)

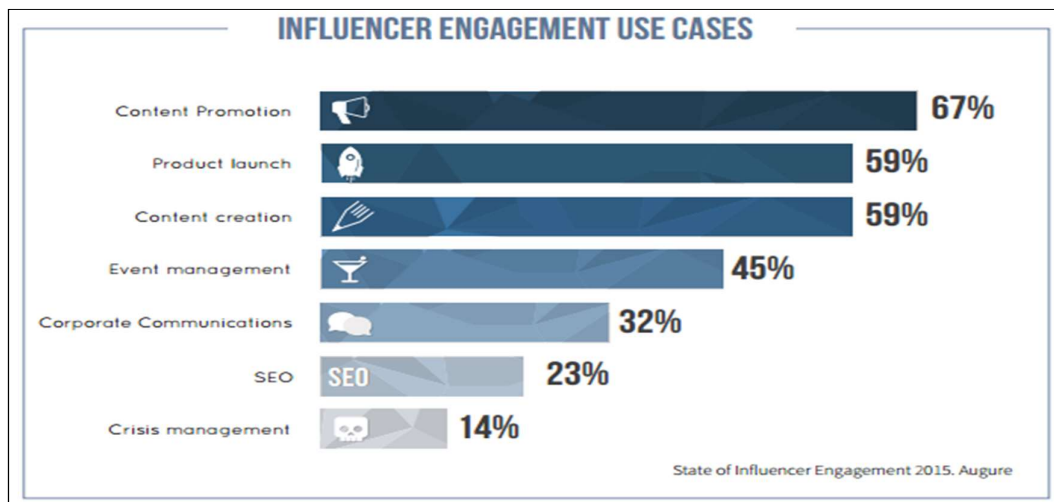


FIGURE 34 – Influencer Engagement Use Cases (Source: Augure Report).

4.2.1 Cases







Converse launched in 2011 its recording studio entitled “Rubber Tracks.” It provided space, equipment, and engineering technicians for artists to record for free, and retain all rights to their own music. This brand built direct relationships with a swarm of ambassadors who proudly promote Converse products by wearing them on stages across the world. These subtle endorsements are extremely influential, especially with young fans that tend to emulate their favourite artists. The strategy also includes a live event where Converse pairs up established with emerging artists for unique performances that are free to fans. Converse recently launched the campaign called “Made By You” featuring imagery of sneakers worn by musicians, painters, actors, photographers, explorers and more, which serves as a showcase of endorsement from the featured artists. Overall, it is clear this approach to marketing is working for Converse, who reported a 28% increase in sales in the first quarter of 2015 (Wong, 2015).

The healthy food chain, *Sweetgreen*, to celebrate their annual festival called *Sweetlife*, launched the salad “*Beets Don’t Kale My Vibe*” in collaboration with the festival’s headlining artist Kendrick Lamar. The promotion included restaurant signage, branded tee shirts, and a portion of all product sales was given to a youth charity. It was a clever way to demonstrate how to extend the impact of a live event sponsorship. It also showed the brand’s sense of humour, their pop-culture sensibilities and their corporate values (Wong, 2015).

4.2.2 Activations Examples

To exemplify what is being made already, below there's a list of examples of small to medium sized artists that are working with brands in their social media channels. The Figure below shows only Facebook activations examples gathered from March until August 2016.

TABLE 13– Activations examples on Facebook.

<p>Allen Stone 19 April at 20:36 · 🌐</p> <p>One of my favorite parts of touring is getting to explore new cities and seeing the best of each location with my Transitions lenses. I had a great time in the beautiful streets of Callela in Spain last week. #SP</p>  <p>Like Comment Share</p> <p>Allen Stone and 1.2k others</p> <p>Top comments</p>	<p>Mc Melodee 26 March at 13:44 · 🌐</p> <p>Just for kicks #airmaxday #airmax • Photo by Cindy Baar https://instagram.com/p/BDaajHppS2/</p>  <p>Like Comment Share</p> <p>527</p> <p>Top comments</p>
<p>Seafret 17 March · 🌐</p> <p>Happy St Patrick's day folks! Check us out in our beautiful hats. 🍀</p>  <p>Like Comment Share</p> <p>1k</p> <p>Top comments</p>	<p>Alissia 28 March at 19:12 · 🌐</p> <p>Big thank you @thefashionablelampon for the interview. We shot these in the streets of Milan with the talented @giuliamantovaniph Thank you to RED VALENTINO for the clothes. @redvalentino Full Article: http://lampon.it/editorial/play-it-again/</p>  <p>Like Comment Share</p> <p>430</p> <p>Top comments</p>
<p>Yakoto 12 April at 21:35 · 🌐</p> <p>Yemzi my jumper for dayz #ionlywearwhatilike</p>  <p>Like Comment Share</p> <p>112</p> <p>Chronological</p>	<p>Jai Waetford 🔵 17 August at 09:04 · 🌐</p> <p>Studio this morning #mymorning #upanango #ad</p>  <p>Like Comment Share</p> <p>4.7k 29 Comments 25 Shares</p>

Allen Stone it is a North American singer, and he has 115.000 likes on Facebook, and it is possible to see an activation he did for the Transitions lenses as a post on Facebook. Mc Melodee is a Dutch singer who has almost 35.000 likes on Facebook, and she did an activation for Nike on Facebook. Seafret is a duo from United Kingdom formed by Jack Sedman (vocals) and Harry Draper (guitar). They have about 53.000 likes on Facebook they did an activation for Guinness for Saint Patrick's Day on Facebook. Alissia is a

Swiss-Italian bassist and songwriter, and she has about 92.000 likes on Facebook, and it is possible to see the activation for Red Valentino (clothes) she did on Facebook. Y'akoto is a German-Ghanaian singer-songwriter, and she has about 25.000 likes on Facebook, and it is possible to see the activation for Yemzi (clothes) she did on Facebook. Jae Waetford is a seventeen-year-old boy from Australia who came third on the fifth season of X Factor. He has more than 650.000 likes on Facebook and his doing an activation to an Australian breakfast drink called 'Up and Go' on Facebook.

Instagram, Facebook, and Twitter seem to be the main media nowadays and some other channels that are part of the next wave of social media that will be more explored such as Snapchat, Periscope, Vine and the recently launched Instagram stories. Below we can see some graphs from Augure Report about the preferred channels to interact with influencers.

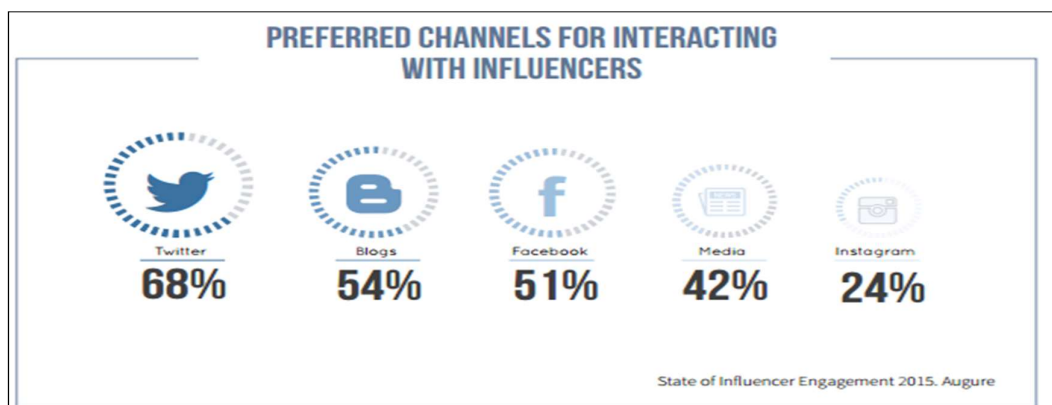


FIGURE 35. Preferred Channels for interacting with influencers (Source: Augure Report).

4.2.3 Artists as Influencers

They make money and expand their visibility by associating themselves with brands. They create proximity with their fans. Show professionalism and give them a certain status and prestige.

