Digital Distribution Models Reviewed: The Content Provider's Perspective

Philipp Peltz

Abstract Digital distribution has surpassed physical distribution in key markets and will soon be the dominant music distribution model in Australia. Four different business models (free, ad-funded, pay-per-use and subscription-based) and two different music delivery methods (downloading and streaming) currently compete in the market place. The author analyses each distribution model available in Australia and evaluates advantages and disadvantages from the content provider's perspective. The most striking development is the blurring line between promotion and distribution. Content providers can either lower the barriers to access music in order to facilitate rapid music circulation and create a strong promotional effect to support various revenue streams; or heighten the barriers to access music in order to install an artificial scarcity through excludability, which is essential to implement a business model based on selling musical recordings. In this regard, the variety of different digital distribution models provides a flexible toolbox for content providers to coordinate their overall marketing strategy.

1 The Evolution of Digital Distribution

The first quarter of 2012 marked a significant event in the young history of the digitalized music economy. For the first time, nonphysical music sales surpassed physical sales and overcompensated total sales losses, at least in the UK. According to the BPI (British Phonographic Industry), digital revenues accounted for 55.5 % of trade volume and generated 86.5 million British pounds. The stark growth in digital sales led to a total increase of the British music industry of 2.7 % (BPI 2012). This event is of great significance. After 15 consecutive years of decline, the recording industry seems to have reached a turning point.

P. Peltz (✉)
Macquarie University, Sydney, Australia
e-mail: philipp.peltz@mq.edu.au

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Even though it is too early to speak of a definite turning point, two arguments have been put forward frequently supporting a possible upswing. Firstly, anti-piracy countermeasures show significant effects, and secondly, attractive legal music distribution models have emerged and regained customers. Regarding the first argument, I refer to a vast amount of research about the ongoing, controversial debate about the effects of piracy and the effectiveness of counter measurements (Liebowitz 2006; Watt 2009). This present paper focuses on the second argument, which puts emphasis on the emergence of new digital distribution models that are, according to official numbers published by industry bodies, partly responsible for the current upswing of the market (IFPI 2012). Both arguments are interconnected. If countermeasures decrease the appeal of piracy, legal alternatives become comparably more attractive to consumers. Vice versa, if legal distribution services provide a superior user experience, piracy will lose customers.

From the early digital days on, legal digital music distribution services have been present. In 1999, Napster and its successors revealed the potential of digital music distribution but failed to develop a legal business model. Until Apple's iTunes Music Store, all previous legal attempts essentially failed. The main reasons were: (1) Price: Many music consumers complained that digital music was too costly in relation to physical records. Empirical research suggests that lowering the price of digital music could increase total profits.[1] (2) Flexibility: Early music download stores used rigid digital rights management systems and incompatible file formats. This practice restrained consumers' flexibility regarding the playback of music purchased in different outlets or on different devices. (3) Availability: The number of available songs in early digital music stores was relatively small compared to piracy and the actual amount of theoretically available music. This was due to the faltering negotiations between content providers and distributors. (4) Audio quality: Early distribution models used highly compressed audio formats providing an inferior listening experience while piracy often provided un- or less compressed formats. (5) Added services: Early online music stores failed to exploit the potentials of digital music distribution in the context of social networking. Piracy platforms, in contrast, often provided chat rooms and feedback functions where music fans could talk about music and recommend artists and songs.

In the wake of the continued decline of physical music sales, the widespread occurrence of piracy, and the failing attempts to establish digital distribution models, new innovative music start-ups arose to address the abovementioned points of critiques.[2] In this regard, piracy can be understood as an innovation driver. Anne Sweeny, the president of Disney-ABC Television Group, explains:

[1] For example, the online music provider Real Networks conducted an experiment on their music download platform Rhapsody in 2003. They lowered the price from 99 Cents to 49 Cents causing a threefold increase in music sales (Anderson 2004). Another empirical study advocates a price differentiation strategy whereas the optimal price for current hits should be 59 cents, older titles 60 cents, newcomers 55 cents and rarities $1 (Buxmann et al. 2005).

[2] Interestingly, all new music distribution start-ups emerged from outside of the recording industry's environment – a pattern well known in the history of the music industry. Tschmuck

> So we understand piracy now as a business model. It exists to serve a need in the marketplace specifically for consumers who want TV content on demand, and it competes for consumers the same way we do, through high-quality, price and availability, and we don't like the model. But we realize it is effective enough to make piracy a key competitor going forward. And we have created a strategy to address this threat with attractive, easy to use ways to for viewers to get the content they want from us legally; in other words, keeping honest people honest. (Anderson 2006)

Sweeny talks about the TV sector but the same logic applies to the music industry. Music piracy is not free of costs for consumers nor do the operators follow a non-for-profit strategy. The costs involve the risk of getting convicted, the consumption of advertisement and search costs. Competitive distribution models, thus, had to provide a superior user experience regarding these factors.

