

# Conceptualizing an Entrepreneurial Growth Model of the 21st Century Music Industry

By Jason Burchard  
The London School of Economics and Political Science  
MSc Management, Class of 2016  
[jason@rootnote.co](mailto:jason@rootnote.co)

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## **Abstract**

Through a qualitative study of independent musicians, music industry entrepreneurs, and industry professionals, this paper seeks to provide an explanation of how the model of the contemporary music industry has changed in recent decades. Specifically, the research explores emergent themes, challenges, and examples of innovation surrounding contemporary artists and music industry entrepreneurs as they pertain to industry functions within the creativity, reproduction, distribution, and consumption networks. The results of the research lead to the proposition of two new industry functions, alternative finance providers and fan and consumer oriented services, and the development of a dynamic entrepreneurial growth model of the music industry. Lastly, it is suggested that new forms of intermediaries will emerge in the future to help artists and entrepreneurs navigate through increasingly complex and diverse musical networks at variable stages of the musician growth cycle.

Keywords: Entrepreneurial growth model, music industry networks, musician growth cycle

## **About the Author**

Jason Burchard is the co-founder of RootNote, a Nashville-based start-up that builds, supports, and invests in musician-owned companies. Prior to starting his own venture, he worked in consulting and venture capital and holds a BSc in Civil Engineering from the University of Texas at Austin and an MSc in Management from the London School of Economics and Political Science. He is a member of the Nashville Chapter of The Recording Academy, a Mentor in Residence at Vanderbilt's Wond'ry Innovation Center, and part of the Nashville Entrepreneur Center's Project Music.

## Introduction

The music industry has been dominated by a small number of vertically integrated “rights based multinationals” for the past several decades (Bakker, 2012). While those within the industry are not unfamiliar with change, the paradigmatic shift from physical to digital mediums has had an unprecedented impact on the entire industry. This systemic change has led to uncertainty and turbulence and, at least within the music industry, turbulence has a history of leading to entrepreneurship (Peterson and Berger, 1971).

The “new music economy”, as described by Wikström, is characterized by a generation of voluntary and involuntary entrepreneurs in the forms of artists, music business entrepreneurs, and many others (Wikström, 2009). Research on entrepreneurs operating in the new music economy, however, is limited and pre and post digitalization models of the music industry fail to capture its new dynamic nature. Contemporaneous literature that conceptualizes models of the music industry during the pre-digitalization era is theoretically interesting, but provides a glimpse of the music industry at a drastically different time in technological history. Post-digitalization models of the music industry are technologically relevant and descriptive in nature, but lose some of the granularity and theoretical foundations included in earlier models. Therefore, it is suggested that by applying literature grounded in economics and entrepreneurial studies to the study of independent artists and music industry entrepreneurs, a new conceptualization of an entrepreneur based music industry might be constructed. Specifically, the research addresses the questions (1) “What types of

activities are independent musicians and entrepreneurs performing?” (2) “Why are independent artists and entrepreneurs doing what they do?” and (3) “What kind of industry structure could support the types of entrepreneurial activities being observed?”

The paper is organized as follows: the **Literature Review** explores relevant literature and theoretical considerations of existing music industry models, firm formation, and new venture and entrepreneurial growth. The **Research Design and Methodology** section describes the qualitative methods used in this report and the various methods of data collection and research conducted throughout the course of the project. The **Data** section presents a summary and analysis of the data and the **Discussion** section expands the concepts, leading to the development of an entrepreneurial music industry model. Lastly, the paper **Concludes** with a discussion of the potential implications, limitations, and recommendations for future research.

## **Literature Review**

Three strands of literature were reviewed as they might help contribute to an understanding of current independent musician practices and entrepreneurial activity within the music industry: (1) academic work encompassing music industry business models, (2) theories regarding firm formation, and (3) research focusing on the concepts of new venture and entrepreneurial growth.