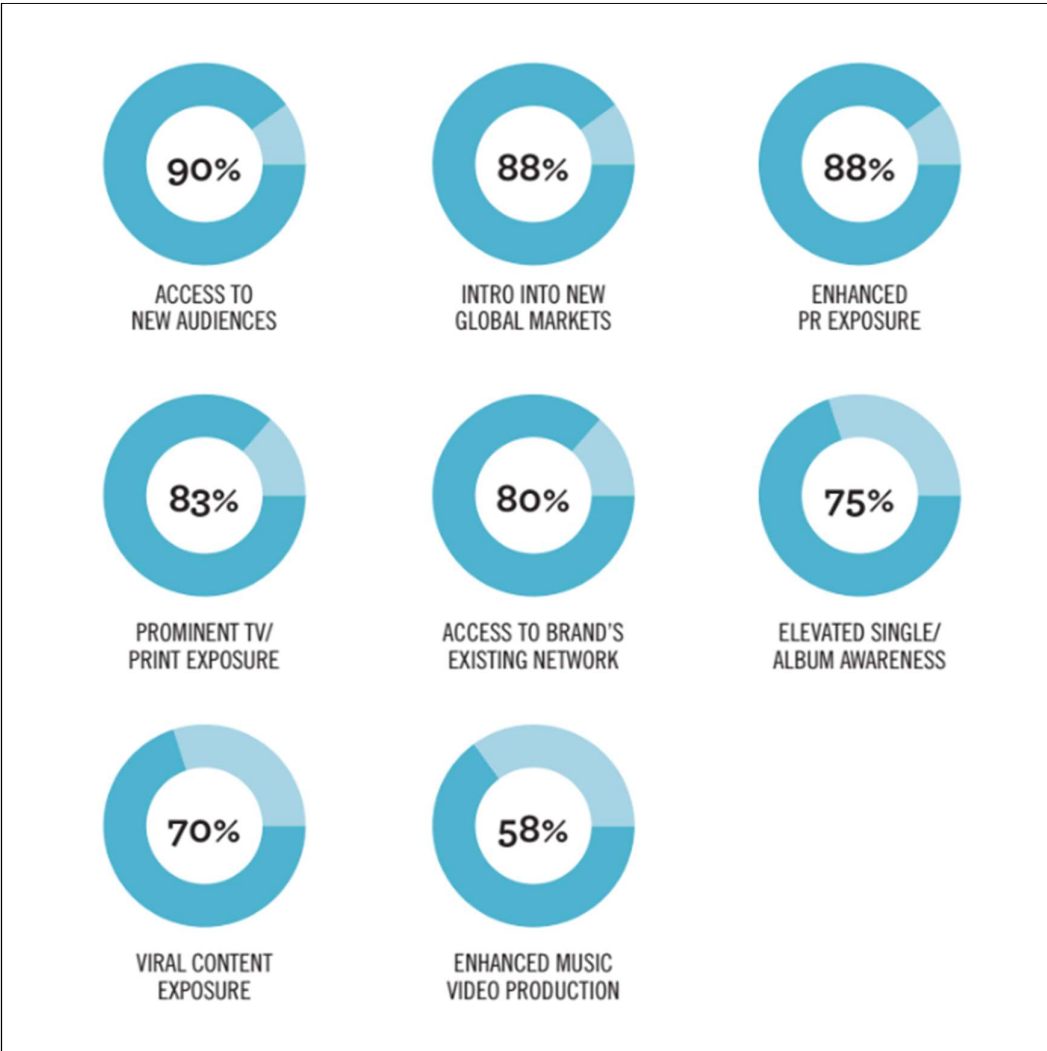


FIGURE 36 – Value for influencers (Source: Frukt Report).

Below a detailed list of the value for artists that influencer marketing provides.

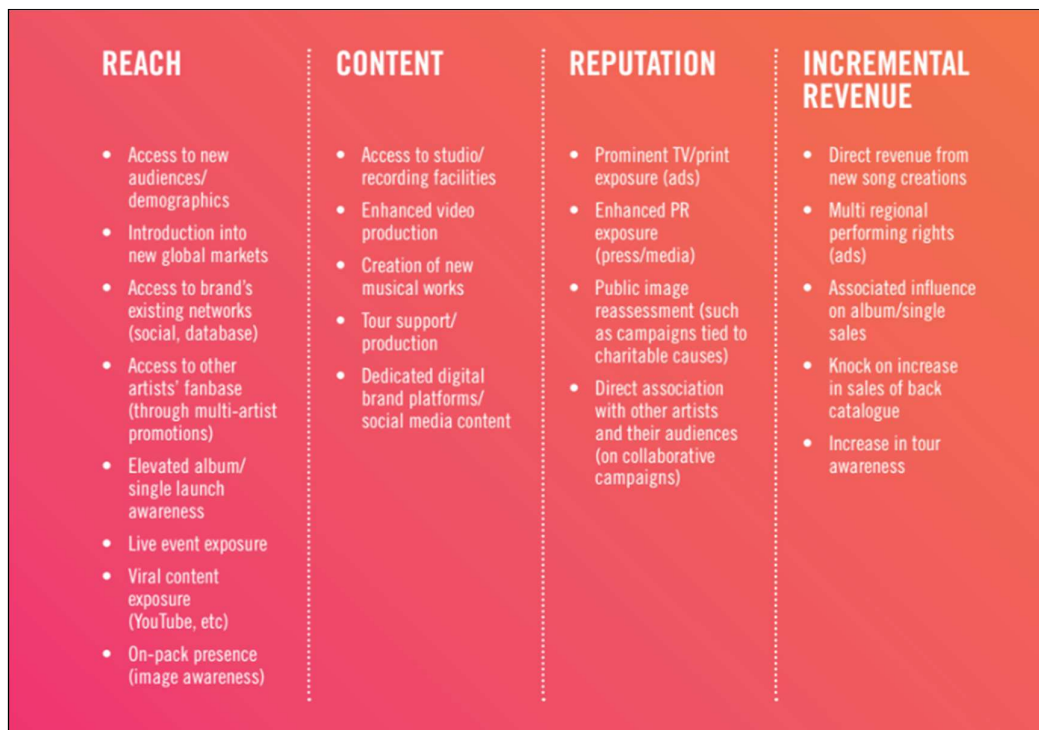


FIGURE 37 – List of value for influencers (Source: Frukt Report).

BRAND SECTORS ARTISTS HAVE BEEN WORKING

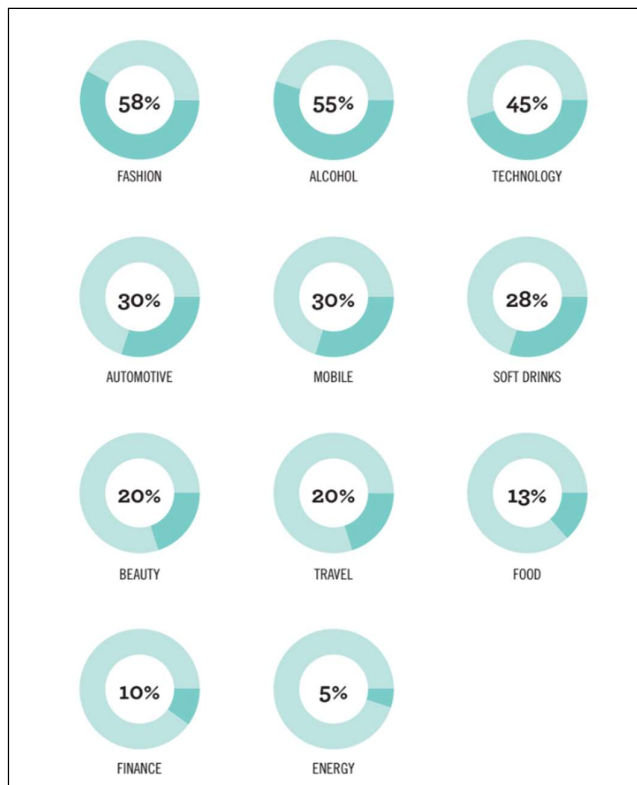


FIGURE 38 – Brand sectors artists have been working

Source: Frukt Report

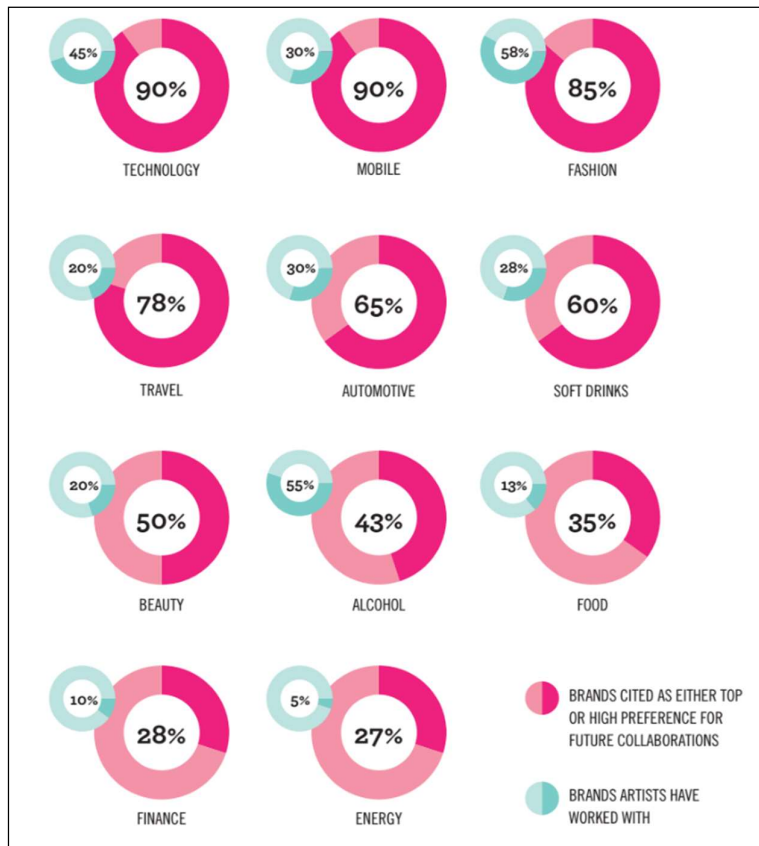


FIGURE 39 – Brand sectors influencers are interested in working with (Source: Frukt Report).