However, serving the consumers with the most pleasant and cost efficient experience is only one side of the coin. On the other side, distributors have to develop business models that ensure sufficient compensations and incentives for content producers and copyright holders in order to provide a broad catalogue of content. Fierce power struggles between distributors and content owners emerged. For example, in 2010 the German performance rights organization GEMA, which represents German composers and publishers, forced Google to block content of its members on the streaming service YouTube due to insufficient compensations paid by YouTube. The amount that is "sufficient" is in the center of the debate and currently subject to a lawsuit being fought in the California Courts (Reuters 2012). Another example is the delayed introduction of Spotify in several countries like the USA or Australia. Rights holders hesitated to license their music to Spotify due to concerns regarding compensations (see section about MaaS models).

In the current market place, four different business models exist, each trying to find the right balance between content provider compensation and consumer experience. In practice, hybrid models with combinations of these four approaches are frequently in use. As new models emerge frequently, this categorization can only depict a snapshot of the current state of the market. The present research explores distribution models and evaluates the advantages and disadvantages for each model from the content provider's perspective. The content provider's perspective, here, is not further distinguished into subgroups like record labels, individual self-marketing artists or other intermediaries. The reason is that in the digital landscape decreasing entry barriers enable every content provider, whether they are a self-marketing artist or a record label, to access distribution channels.[3] Before going into the main discussion of distribution models, a brief review of the situation in Australia is provided.

(2003) explains the lack of innovation capabilities of the major record labels with the phenomenon that established players are locked in a traditional cultural paradigm and its attendant creative trajectories.

[3] The investigation of potential conflicts of interest between artists and record labels or other intermediaries that occur in the context of distribution would exceed the scope of this research. I will briefly mention eventual conflict of interest in the corresponding chapters.

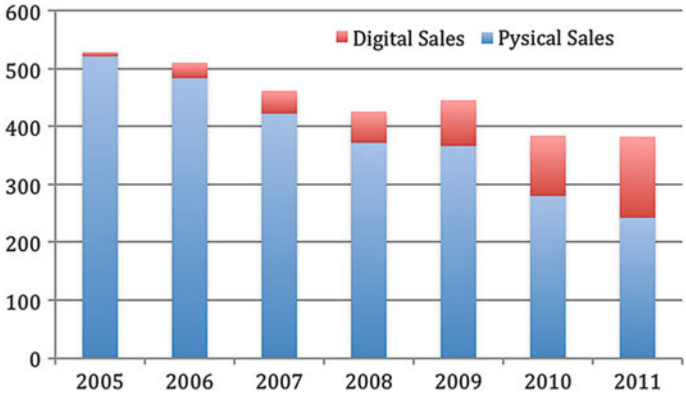

Fig. 1 ARIA wholesale figures 2005–2011 – total dollar value (Source: ARIA 2012)

The reader may wonder why the section about the situation in Australia is rather short in a publication covering the music economy in Australia. The reason is straightforward: Digital music distribution is a global affair. Even though physical sales still account for 63 % of total sales in Australia, digital revenues display a strong upward trend (see Fig. 1).

As mentioned above, markets like the UK and also Sweden have already seen the turnaround from physical to digital distribution. The biggest new industry players like Spotify, which were jointly responsible for the turnaround in the UK and Sweden, just entered the Australian market in 2012. For that reason, official numbers of digital revenues including such services are not yet released. The question, however, is: are there any arguments why Australia will not follow the examples of the UK or Sweden? Kate Vale from Spotify remarks: “Australia is the seventh-largest music market in the world, it has high smartphone penetration and high Facebook penetration and we’ve found in other markets when we have these three things, we tend to have great success.” (Fitzsimmons 2012). Furthermore, Australia’s small domestic market, its remote location as well as having English as the national language predestine Australia to address international markets. In this regard, physical distribution entails several disadvantages like high transportation costs and durations. Digital distribution circumvents those handicaps which should foster a rapid switch away from physical distribution. Considering these arguments, there is little doubt that digital music distribution in Australia will follow the examples like the UK or Sweden and overtake physical sales in the near future. Australian artists and record labels have all leading digital distribution channels at their disposal. Hence, the following evaluation of digital distribution models takes a global perspective, providing additional comments for aspects that are Australia specific.

2 Digital Distribution Models Reviewed

2.1 The Free Model (Including Name-Your-Price Models)

In the free model, artists offer their music against no or voluntary payments. The music is delivered in the form of downloads and streaming services. Artists either use their own websites for distribution or third party platforms (e.g. Bandcamp, Reverbnation, Soundcloud, Triple J Unearthed etc.). In opposition to ad-funded models (see MaaS model below), the free model does not charge consumers in any forms like advertisement consumption or disclosing private data.