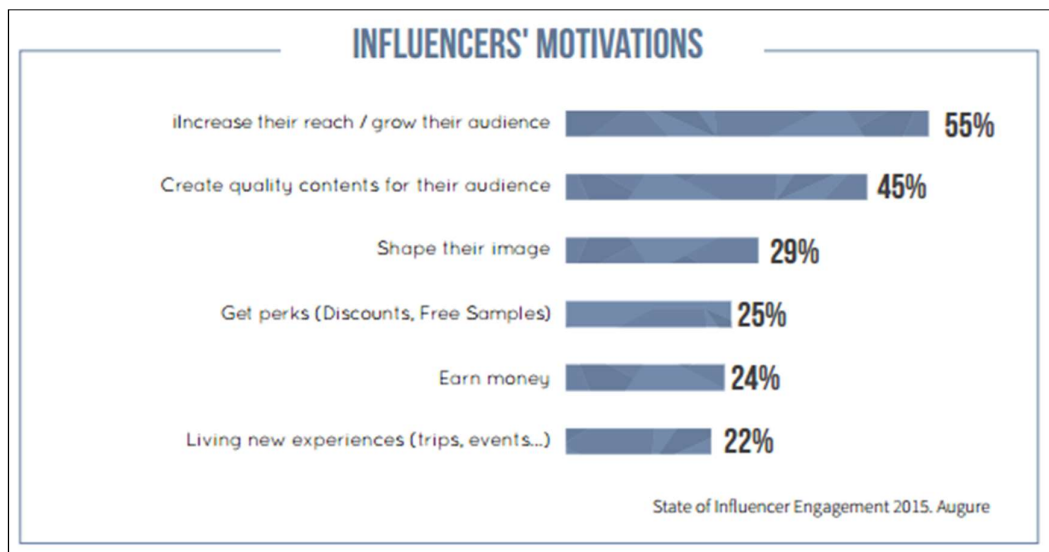


FIGURE 40 – Influencer's Motivations (Source: Augure report).

4.2.4 Brands as Sponsors

Most brands are in the business of creating products and services, not content (Wong, 2015) and brands naturally create content and engagement with their audience by sharing their music, as well as their stage and studio life. Call it a marriage of convenience (Beltrone, 2012). A list below of reasons for brands to work with indie artists were made to sell the idea to brands:

- By dividing a budget over several smaller artists, a brand will have a higher Return on Investment (ROI) than working with one big name artist instead.
- The risk is low to associate the brand with indie artists because they are not celebrities. Thus people are only interested in their music, and their private life would not be the topic over their career, meaning that most likely they will not be involved in scandals.
- A brand can reach more people and create a genuine bond with the public since the brand is helping small artists to thrive, and people value this. Specially millennials.
- Compelling Content. If brands expect consumers to like, follow and engage, they need their owned channels to be more than just a sales pitch. The brand comes with the product or service and the artists create the content (Wong, 2015).
- Cultural Relevance. The right artists can help reinforce a brand's values and provide the brand with an interesting story to tell alongside the artist (Wong, 2015).
- Authentic Connection. Artists have the opportunity to leverage technology and develop direct channels to communicate with fans. When executed effectively, marketing messages sent by artists are seen as inherently 'native' (Wong, 2015).
- Millennials. Music, more than any other medium, helps brands create an emotional relationship with consumers. Second is that, if done the right way, Millennials perceive music-brand partnerships mainly as a non-invasive means of marketing communication (Wong, 2015).

Below, the Figure 41 displays advantages brands have by working with influencers.

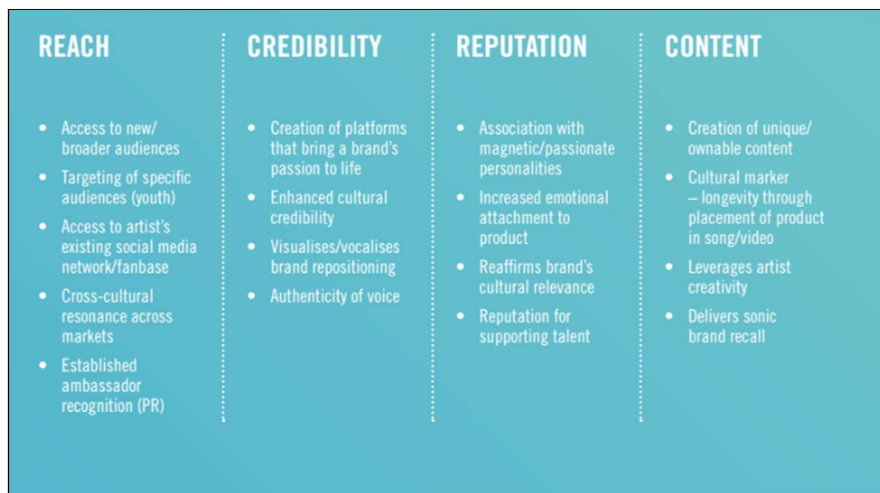


FIGURE 41 – Advantages for Brands (Source: Frukt Report).

When selling a service or a product is important to know who is the decision-maker at the company target, to find out what is important and for whom to sell. We need to know who the decision makers are when it comes to influencer marketing in the companies. Below there's a figure that describes that according to Augure Report.

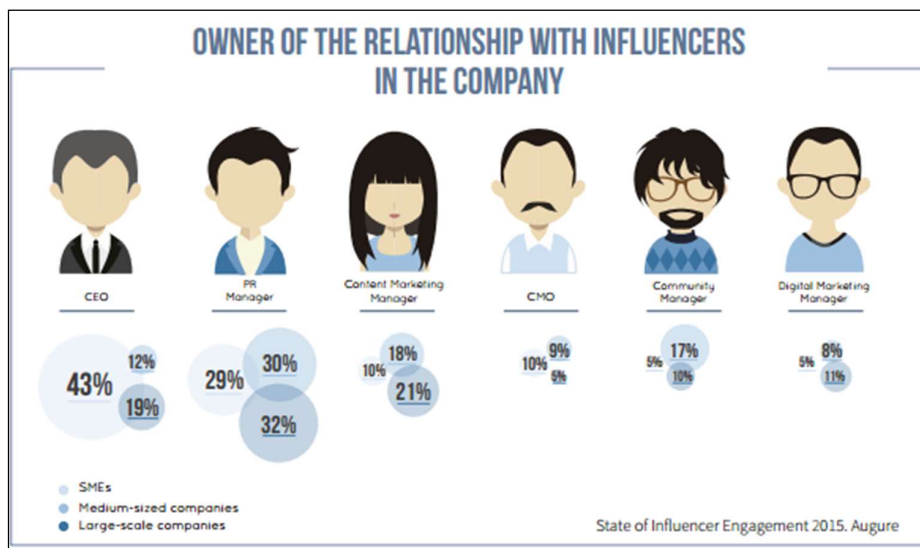


FIGURE 42. Decision Makers at Brands (Source: Augure Report, 2015).

4.2.5 Storytelling

Storytelling can be a powerful tool to make new business models more tangible since new business models can be difficult to describe and understand. However, is still an

undervalued and underused art in the business world. Thus describing new business models in a way that overcomes resistance is crucial (Osterwalder and Pigneur, 2010).

This study has the book Business Model Generation by Osterwalder and Pigneur (2010) as a main initial tool for starting the study case at REC, and in this, the storytelling technique is explained a little deeper. It seemed valid to use it to develop the concept of this new business idea. It is a form of getting familiar with the technique while using it, because of most of the times, learn by doing is the best way to learn something. Below, there are some stories of the users of the online platform (the new business model) that were made in the form of an exercise. It was presented it to the whole team the way it is and open for improvements, but they considered it as ready to get the idea of the business and to sell the idea. It is presented in four different perspectives: the company perspective, the artist perspective, the customer perspective and the role of the influencer marketing online platform. What jobs would be done, what problems will be solved, what ‘pains’ will be relieved with this new business model. This part of the study will not follow the formal writing style since the aim of storytelling is to keep people engaged in the story and see themselves in the situation, thus the informal writing style is adopted in the following pages.