For a long time, the free model has been marked as a hobbyist practice where amateurs give away their labor as a means to pursue non-profit goals and enjoy the sheer creating and sharing aspect of music with others. This may be true to some extent. However, not aiming for monetary compensation does not mean not aiming for any compensation. Non-pecuniary incentives are powerful drivers of artistic production and distribution. An in-depth discussion of these aspects, however, would exceed the scope of this section (for more see: Throsby 1994; Frey 2000).

The other argument of the free model suggests that it can be used as a long-term business strategy with the goal to maximize total profits. Chris Anderson advocates in his book "Free! Why $0.00 is the future of business" the potentials of cross-subsidizing. In short, Anderson suggests selling one product by giving away another one for free (Anderson 2008). Applied to the music economy the free strategy moves the focus away from the music recording. It redefines the market and understands music consumption as a multifactorial experience. This experience can be divided into scarce and infinite components. Scarce components include concert tickets, merchandise, backstage passes, physical CDs or a musician's attention. The infinite component is the digitized recording that can be distributed at marginal costs. By setting the infinite component, the music recording, free, it can spread rapidly and be shared among fans accelerating the circulation process. This creates a strong promotional effect raising the artist's popularity and brand value, which positively influences other revenue streams. In other words, the music recording is used as a promotion tool to foster other monetization opportunities. The more fans artists have, the more likely they will sell tickets, merchandising or special physical collector items. They also become more attractive to brand collaborations or sponsor deals with other industries sectors.[4] As a result, the free strategy may generate more total revenues than a nonfree strategy.

A variation of the free model is the pay-what-you-want strategy (also known as donation or name-your-price strategy). Hereby, consumers optionally pay a voluntary amount. Both strategies – the free and the name-your-price model – have been

[4] For a detailed list of 24 possible revenue streams of music composers and performers, see Thomson and Cook (2012).

used by various artists and record labels like, for example, Radiohead, Nine Inch Nails, Pretty Lights Records and many more.

2.1.1 Discussion from the Content Provider's Perspective

Probably the most cited example of the free, respectively "name-your-price", strategy is Radiohead's 2005 release "In Rainbows". However, it is not a good example to discuss the model in a broader context. Radiohead is a well-established band with substantial financial resources as well as a large fanbase at their disposal. The release, also, caused a one-time media hype influencing the overall outcome of the strategy. These circumstances do not apply to the majority of lesser known artists. The band itself admitted: "It only works for us because of where we are" (Morrow 2009). Many unknown bands, which used the free model before and after Radiohead's release, did not draw much media attention.

For example, Australian newcomer artist Oliver Tank released his first EP "Dreams" in 2011 via the free and optional voluntary payment model. In an interview, Tank explained: "At that stage artistically, I was very much in my infancy, my goal was not to make money but rather get my name out there." Tank also used successfully crowdfunding (see section crowdfunding) to finance a vinyl release. As a result, Oliver Tank built up more than 10,000 fans on Facebook, played many live shows in Australia as well as overseas and is working on his new album.[5] Another prime example is the artist Skrillex who launched his career with the free model. He said: "I think to the public eye you could say I was super new to this scene, but I've been putting out free tracks for well over a year as Skrillex. [. . .] I self-released a full on EP for free earlier this year in April that got a lot of attention from blogs and an insane amount of downloads" (Beatport 2011). Not even a year later, Skrillex won three Grammy awards, had a number one record in the US and UK Dance/Electronic album charts, played more than 300 live shows, has more than 1.8 million fans on Facebook, and appears on Forbes list of the world's highest paid DJs at number two with an estimated income of $15 US million in 2011 (Greenburg 2012).

These examples demonstrate the most striking feature of the free model. It lowers the barriers for potential fans to access new music. Offering music in superior quality without any access barriers (e.g. registration processes, consuming advertisement or revealing personal data), minimizes hurdles to explore new music and thus maximizes the chance of finding new fans. It directly addresses the most crucial factor in today's musical landscape where a plethora of new music is competing for the consumer's attention. Cathy Bauer from Daptone Records reports: "having a track of a new developing artist in the Discovery Download channel on iTunes creates a tremendous wave of activity, not just in the iTunes

[5] http://yespleaserecords.com/category/oliver-tank/; http://www.facebook.com/olivertankmusic.

Store."[6] She continues to explain that the track boosted overall digital album sales while additionally, once the track has been downloaded for free, it continues to work as a long-term promotion tool in the consumer's playlist (SXSW 2011).

Another argument in favor of the free strategy is that artists gather some kind of "sympathy points". Many fans appreciate the fact that artists give away their music for free. This potentially raises the fan's loyalty for artists and consequently the fans' willingness to spend money on other goods and services. It also encourages fans to advocate the artist among their own circle of friends, enhancing the promotional effect. For example, the artist Gramatik releases all of his original music for free. His growing fan base expresses its appreciation in various comments on the artist's band website. Some of them read: "Thanks again for making your music free!!! I support you by going to every show that I can attend" or "Man, your music is so damn good; I'd actually pay for it if I could find vinyl versions of your albums at my local record store."[7] It becomes evident that the free model is also used as an image campaign to establish a long-term customer relationship. It aims to maximize long-term profits including all revenue streams an artist can tap into, instead of maximizing short-term profits through selling music in the form of singles or albums.

Record labels may hinder artists in choosing a free strategy. Especially, if an artist is signed to a record label that has invested in the act and pursues a more traditional business model focusing on revenue streams generated by music sales. However, both artists of the abovementioned examples, Gramatik and Oliver Tank, are signed to record labels. To the question of whether the record label objected or supported the free strategy, Oliver Tank replied: "The label was fine with it. It was actually something we discussed and they suggested." The structure of record contracts has been modified into so-called "360 deals" that encompass more of the artist's output than just recorded music (Karubian 2008). Hence, if the artist and the label agree on a long-term collaboration, the free strategy can also be in the interest of the label. The artist Gramatik is signed to Pretty Lights Records (www.prettylightsrecords.com), a label that releases all of its music for free. Bob Lefsetz summarizes the label's business strategy: "Just because you give away your main product for free does not mean you can't make money. We live in an attention economy, your biggest chore is getting people to listen, not to pay for your music" (Fiebach 2012). The free strategy understands the relationship between the fans and the artist as the central hub around which revenue streams and careers are built upon.

Turning towards the disadvantages of the free music strategy, first and foremost, artists do not generate any immediate revenue streams from selling music. However, this is a temporary drawback as the underlying argument suggests that, in the long-term, the free model generates sufficient total profits through other revenue

[6] The iTunes Discovery Download is a promotion tool where users can download a free song for 1 week (http://www.apple.com/itunes/freesingle).

[7] http://www.facebook.com/gramatik

streams. Therefore, the actual problem for artists is to obtain enough funds to survive the first phase before eventually generating revenues in a later stage.

Another negative association mentioned frequently from the content provider's view in the context of free is the alleged "devaluation of music". Many musicians and industry people express their concerns about the "Napster Generation" that became accustomed to obtaining music for free or at very low costs. In a popular blog post, musician Cal Stamp wrote: "To the average music consumer, a song is worth less than a candy bar. It might last longer, sound sweeter, and offer a more meaningful experience, but don't ask us to spend more than $1 on it. In fact, we'd prefer you didn't ask us to spend any money at all." (Stamp 2011). The argument focuses on the music recording and equals the price of this recording with the value of music. Obviously, it is difficult to define the value of music. According to the advocates of the free strategy, the value of music lies in the overall experience including live concerts, the connection between artist and fans (e.g. through buying merchandising), communicating with others through sharing and talking about their favourite artists. All these activities generate utility for fans and thus add-up to the value of music.

Nevertheless, some artists perceive the recording as the core services a musician supplies. If this core service is degraded to a promotional tool for selling t-shirts, mugs, live-tickets or products from entirely different industries, some artist's sensible relationship with their art may be disturbed.

Another related critical aspect derives from the theory that the price of a good or service indicates its quality. Research suggests that, under most circumstances, a positive correlation between price and quality exists (Zeithaml 1988). Accordingly, consumers may perceive free music as being of inferior quality. This could also have negative implications on the artist's brand value and consequently other revenue streams. They may be perceived as amateurish and unprofessional. However, there have not been any studies yet as to whether the positive price-quality correlation holds true for music. Empirical research needs to be carried out in order to confirm such theory in the field of music.

The "name-your-price" strategy combines advantages of the free music model with the advantages of nonfree music. While potentially generating immediate revenues through sales, it also minimizes barriers to access and share music in order to generate a strong promotion effect. Additionally, it utilizes price discrimination by skimming off different willingnesses to pay from different consumers. Price discrimination is a frequently used pricing strategy to maximize profits. Not every consumer values music the same way, and is willing and able to spend the same amount of money on one artist. Through the voluntary pricing model, content providers can exploit these differences and eventually win back consumers that would not buy at a higher price. On the downside, the free–rider problem occurs. Hereby, fans that would have paid if they needed to are obtaining content for free because they can. Empirical data is difficult to obtain. Even though Radiohead's release of "In Rainbows" was perceived as a success, official figures are ambiguous.[8] The band discloses the exact numbers and states that it is impossible for external bodies to obtain accurate statistics (NME.com 2007). Research from other areas than the music industry gives evidence that pay-what-you-want strategies show prices significantly greater than zero and can lead to an increase in seller revenues (Kim et al. 2009). Although more empirical research is needed, there is some evidence that the free rider problem in the case of the arts is smaller in practice than theory would suggest.