COMPANY PERSPECTIVE

Joris, 39, Marketing Coordinator, Brewery PPK, Netherlands

Joris is a marketing coordinator at Brewery PPK in Netherlands, and he is responsible for coordinating the sponsorships for his company. He works mainly with event organisers, festivals, and managers of prominent artists. He is trying to increase the ROI of his annual budget. He is looking for a way to reach millennials since they are a great public for artisanal beers. The thing is that he is not having the return on sales for millennials as the company desires because millennials are not engaging with their campaigns in festivals, events, and prominent artists. He already thought that a good thing would be hiring indie – non-mainstream artists to activate their product but the effort would be enormous if they want some real impact and they would have to take care of the artists individually and that would take ages and big investments. Now he is searching for agencies that could do this for him. He found some agencies specialised in influence marketing, but they work more for if it is a beauty product, fashion item or a healthy food. Surprisingly they do not have many musicians on their catalogue, and the connection between musicians and beers flows better than with a fashion blogger, for instance.

ARTIST PERSPECTIVE

Band Reef, Pop and folk-rock, Netherlands

The band Reef is formed by two vocalists (one bassist and one guitarist) one drummer and a keyboard player. They formed the band three years ago, and they are building their fan base slowly but with truly engaged fans that feel represented by their music. They have more than 10.000 followers on Instagram and more 25.000 likes on Facebook; they have the habit of taking a selfie with the public after each show and their fans really love this moment, and after the selfie, they come back for the bis to enjoy the excitement of the public. Usually, they play in concert venues for 100 to 2000 people, and they are launching their second CD within a few months. They make 800 to 1500 Euros per concert but sometimes they play for free for special reasons.

CUSTOMER PERSPECTIVE

Martha, 29 - Netherlands

Martha loves discovering new bands and introducing them to her friends, and also she respects a lot when some friend recommend some band or artist to her. She likes to go to relatively small concert venues often and few times a year she likes to go to big festivals too. She really likes the Band Reef, and she always tries to go to their concert because she likes their music and already knows how to sing the songs by heart. She follows them on Instagram and likes them on Facebook, but she got more of their content on Instagram. She loves when they take a selfie with the public after the shows. Also, they share 15-second videos doing cool covers or with teasers for new songs or just having fun. She feels connected with the band. She has them on Snapchat, and they are always sharing some exclusive content before and after the shows. She thinks they are pretty cool.

Fred, 30 - Belgium

Fred is eager to discover new bands too, and he likes the idea that he is supporting the artists at the beginning of their career. He went to a singer-songwriter competition four years ago, and he was very impressed with the vocalist and bassist of the Band Reef and later on he started to follow the band because of the vocalist that was competing in that event. So now, he often goes to Band Reef concerts, and he always brings friends along.

He follows them on Instagram. He does not use Facebook much. He likes most the 15-second videos they do.

COMPANY'S ROLE

We can connect Band Reef with Brewery PPK and thus solve the struggle Joris has to reach *millennials* and then the original content could get to customers like Martha, Fred, and several others.

Musicians can be the bridge to connect the brand with the musicians' fans, or they can be the target once they have specific needs.

4.2.6 Competitors

A competitors analysis was made to understand the market and shape the MVP. By the time of this research was done, there was not an online platform focused on musicians. Musicians were mixed with *bloggers*, *YouTubers*, fashionistas and others. Thus, it was important to know that there was not a similar service in the market and it was possible to use REC's client base as a source for influencers, as well as the knowledge to the music industry to the influencer marketing business model could be valuable. We could say the influencer marketing platform focused on musicians is swimming in a blue ocean.

Blue oceans denote the unknown market untainted by competition and demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. There are two ways to create blue oceans. In a few cases, companies can give rise to completely new industries, as eBay did with the online auction industry. However, in most cases, a company can create a blue ocean from within a red ocean when they manage to alter the boundaries of an existing industry (Kim and Mauborgne, 2004).

As opposed to it, Red oceans represent all the industries in existence today. Well understood competitive rules characterise red oceans and defined and accepted boundaries. Companies try to outperform their rivals to grab a greater share of existing demand. As space gets more and more crowded, prospects for profits and growth are reduce. Products turn into commodities, and increasing competition turns the water

bloody (Kim and Mauborgne, 2004). A list of indirect competitors was made, however, to ensure the confidentiality of the business idea, the list will not be in this master's thesis.

4.2.7 Partnerships

It is strategic to have partnerships with entities such as music associations, indie labels, managers and agencies. If dealing with labels, they would have 5% or 10% of the revenue generated on the brand's side, and besides that, labels will receive their share from the artist side as well. For instance, a partnership with a traditional agency can be made, and they could manage and create brand profiles under their account. The same is valid for a multinational. If a multinational company hires the influencer marketing service, they can have different users and profiles to manage the various countries just as it would be for agencies that have different clients from different parts of the world.

4.2.8 Revenue Model

After analysing the competitors, it was possible to have a clue on how they pay the influencers, but none of them disclosed how they charge the brands. Thus, a possibility was to investigate this by quoting a campaign with some of the platforms or asking the information for the purpose of this study. Anyhow, it is crucial to benchmark the pricing strategy of the competitors.

By analysing the competitor's business models it is possible to notice that they charge 10% fee of influencers but they do not disclose what their deal with brands was. Supposing 10% is charged as an administrative fee of brands and 10% of each influencer, we have the scenario explained in the next paragraph.

To illustrate the scenario described below, let us assume a brand has a budget of €100.000 for a campaign. The influencer marketing platform takes €10.000 of the administrative fee, and €90.000 would be used to pay influencers. Assuming it would be nine influencers and each of them will get €10.000, the influencer marketing platform will get 10% of each of them (€1000). So on this campaign, the gross revenue will be €19.000 for the influencer marketing platform. More information about taxes, for instance, will not be shared on this study due to strategic reasons.

4.2.1 MVP

A Minimum Viable Product is a version of a product or service with a minimum amount of effort and the least amount of development time as it lacks many features that may prove essential later on. It is mandatory that an MVP has to be tested by the potential customers to gauge their reactions and measure its impact to adequate it afterwards (Ries, 2011). Instead of releasing fully functional prototypes, young ventures are testing hypotheses, gathering early and frequent customer feedback, and showing minimum viable products to prospects. The lean start-up approach practices are not just for young tech ventures. Large companies such GE have begun to implement them (Blank, 2013). Below the MVP for the online influencer marketing platform is explained in detail. First, three different approaches to the MVP are presented and then they are explained in length.

I - The MVP will be a landing page where musicians sign up and fill up their email, Facebook page, and other social media.

II - A video explaining how the platform will work to give more credibility to the initiative.

III - After gathering enough musicians in a database, build a wireframe to sell to brands.

The strategy adopted to guarantee the success of the platform is to use three different types of prototyping, the wireframe, the video and the 'Wizard of Oz' that will be explained in the next paragraphs.

4.2.1.1. Wireframes - Landing page for artists to sign-up

A wireframe is a narrative prototype, usually created at the beginning of the design process. It starts as a raw sketch of how the software could look and could be anything from a rudimentary sketched interface on a dinner napkin to more thoroughly sketch out software screens schematics using a graphics tool. Wireframes usually have no visual design associated with them, because they are meant to be prior used in the design process to determine the interaction flow and navigation model. Wireframes usually stop being a central focus when a conceptual design is finalised, and detailed concrete prototyping can begin (Arnowitz et al., 2007).

This research tested a platform to build mock-ups and wireframes called Balsamiq, which was an unfamiliar tool, however, it is a very intuitive tool, and it took 10 minutes to figure out how it works.

The wireframe for the influencer marketing platform consists of a page that artists would sign up by using their Facebook account, Twitter, Instagram, and others. Below there is an image of the wireframe done with Balsamiq. Three different types of landing pages were made, with various options for musicians to sign up and thus build a user base to make it easier to sell the ideas to brands afterwards.

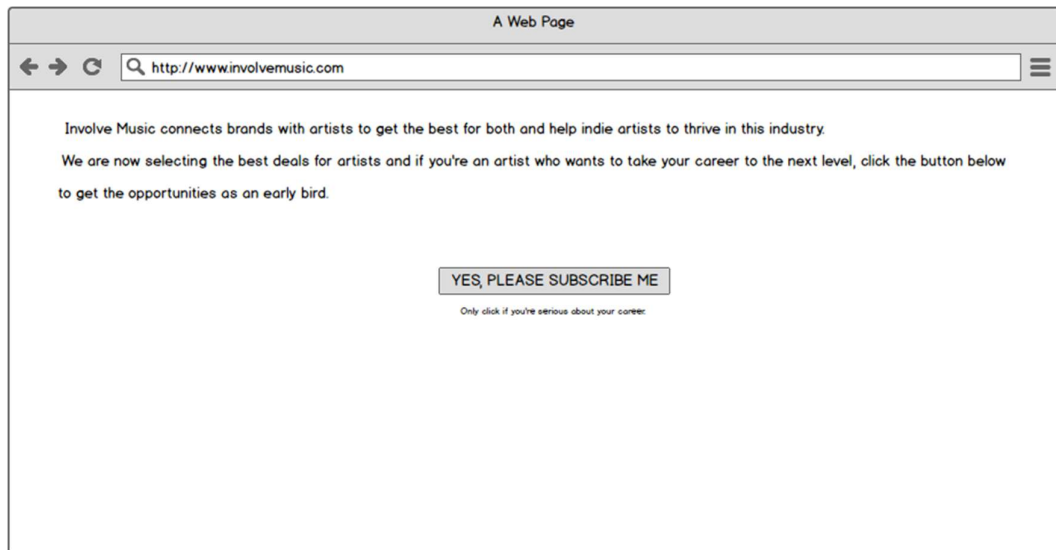


FIGURE 43. Wireframe – Simple landing page for artists to subscribe before launch.