2.2 Music as a Service (MaaS)

Music as a service models (MaaS) provide music without transferring ownership (Doerr et al. 2010).[9] Technically MaaS functions via data streaming. Therefore, it is dependent on the quality and availability of (mobile) Internet access. However, these limiting factors are of temporary nature and will lose significance due to the continued widespread of mobile broadband Internet access points in the near future.

Most MaaS providers use Freemium business models, offering music either at no direct costs funded by advertisers (ad-funded) or against periodical flat fee payments (subscriptions). In ad-funded models, users pay indirectly via advertisement consumption (visual ads or audio commercials between songs) or by giving away personal information. It is one of the most dominant business models in the digital economy pursued, for example, by Facebook and Google. Hereby, distributors do not sell the actual content but access to customers and selected data to third parties (Mahadevan 2000). The data can then be used to target potential consumers with personalized advertisements. Subscription based memberships, in contrast, allow users to consume music without advertisement interruptions and often provide additional features like superior audio quality, mobile and offline usage.

Even though MaaS models have been present for over a decade, they have just recently gained momentum in the wake of the spread of broadband mobile capacities as well as the general trend towards cloud-computing. In addition, piracy continues to pressure traditional download models, in particular with regards to pricing. Sean Parker, co-founder of Napster and now investor and board member of Spotify, defines Spotify as a direct competitor to piracy aiming to win back customers lost to piracy models. Paradoxically, Parker was a co-founder of Napster, one of the first illegal filesharing platforms and symbol of the emergence of piracy. In an interview, Parker states: "Spotify is my opportunity for redemption. My chance to play some role in fixing a lot of problems that I played a part in creating"

[8] One survey reports that around 33 % downloaded the album without paying while the rest paid £4 on average (Sherwin 2007). Another study found that circa 60 % paid nothing and the average price was £2.90 (News.co.uk 2007).

[9] Ownership, here, does not refer to ownership of the master recording but ownership of the individual file in the same way as ownership of a physical CD entails specific rights for purchasers (e.g. consumption, restricted sharing rights).

(Parker 2011). Together with Shawn Fanning, Parker already in 1999 had the same business model in mind as with Spotify in 2010. However, he revealed: "They [the record labels, ed. note] didn't want to talk to us. They weren't interested in settlement. They wanted to sue us and decisively shut us down. I didn't speak their language, and I didn't have any credibility in their circles" (Parker 2011). According to this, Parker's lack of experience and negotiation skills as well as the lack of openness to cooperation on the record labels' part were the main reasons why Napster failed to develop a sustainable business model. The statement also shows the many difficulties new start-ups in the music industry face. It took almost a decade not only for Parker to "understand how the industry works" but also for the record labels to open-up for new business models. In 2010 Spotify reached agreements with many major and independent record labels in order to licence their musical catalogue for the service in key international music markets (Bradshaw and Menn 2010). Spotify and other MaaS providers report strong numbers. According to the IFPI, revenues generated by MaaS models increased by 93 % between 2010 and 2011 in the UK. Furthermore, subscription models accounted for nearly £9 million and ad-funded models for £3.4 million (BPI 2012). As of 2012, ten different MaaS providers are available in Australia (for a detailed list, see: Kidman 2012).

2.2.1 Discussion from the Content Provider's Perspective

As abovementioned, the prime argument of MaaS services lies in its proclaimed superior user experience that wins back customers from piracy models while, at the same time, provides compensations to content providers. Some numbers show empirical evidence for this argument. Mediavision reports that illegal downloads decreased by 25 % since the rise of Spotify in Sweden (Vision 2011).[10]

An interesting argument derives from the fact that MaaS models can provide a more accurate compensation structure for artists with regards to pay-per-use than traditional models. For example, a customer buys two songs as a download, each for $1. She listens to song A, 10 times and song B, 200 times. In both cases, the artists receive the same amount of money. That does not accurately reflect the amount of utility each song generated for the customer.[11] Song B generated 20 times more utility as song A at equal costs. In a MaaS scenario, artists get paid per individual play. Hence, artist B would have received more compensation than artist A. This reflects a more accurate compensation than in scenario one. The advantage of MaaS systems lies in effective tracking mechanisms of music consumption.

Furthermore, MaaS models function as promotion and discovery tools. It is an argument that has been put forward from the early beginnings of digital music

[10] The survey was conducted by Mediavision which was commissioned by Musikverige, a Swedish music industry group.