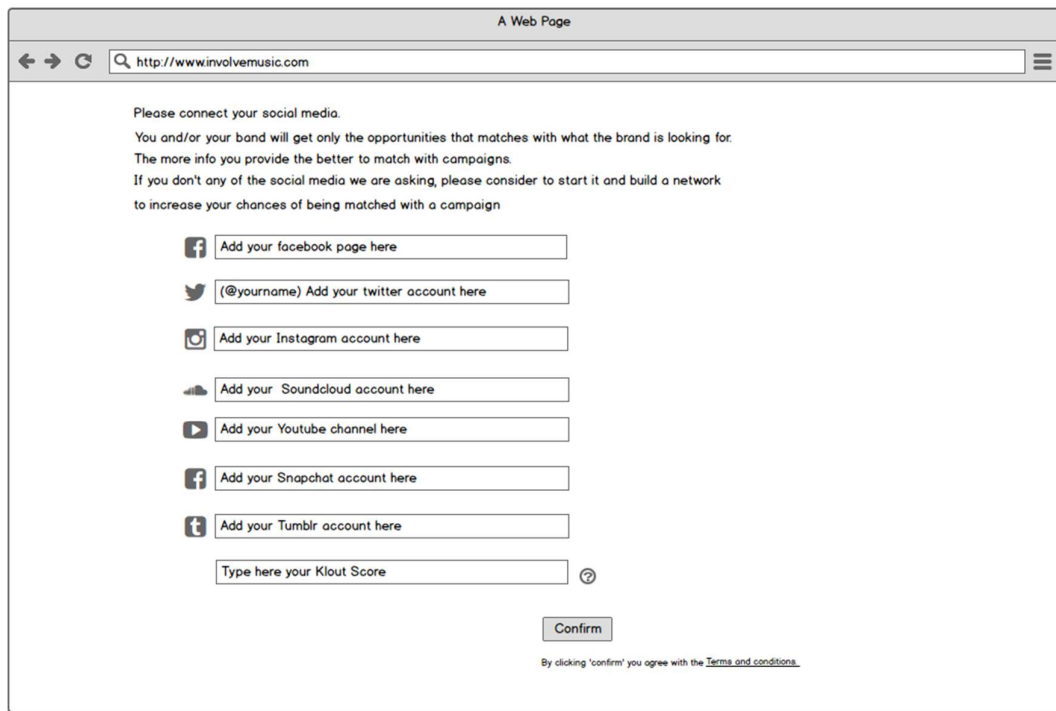


FIGURE 44. Wireframe –Landing page for artists to insert social media channels URL.

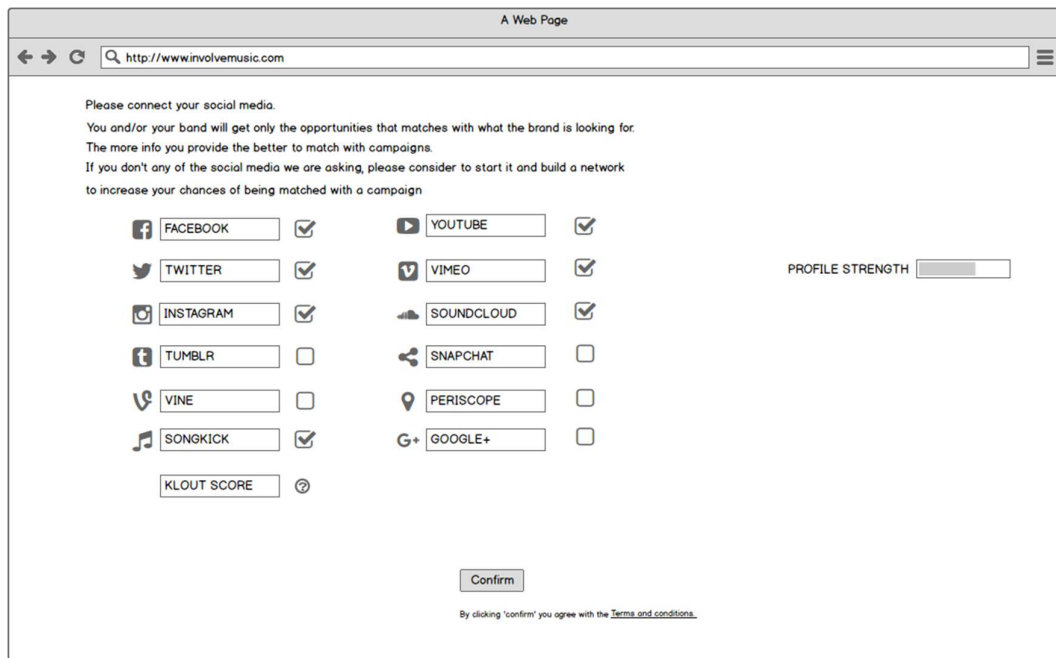


FIGURE 45. Wireframe –Landing page for artists to connect social media channels.

4.2.1.2. Wizard-of-Oz for brands

A Wizard-of-Oz prototype is a type of interactive prototype where, during a usability validation session, the participant believes she is interacting with an actual working system using, traditionally tactile interaction or natural language input methods with a computer system; however the functionality is only being mimicked. A member of the design or development team or a larger scale computer system is “behind the curtain,” interpreting the participant’s input directives then feeding back a designed system response to the participant. This method has been adapted for use in the early stages of designing new features or products to simulate a variety of system responses (Arnowitz *et al.*, 2007).

The Wizard of Oz, also known as the man-behind-the-curtain technique comes from the idea of putting on the impression of full functionality, but in reality, the work behind the scenes is done manually, and the customers believe they are experiencing the actual product (Bank, 2014).

For the influencer marketing platform, was suggested to manually do the functionalities of the online platform until the service is developed. Since there is not an ‘in house’ developer, it will be easier and cheaper to test and pivot features before sending it to the developer. The developer will receive instructions only after a more definitive version of the platform is decided, once feedback from users are gathered. It is also a great way of dropping wrong assumptions about what our customers want.

4.2.1.3. A video for artists and brands

A video prototype can merely be a visual representation of a software product and how it works. However, for the purpose of establishing context and scale, it typically includes users portraying their appropriate roles and interactions in context. When a concept for an innovative interface is found, video prototyping usually gives way to more concrete prototyping techniques such as paper prototyping (Arnowitz *et al.* 2007).

A video for brands and artists will be made, showing how it will work like Dropbox did when launching their product. Before making in available for the user, Dropbox was explained in a video uploaded to YouTube in two different versions. One for Windows

and other for Macintosh. It had a voiceover of its founder, Drew Houston and it had a great response even before the product was ready to use.

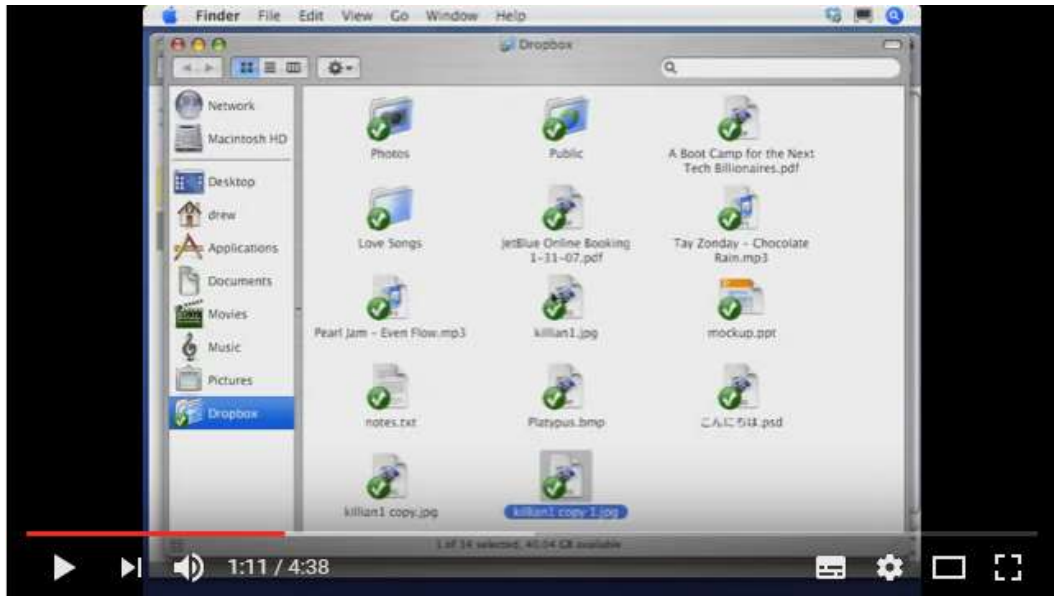


FIGURE 46. Screenshot of the demo video of Dropbox.