[11] Utility here is measured by the number of listens assuming that every listen generates one unit of utility.

distribution, in particular in the context of the piracy debate. It follows the same logic as explained in the free model above (see section *the free model*). Accordingly, few barriers to access music (in terms of low or zero costs, unrestricted DRM systems and low search costs) allow rapid music circulation, resulting in a strong promotional effect, particularly if embedded in a social networking environment.[12] Vice versa, the higher the barriers to access music, the smaller the promotional effect. In this regard, piracy has been discussed as a promotion and discovery tool (Oberholzer-Gee and Strumpf 2007; Zentner 2006). The logic addresses the main trade-off artists face in the digital music economy. On the one hand, they try to inform potential customer about the existence and quality of their music. Sean Parker from Spotify remarks: "[With Spotify, add ed.] you can sample on an unlimited basis. It costs nothing to make each additional copy. And you find out about music primarily through your friends." On the other hand, the promotional argument raises the question: where does promotion end and monetization begin?

This brings us to the downsides of MaaS models. From the content provider's perspective, MaaS models, in particular ad-funded versions, are subject to controversial debates (Peoples 2011; Michaels 2011; Lindvall 2011; Buskirk 2011). The biggest concern is the abovementioned maintenance of appropriate compensations for content providers. It is doubted whether the amount of revenues generated by selling advertisements or customer's data can ensure sufficient financial incentives for content production. Several artists and labels refused to distribute their music via certain MaaS platforms due to insufficient payments. Most notably, Coldplay, Grammy winner Adele or The Black Keys declined to license parts of their music to Spotify (Michaels 2011; Peoples 2011). This shows the double-edge nature of the abovementioned promotional argument. At some point in an artist's career path, they aim to monetize their creative output and not just promote it infinitely. Even though other revenue streams become more and more influential and benefit from the artist's popularity, some artists may not strive for (more) popularity. While a newcomer focuses on spreading music in order to build a fan base and brand name, established artists that already have a fan base do not need such a strong promotional effect but focus on monetizing their existing fan base.

Regarding the compensation of MaaS models, the exact amount of money paid to content providers is not officially disclosed and difficult to research. The reason is that the monetary pool content providers get paid from is not a constant figure but changes dependent on several factors. These factors include the amount paid by advertisers, the number of premium membership subscriptions and the individually negotiated contracts between content providers and MaaS platforms. According to several sources, Apple, for example, paid between $100 and $150 million upfront to the four major record labels in order to use their musical catalogues for its iCloud music service that includes MaaS. Spotify supposedly paid a similar amount to Sony Music. Additionally, Spotify managed to get all four record labels as early

[12] Spotify, for example, can be integrated into Facebook using the social network to discover and share music with friends.

investors on board. A clever move in order to get the label's music catalogue licensed (Atkinson 2011a, b; Arrington 2009; Lindvall 2009). These one-time advanced payments and corporate integrations bias pay-per-stream figures. The exact payment artists receive is furthermore dependent on the contract with the label or aggregator that negotiated with the MaaS platform. As a result, the exact payments streaming services pay are not generalizable.

Another critique in the context of ad-funded MaaS models reopens the long lasting debate around art-meets-commerce. If advertisers – which are in general larger corporations pursuing nonartistic goals – pay artists, conflicts of interest occur and artistic integrity may be put into question. As mentioned, this is not a new debate. Tom Waits once said: "If Michael Jackson wants to work for Pepsi, why doesn't he just get himself a suit and an office in their headquarters and be done with it?" (IMDb 2012). Collaborations between musicians and corporations in the form of sponsoring, endorsements or commercials have been present at all times in the entertainment industry. However, the degree of interlacement between corporations and art in ad-funded business models compared to the traditional distribution model is relatively high. In the latter, music fans paid the record labels, which paid the artists for their creative work. Thus, the money was paid for creative production. In comparison, in the ad-funded model, the music fans pay the advertiser (indirectly, either via ad consumption or buying products of the advertiser), which pays the MaaS service which pays the record label and respectively the artist. Hence, the advertising company plays a significant role in the value-creating-chain. In fact, a much larger role than in the old model where it eventually played a part in special collaborations and radio broadcasting, which was primarily used as a promotion tool, but not as the main source of revenue. The new constellation could raise concerns whether artists adjust their creative output to fit into the model in order to receive sufficient ad revenues.

2.3 Download-to-Ownership Models (Also Known as à-la-carte or Pay-Per-Download Models)

The download-to-ownership model (DtO) resembles the traditional recording industry where consumers buy individual songs or albums and permanently download the files to their devices (personal computers, mobile devices or others). For consumers, the advantage of DtO models is that purchased music is available without the necessity to be permanently online. This is particularly relevant for situations where Internet access is unavailable, and for specific applications where individuals work creatively with music. For example, syncing music to videos, using music for podcasts, creating remixes, mashups, sampling or DJ-ing. For these purposes, specialized download stores have been established (e.g. www.beatport.com).

Artists and labels can either utilize their own websites to sell music as a download or third party distributors. The advantages of using their own websites are a higher profit cut as they bypass aggregators and more flexibility regarding delivery formats. The advantages of using third party distributors include the fact that established shops signal reputation and provide additional services (i.e. standardized payment systems, file management applications to organize music libraries, user ratings, recommendations, search functions).

The common payment method is one-time-payment per download with prices ranging between $0.69 and $1.29 (Smith and Kane 2009). Additionally, there are also advertisement-based models that offer music downloads for free in return for consuming advertisement (e.g. guvera.com). Also, subscription based models exist where the user can download music in return for paying a periodical subscription fee (e.g. emusic.com). Today, most DtO models offer DRM free music with, compared to standard MaaS models, high audio quality.

2.3.1 Discussion from the Content Provider's Perspective

From the content provider's perspective, DtO models depict an attractive distribution practice, as they momentarily generate higher revenue streams than MaaS models. Similar to the traditional music industry, different pricing strategies can be utilized in order to maximize profits. A common practice involves bundling, where individual tracks are sold only in combination with an entire album. A successful strategy in the physical music industry because only very few songs were released as singles. Even though that changed in the digital domain and the majority of songs are available as an individual download, the strategy is still in use. Another pricing strategy is price discrimination. Hereby, tracks are sold at different prices according to temporality or audio quality. The online music shop soulseduction (soulseduction.com), for example, sells compressed files (mp3-format) for €1.29 and uncompressed files (wav-format) for €1.79. *Amazon* utilizes various pricing strategies, selling albums between $1.99 US and $13.99 US according to factors like release date, artist popularity or special offers. Cathy Bauer from Daptone Records describes how pricing strategies can impact on total revenues. She refers to a release she placed in the Amazon promotion channel where selected albums are sold for $1.99 US for one day. Bauer recalls that the album sold fewer than 500 units in the week before the $1.99 US special offer and sales went up to 3,500 sales during for two days. Also, overall sales after the $1.99 US offer increased by 500 % (SXSW 2011). This example shows how pricing strategies can be successfully implemented in the DtO models.

On the other hand, DtO models struggle to compete with cheaper models like the free model, piracy or ad-funded MaaS services. There are examples of companies that use ad-funded financing for DtO models (e.g. Guvera). However, they seem to have difficulties convincing content providers to license their catalogues. Guvera, for example, only offers around three million songs while traditional pay-per-download distributors like Amazon MP3 or iTunes Music Store provide between

21 and 28 million songs (Oppenheimer 2012; Amazon 2012; Cashmere 2012). Furthermore, over the last 5–10 years, the trend in general computing has shifted towards cloud based services. With major industry players such as Apple, Microsoft and Amazon rolling out such services. At the same time, new end devices are equipped with small hard drives because cloud based services do not need large local storing capacities. These developments indicate a trend towards MaaS models and put pressure on DtO models.

2.4 *Crowdfunding*

Crowdfunding depicts another upcoming strategy for artists to finance and release their music. The underlying idea is that fans raise money in order to finance a band's endeavor like an album production or live tour. An early example of crowdfunding is the British rock band Marillion. Without the involvement of the band, fans collected US$ 60,000 to finance an upcoming tour. Online platforms like sellaband, kickstarter, peerbackers and many more, emerged and adapted the idea, providing the framework for fund seekers. A band can post a project on the platform asking supporters to pledge different amounts of money. In return, the artists offer special goods and services depending on the amount a supporter pledged. The supporters are not investors that own shares in the project. They rather purchase products and services prior to their production. The platform acts as a trustee in case the aimed project goal is not achieved and consequently supporters get their money back.

Kickstarter, one of the biggest crowdfunding platforms, reports around 23,000 successfully funded projects, with more than two million backers. The project volumes in the music category range from around US$ 1,000 US to more than US$ 1 million as in the case of singer songwriter Amanda Palmer who used the platform to finance her upcoming album production, art book and tour.

2.4.1 Discussion from the Content Provider's Perspective

While still relatively unknown, crowdfunding involves many advantages for musicians. First and foremost, it decouples the distribution stage from the funding stage. In the traditional model, distribution generates cashflows to refinance the music production. Thus, if distribution failed, the maintenance of the artist's endeavor is at stake. In contrast, crowdfunding ensures the financing of the artist's project independently of eventual cashflows afterwards.[13] Piracy, for example, does not cause any harm to crowdfunding models as it is not dependent on the revenues

[13] Crowdfunding can be categorized as a distribution strategy in a wider sense because artists distribute some of their services and goods exclusively through crowdfunding platforms. In this regard, crowdfunding depicts a special distribution channel.

generated by traditional distribution. In the case of a successfully funded project, artists are able to finance the desired projects covering all costs. Artists retain ownership and control of their intellectual property and reap any subsequent income eventually generated by the project.