We can use the list below to have an idea which social media could be connected and used as a vehicle for engaging fans. In the MVP it is important to focus only on the most popular social media outlets which are Facebook, Instagram, and Twitter. The others can be done in future versions or be connected manually from the beginning as explained in the topic Wizard of OZ that will be explained in the following topics.

TABLE 14. List of social media channels to explore for influencer marketing.

FACEBOOK	INSTAGRAM	TWITTER
YOUTUBE	VIMEO	GOOGLE+
TUMBLR	PINTEREST	SNAPCHAT
PERISCOPE	SONGKICK	SOUNDCLOUD
KLOUT	LINKEDIN	MEDIUM
VINE	INSTAGRAM STORIES	BOOMERANG

4.3 Organic Business Model Canvas

Traditionally, most industries were characterised by a dominant business model, which changed radically nowadays, as we see different business models competing in the same markets with blurred boundaries between industries (Osterwalder and Pigneur, 2010). In the 21st century, existing companies are dealing with forces of continual disruption that make every kind of organization feel the pressure of rapid change (Blank, 2013). The nineteenth-century management model, despite its enduring success, is no longer adequate to address the challenges of a post-digital world (Collins, 2013). The lean start-up approach will help them meet it head-on, innovate rapidly, and transform business as we know it and there's a set of tools for searching for new business models start-up ventures are launched (Blank, 2013), one of which is the business model canvas created by Osterwalder and Pigneur as mentioned in the previous sections.

Traditionally, organisational structures were designed for discipline, predictability, enhancing the status quo, and preserving the authority of those who are in charge (Collins, 2013). Managers tend to anchor their new decisions based on old decisions and do not adjust enough based on incoming information (Pauwels, 2014). Human beings are fascinated with the possibility of predict the future, but the reality is that we are dealing with uncertainty. However, with a little bit of luck and some techniques, is possible to foresee some tendencies, and observe some cycles and act according to the foresight. While most managers across all industries readily acknowledge that the world is moving faster, what they often fail to comprehend is that the social structures of hierarchical organisations cannot follow the speed of change in today's faster-moving markets (Collins, 2013). In that sense, a start-up seems to be more organic, adapting and merging into its environment.

The innovation does not lie in looking back because past indicates little about what is possible regarding future business models and it is not about copying or benchmarking but about creating new mechanisms to create value and derive revenues. Business model innovation is about designing original models that meet unsatisfied, new or hidden customer needs (Osterwalder and Pigneur, 2010). A company should not be deeply committed to one business model so that when it inevitably dies, the company naturally evolves into an adaptive strategy. Innovation is the willingness to involve customers and

workers as true partners in shaping the direction of the business because, in fast-changing times, the most relevant knowledge is often found outside the C-Suite (Collins, 2013).

How to achieve goals under uncertainty is strategic, but to define the strategy (as paradoxical as it might sound) a company needs to have at least a general idea of what ‘uncertainty’ is for its business. The company needs to look for trends, patterns, and historical events; otherwise, it is hard to create a strategy without having a clue of what is an ‘uncertainty’ for your business. It looks like a paradox but every company has its challenges, and there are certain ways to be more prepared to it and respond faster and accurately to changes. It is also important, to have a holistic view of the business and know its environment too. A company in a different stage of its life cycle may require a shift in strategic style. Thus, an appropriate analysis of a company’s environment could help the company to adapt and adjust to obtain advantage among competition (Reeves *et al.*, 2012).

As odd as it might sound, there’s an urge of having a strategy for making a strategy, and there’s a framework that divides strategy planning into four styles according to how predictable an environment is and how much power a company have to change it. There are four broad strategic styles: a) Classical Strategy: works well for businesses operating in predictable and immutable environments; b) Adaptive Strategy: is more flexible and experimental and works far better in immutable environments that are unpredictable; c) Shaping Strategy: is best in unpredictable environment that a company has the power to change and d) Visionary Strategy is appropriate in predictable environments that a company has the ability to change (Reeves *et al.*, 2012).

Sometimes a company stays stuck in their internal process or trapped inside the illusion of their own success. That could have led them to forget that changes are occurring in the external world that might affect their business. Disrupters might come out of nowhere and instantly be everywhere and like Napster they are unplanned and unintentional. They do not take conventional strategic paths or normal patterns of market adoption. They deliver surprise after surprise because they embrace three characteristics: unencumbered development, unconstrained growth, and undisciplined strategy. As the disruption in the car navigation products, the disruption in the record industry did not come from same industry competitors or even from companies with a remotely similar business model (Downes and Nunes, 2013).

Disruptors often born of rapid-fire, low-cost experiments on fast-maturing, ubiquitous technology platforms. They do not need budget approval and are not vetted before development begins. When the cost is low, and expectations are modest, entrepreneurs can just launch their ideas and see what happens (Downes and Nunes, 2013).

The MP3 and P2P file-sharing originated outside of the realm of the dominant players in the record industry, and some music business professionals argue that the later were slow to evolve a response to such developments. They ignored the internet potential and had done everything in their power to try and block the advantages of the web (Rogers, 2013). Their response was late and unprecise because the record companies were looking to amplify their market share.

The most successful innovators in the future may be those who simply combine other's people technologies (Downes and Nunes, 2013). Innovators can experiment with new applications at little risk to investors, abandoning prototypes that do not quickly prove popular as disruptive technologies become cheaper to manufacture and deploy, (Downes and Nunes, 2013).

A start-up that needs music licensed to launch a product or a service needs to have the approval of record labels and they usually have a conservative and defensive posture towards innovations. The record labels also have a slow pace since they want to protect their assets and retain their status quo (Mulligan, 2015 – p. 96) which is an instinct that harms the possibilities for innovation.

In the case of the music industry, related business models were particularly necessary to be aware of its multiple stakeholders because they can affect the business afterwards. A lot has been said about controlling stakeholders, but maybe the innovation lies on co-creating business models with the interested parties.

In an interview conducted by Jim Rogers (2013), Dick Doyle states that to set a legitimate business you have to negotiate with all of the stakeholders in the industry and among them are the publishers, the artists, and the record companies. There is also a necessity to negotiate with the people who are going to deliver the service and provide a secure system

for payment. There are five or six stakeholders involved in the process of selling a ninety-nine cent track (Rogers, 2013).

In practice, what we see in several cases was the absence of talking to several of the stakeholders when doing a business model. In many cases, stakeholders are neglected in the process of constructing a business model which may lead to problems in the future.

However, where especially the major record companies have a reputation in the eyes of their customers for being concerned more about profit than about music, new intermediaries or intermediaries that re-define themselves to meet new demands are often in a better position to foster to the demand of customers. Also, many customers are not aware of the label or the record company which an artist has signed a contract (Dolfsma, 2004).

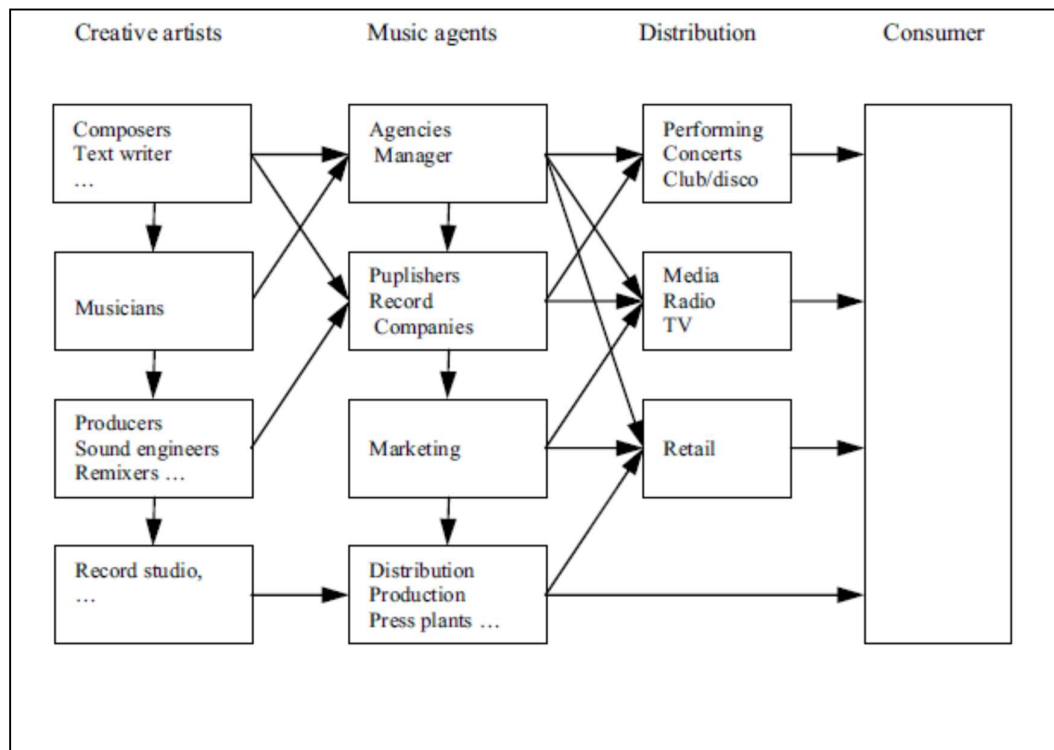


FIGURE 47: Stylised Picture of the Music Industry (Source: Dolfsma, 1999).

The business model canvas is a great tool for visualising the business itself but it lacked the interaction with the external actors and the risks associated with the firm that may arise. A company needs a dashboard that contains the main topics to visualise its dynamics. The business model canvas is a great tool for it but it was missing other two main areas that a company should be aware of: Its **risks** and its **stakeholders**.

The scheme below shows the environment of a company that affects its business model. They are key trends, industry forces, macroeconomic forces and market forces. **Key trends** are major technology trends inside and outside the market, which can represent opportunities or disruptive threats; **Industry forces** consist of competitors, dominant players and it is important to know their competitive advantages and disadvantages, their customer segments, cost structure and so on; **Macroeconomic forces** are the macroeconomic environment of a company, and the company should know if the economy is in a boom or bust phase, what is the general market sentiment, the GDP growth rate, and the unemployment rate; at last, there are the **Market forces** which are the crucial issues affecting the customer landscape in order to understand where the market is heading (Osterwalder and Pigneur, 2010).

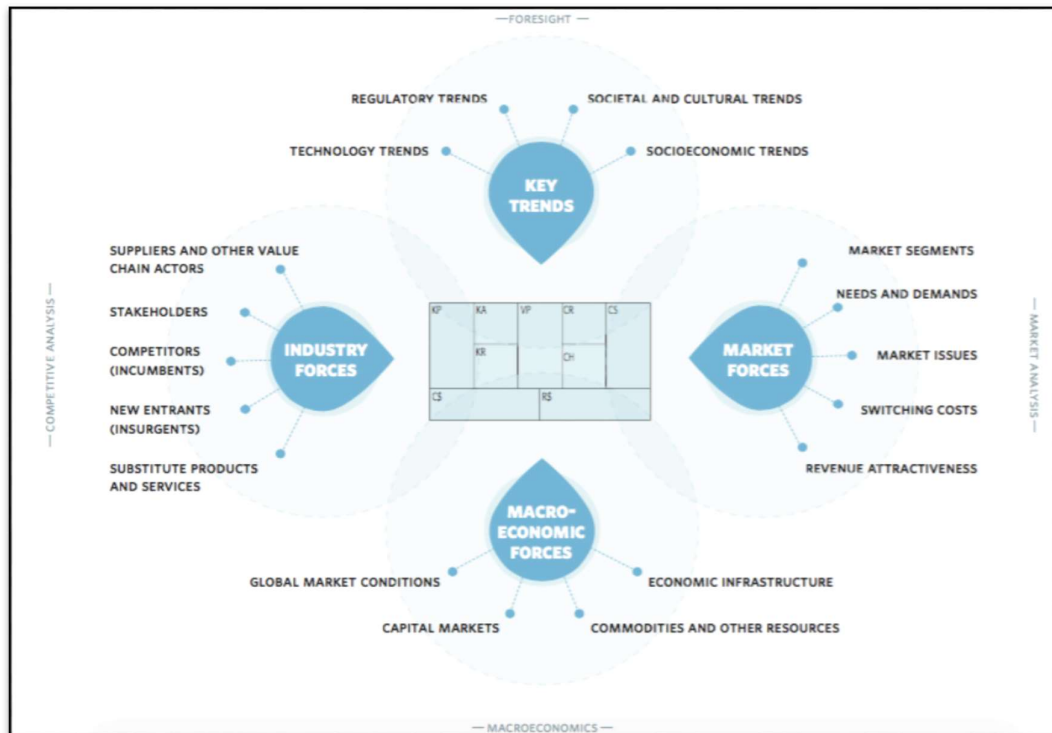


FIGURE 48: Business model environment (Source: Osterwalder and Pigneur, 2010).

Mapping the business model environment and reflecting on what current trends mean for the future of the company is crucial for evaluating the different directions in which a business model might evolve, thus preparing the organisation for the future (Osterwalder and Pigneur, 2010). The music industry has undergone a complex set of significant restructuring processes during the past decade. These changes primarily began with the

diffusion of the internet technologies and other digital applications that have evolved to produce both threats and opportunities, especially in the record industry (Rogers, 2013).

The proposed framework finds a way to examine the environment and the stakeholders and risks associated with the business model that could be monitored. A company could act preventively by understanding their environment, by building and adapting their business model to have a better relation with stakeholders and avoid future harms. The external factors in the perspective of the company will be more relevant for the purpose of this research. Some real situations will be given, taking into account the complex environment that a music start-up belongs.

Some risks are directly related to its stakeholders, and according to changes in the market, politics, economics and so on, the risks might change too. Thus, it is important to sketch the risks and be aware of them when taking decisions. Additionally to that, is strategic to map stakeholders when working on the MVP, to know whom to talk to, to validate assumptions and look for support to avoid problems in the future. Problems that might escalate when the business grows.

If a business model is built with the participation of its stakeholders, it can reduce the risk of resistance later or at least by the time of the MVP; it is possible to predict what types of resistance and problems might appear when the business thrives.

Thus, the model below aims to contemplate these missing areas in a simple dashboard as the canvas. Since it takes into consideration that a company affects and is affected by its stakeholders in their environment, this framework is called “Organic Business Model Canvas” (OBMC).

Key Risks			Key Stakeholders			
Key Partners	Key Activities	Value Proposition	Customer Relationships	Channels	Customer Segments	
	Key Resources					
Cost Structure			Revenue Streams			

FIGURE 49 - Organic Business Model Canvas – OBMC - Proposed Business Model Canvas for Music Industry Companies adapted (Source: Osterwalder and Pigneur, 2010).

The business model of REC is not very critic to consider stakeholders, so it does not make so much difference to use the organic or the traditional business model canvas, however, it was only possible to know that, once analysing the risks and stakeholders.

The organic business model of REC is presented by the image below. Since business is dynamic, the power of REC’s stakeholders might change in the future, and REC could be highly sensitive to its stakeholder's response. Thus, is important to periodically review the OBMC to evaluate the situation of the company.

Organic Business Model Canvas REC

KEY RISKS (10) COMPETITION CRASH FOR EXCESS OF DEMAND IN SOME WEBSITES CRASH FOR EXCESS OF DEMAND IN OUR OWN WEBSITE BECAUSE OF THE FREE FOREVER PLAN		KEY STAKEHOLDERS (11) LABELS ARTISTS FANS SPONSORS INVESTORS		
KEY PARTNERSHIPS (8) Spinnin' Records Amsterdam DJ School	KEY ACTIVITIES (7) Design the templates Provide a simple tool for building a website for artists	VALUE PROPOSITION (2) It offers all the features a musician need to create a website in a simple way. It's possible to upload tracks and offer a free mp3, integrate social media feed, add tour dates, add soundcloud, spotify links embedded in the website. Have the control over the fan base via email subscriptions. Tips for managing the career and growing the fan base	CUSTOMER RELATIONSHIPS (4) Music Website Fan Academy Blog Online Support Emails FAQ Easy to customize No hidden costs	CUSTOMER SEGMENTS (1) Indie Artists Labels Paying customers Freemium customers Companies interested in sponsorship
	KEY RESOURCES (6) Staff Market knowledge Equipments Technology Frontend and Backend Development		CHANNELS (3) Music Website Fan Academy Blog Spinnin' Records	
COST STRUCTURE (9) Cloud computing Domains Outsourced coding Staff Operations		REVENUE STREAMS (5) Subscription plans: FREE FOREVER: FREE DOMAIN ONLY = 4,99 PRO = 9,99 PRO PLUS = 59,90 Affiliate fees		

Created and developed by Iara Dias
Master thesis framework

FIGURE 50 - Organic Business Model Canvas REC Music

Another important exercise was to create the OBMC of the influencer marketing platform and by analysing the stakeholder's influence on the business model. It is possible to see that they have a great deal of influence since it involves smaller artists that could have or not a record deal. If they have, as explained in the first part of this study, a 360° deal, a record label will have a stake on their earnings as influencers, and it would affect the revenues and well as the complexity of payments and taxes.