Another distinctive element of crowdfunding is the fact that artists often offer more than just music to their fans. Kevin Kelly describes in his work "better than free", eight generatives that increase the value of a digital good because they cannot be digitally copied (Kelly 2008). These generatives comprise, among other things: immediacy, personalization, embodiment and patronage. Looking at the special goods and services artists offer on crowdfunding platforms, many of those generatives can be found. For example, Australian singer and songwriter Greta Gertler used kickstarter to fund her upcoming studio album "The Universal Thump". She offers supporters who pledge at least US$ 15 an advanced digital release. This addresses immediacy because supporters receive the release before it is available to the public. It also employs the idea of patronage in the sense that people are more willing to support artistic endeavors if they know it goes directly to the artists and not to intermediaries like record labels or distributors. Some artists get truly creative with their special offers to generous supporters. For example, if pledged more than US$ 500 to fund Greta Gertler's album production, supporters receive: "a signed, advance copy of "The Universal Thump" (CD), signed Songbook, plus your [the supporter's, ed. note] name will be included in the "Studio Patron" section on the album credits. You will be invited to attend and give feedback on a recording, and will likely be enticed to sing backing vocals on a song on the album. Snacks and vocal warm-ups will be provided" (Gartler 2012). Such a package utilizes all of the abovementioned generatives and depicts a personalized experience with the artist. Kevin Kelly writes: "The elusive, intangible connection that flows between appreciative fans and the artist is worth something". In this regard, artists monetize their superior social status. Additionally, by offering different packages valued at different costs, crowdfunding utilizes the fact that fans have different degrees of affection with artists. Accordingly, every fan can decide how much he or she wants to interact and be involved into the artist's endeavour.

The disadvantage of the crowdfunding strategy is that in order to carry out a successful project, artists need a loyal fan base. However, for smaller projects it does not need a large fan base in order to reach a moderate funding goal. Secondly, as artist Terre Roach reports, the considerable time spent on administrative tasks like setting-up the project on the funding platform and correspondence with supporters may distracting artists from writing and producing music (Roche 2012).

3 Conclusion

Never before in the history of the music industry, have content providers had such a vast variety of distribution models at their disposal as they do today. Barriers to enter distribution channels have vanished, giving record labels, as well as individual artists, the free choice of which model(s) to utilize. While the media often speaks of the next "killer app" that will revolutionize music consumption and dominate music distribution, the current situation suggests that different forms of distribution can coexist. The reason is that consumers value music differently, prefer different formats and expect different experiences from music consumption. The same counts for content providers: Each artist or record label is in a specific situation pursuing different business models. Choosing the right distribution strategy is a crucial factor and has to be embedded in the wider context of the music economy as an experience economy.

The most striking development in digital distribution is the blurring line between promotion and distribution. On the one hand, lowering the barriers to access music creates a strong promotional effect. On the other hand, heightening the barriers to access music causes an artificial scarcity through excludability, which is essential to implement a business model based on selling music as intangible information goods. Content providers have to find a balance in this trade-off, dependent on the specific situation and objectives of their strategy.

Accordingly, artists in an early career stage aim to reach and inform as many potential fans as possible about the existence and quality of their music. Once the artists achieve popularity and a strong brand name, various monetization strategies can be applied. For this purpose, distribution models that minimize the barriers to access new music and enable rapid circulation through the encouragement of sharing seem most suitable. The free and the MaaS models provide such features. They foster the spread of music by lowering the price and eliminating sharing restrictions. On the downside, these models currently struggle to provide significant, immediate monetary compensations for content providers.

In contrast, artists that already have a loyal fan base and a well-known name, preferably opt into crowdfunding and DtO models. DtO models currently generate the highest immediate revenue streams and account for the biggest share of digital distribution revenues. However, DtO models are under pressure from piracy and other cheaper music services. Also, the general trend towards cloud-computing challenges DtO models.

Crowdfunding is another compelling and upcoming strategy, where artists can tap directly into the artist-fan relationship. In particular, it addresses the funding problem of the production of new creative works. On the downside, the organization of crowdfunding projects can be time consuming, and they rely on peoples' engagement.

Different distribution models can also be combined in parallel or subsequently. In this way, content providers can address as many consumers with different listening preferences as possible. If used at the same time, cannibalization effects eventually occur. Official figures show that the rise of MaaS models caused DtO revenues to fall. Another strategy is to use each model for a specific career stage. Hence, artists may start with a free or MaaS model to build up a fanbase, and subsequently switch to a DtO or crowdfunding model in order to monetize and finance future works.

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