Thus, before running the MVP or while running the first version of the MVP, stakeholders should be consulted, as well as artists associations, fans, and future customers since it is an extremely sensitive business models regarding stakeholders influence and power.

For strategic reasons, some of the key risks are not being displayed in the Figure below. However, the risks shown in the figure are real, but they are not the crucial ones.

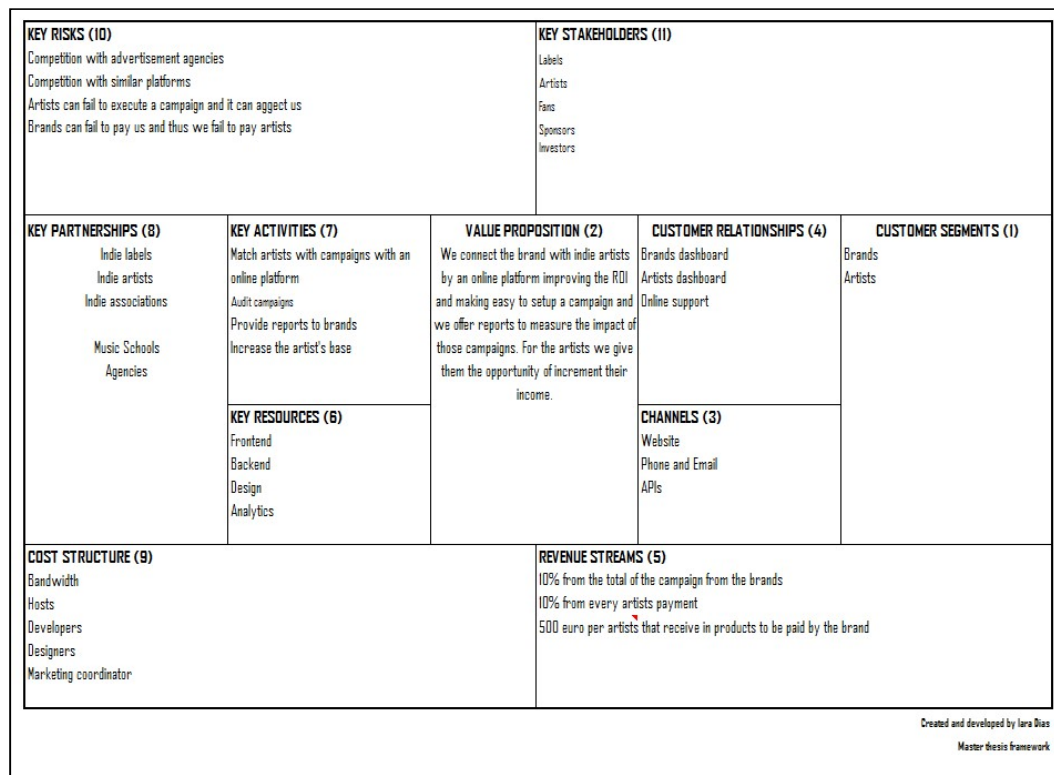


FIGURE 51 - Organic Business Model Canvas Influencer Marketing Platform

4.3.1 SWOT Analysis

SWOT analysis is a traditional tool that is an important exercise for a company or a new business idea. It is necessary for organisations to understand its capabilities and map it with the opportunities/threats facing the company. While the opportunities and threats could be generalised to most businesses in the industry, strengths and weaknesses are more specific to a company. The SWOT exercise ends up listing strengths, weaknesses, opportunities and threats independent of each other (Pingali, 2010).

Below, there is a SWOT analysis I did for the influencer marketing business model using my previous conversations and interviews with the CEO as a base for it, but it has much room for improvement if it is made with the collaboration of other employees of different sectors.

STRENGTHS

- musicians database
- connect musicians to brands

- connect brands to indie labels
- Specific audience
- Specific influencers for brands related to music (such as music instruments store or music production app, for instance)
- technology to make it easy to create campaigns and manage them online
- support by phone
- knowledge of social media channels
- Since we connect musicians with brands, the content is related to music, so it will be easy for brands and influencers to find a match.

WEAKNESSES

- INFLUENT do not know how influencer marketing works
- INFLUENT has to gather musicians to 'buy' the idea
- INFLUENT needs brands being interested in our product/service
- INFLUENT do not have the know-how of online campaigns yet
- INFLUENT is not an agency so to create a campaign from scratch could be a challenge

OPPORTUNITIES

- Influencer marketing is still a market to be explored
- Influencer marketing is emerging
- Millennials can be engaged
- Brands are interested in better ROI
- Musicians need money
- Indie labels need money
- People use social media more and more
- Different channels can engage different customers
- The most popular influencer marketing platforms are not focused on musicians
- Agencies are outdated (INFLUENT can offer an online platform)

THREATS

- Direct and indirect competitors
- Musicians refuse to subscribe to the platform
- Brands do not buy the idea in the beginning
- Brands fail to pay, and thus INFLUENT fails to pay the musicians
- Online campaigns could go wrong (misspelling or offensive content in some way)

5 CONCLUSION AND FURTHER DISCUSSION

The music industry after the digital revolution affected directly the way music is consumed and monetized. It created new markets, opportunities and made possible for independent artists reach a successful career without having a deal with a record label, thanks to the now-ubiquitous technology. From this time on, several business models were created aiming *indie* artists needs. REC is one of these companies. During three months it was possible to be in contact with two different business models as showcased previously, in section 4. A participative research was a *win-win* situation since while collecting data for this thesis, management tools were provided to REC, which they could not afford at this stage of the company's lifespan since the financial resources are very limited.

For a start-up with limited resources, it is necessary to make choices that could harm the company's future since there is no room for manoeuvre. Necessary management tools may seem superfluous as they are thriving to survive in the first years when they have to choose to invest in development or management, as is the case of REC.

This study introduced some cost-free tools on this start-up, which were easy to maintain and operate, since investments in training were out of the scope. More sophisticated and complex tools were tried at first. However, the CEO was not very responsive to those tools, and consequently also the team. The CEO has to be the sponsor of an idea, by selling it to the rest of the team. If not, the project is doomed to fail. Since the response to those complex tools was not very encouraging, this study kept developing and introducing simple tools to measure and control.

One great tool instantly adopted was Trello, the online project management tool that is free for small companies. On the first day of the research, Trello was suggested, and it was used for the whole period of this study, and a few months later, in contact with the CEO, he said that it was a great tool, which they were willing to continue to use for as long as they could.

This study also improved their financial controls by adding KPIs (Key Performance Indicators) to their financial sheet. Some of the KPIs were not applicable at the stage the company was, but it would be important for the future. Since both business models were

identified as a SaaS (Software as a Service), they could measure the same KPIs, which it helps the CEO to be familiarised with those indicators.

It was possible to see that sometimes one business model is not enough to guarantee the sustainability of a company and a second business model is necessary to increase the company's revenue by maximising the use of resources. On the case study in question, a second business model was created to offer complementary service to the customers once a customer's feedback session gave the input necessary.

A company can co-create its product or service with the customer using customer's feedback, and the famous early adopters seem to be eager to help. The product should always be in the 'beta version' in that sense because markets and customer habits and needs are constantly changing.

According to agile methodology, a company has to test a product or a service as soon as possible with the minimum investment to get customers feedback along the development journey by creating what is called Minimum Viable Product - MVP which was explained in the previous sections.

This thesis presented an MVP tested by customers as well as an MVP at its initial stage. The *DIY* tool for building a website was a ready MVP being tested by customers and the influencer marketing online platform was in the phase of the MVP development and initial concepts.

It was a very successful experience to do a participative research a SaaS start-up already testing their MVP with the customers and participate in the elaboration and development of a brand new MVP which was a secondary business model. It was very unexpected since the idea of a new business model emerged after a couple of weeks of the start of this research and it was not predicted in the first draft of this study.

The two business models have a great potential to thrive. However, the influencer marketing platform must be developed and tested as soon as possible since this is a growing trend which means the competition tends to increase from time to time.

The framework presented in this study was meant to help companies like the one targeted on this thesis to improve their management tools by being aware of the factors and actors that could affect their business.

The framework was tested in both business models, and after the analysis, for one, the DIY tool, it seems to be unnecessary to be extra careful with stakeholders because they do not have a strong influence on its business model. For the second business model, it was identified risks highly related to stakeholders that might harm the company's future.

Even to know stakeholders do not have a strong influence, which is the case of the first business model, the framework was necessary. However, a simple risk analysis could do the work as well, but since a visual tool on one page seems to be simple to have a track of, the framework seems a valid instrument for a start-up.

The Organic Business Model Canvas – OBMC has been tested in a music start-up and an influencer marketing platform, but it could be replicated to other industries too since risks and stakeholders are a common factor in all businesses. However, is adequate for a start-up since bigger companies have more sophisticated and complex environments.

Further studies are necessary to test this framework on other industries and for a longer period to verify the effectiveness of the OBMC in different conditions.

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