### ***Music Industry Models***

A limited number of scholars have approached the music industry from an academic perspective and the study of music industry and business models is relatively limited in size and scope. The challenges associated with the recent paradigmatic shift

between physical and digital have, however, inspired new levels of interest in the study of the industry. As such, industrial and organizational economists such as Teece have focused on the impacts of innovation more broadly, while other academics and practitioners have narrowed their scopes to focus on specific aspects of the music business revenue model (Teece, 2010; Schultz, 2009; Slater et al., 2005; Vaccaro and Cohn, 2004).

Others have based their academic work on the conceptual explanations of the full supply chain of the music industry. Unlike business models that describe value creation, delivery and capture mechanisms, these models seek to explain the “logic and dynamics” between the various industry actors within the entire supply chain (Teece, 2010; Wikström, 2009). **Tables 1 and 2** provide a summary of relevant models<sup>1</sup> by industry phase.

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<sup>1</sup> The selection of models provided is meant to encompass the wider range of existing industry models discussed in the practical and academic fields. Other contributors of note include Attali and Scott, among others. For the purposes of this report, “pre-digitalization models” refer to those before the major shift to internet based file sharing and distribution that occurred in the later part of the 20<sup>th</sup> century. “Concurrent” refers to models conceived during the major transition period, and “post-digitalization” refers to contemporary models, developed well after the fact.

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Music Industry Model	Authors	Phase	Characteristics
Top 40's Radio	(Hirsch, 1970)	Pre-digitalization	Hirsch describes the industry as an aggregate of subsystems that are part of a "pre-selection process" in which a significant amount of filtering occurs between each stage. The industry functions correlate to roles and stages that include the artist, the agent, the producer, the promoters, the gatekeepers, and the public and interact in such a way that one cannot progress from the prior stage without "having been processed favorable at each of the preceding stages".
Loosely Coupled Systems	(Burnett and Weber, 1989)	Pre-digitalization	Burnett and Weber portray the music industry as the interaction between two subsystems – the production system and the consumption system. Interactions within the production and consumption systems are much stronger than those between the systems. Activities in the production system include aesthetic (or artistic) and commercial production, distribution, and retail; key activities in the consumption system include those associated with audience consumption of media, live music, and other consumer behavioral related decisions. The two systems are weakly connected through functions carried out by advertisers and promoters, concert producers, and retail outlets

Table 1: Pre-digitalization music industry models

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<b>Music Industry Model</b>	<b>Authors</b>	<b>Phase</b>	<b>Characteristics</b>
Musical Network Model	(Leyshon, 2001)	Concurrent	Leyshon describes the music industry as a network of sequential processes and develops four key networks: creativity, reproduction, distribution, and consumption. Creativity networks are “centers of musical knowledge”, while the reproduction and distribution networks are “spatially diffuse”, primarily responsible for efficient creation and delivery of product to those within the consumption networks. Some industry participants occupy multiple networks and serve as key links between the various networks. The model identifies more degrees of interaction between networks than prior conceptualizations.
Do It Yourself and Others	(Kusek, 2014)  (Hracs, 2015)	Post-digitalization	Kusek describes a Do It Yourself (“DIY”) based model of the industry, where artists have more choice and ability to perform functions previously delegated to record labels and other artist service companies. The model characterizes direct interaction between the artist and fans and artist control over revenue streams.  Hracs emphasizes importance of intermediaries through the conceptualization of the “Contemporary Manager” model. The manager intermediary performs the functions of coordination, co-production, co-promotion, curation, consultation, and connection and provides the key link to all other industry functions.

**Table 2: Concurrent and post-digitalization music industry models**

The tabular representations above are meant to help demonstrate the dichotomy between two distinct eras. While there are components of each model that are relevant to the music industry today, there are several unique differences between the models. For example, one of the greatest distinctions between the pre-digitalization and concurrent models, is the existence of direct links between the artists and consumers.

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The “Musical Network” model addresses this shift as it identifies more degrees of interaction between musical networks. Compared to the “Loosely Coupled Systems” model, this is a significant advancement. The industry functions in the “Musical Network” model, however, do not necessarily represent the entire scope of what is prevalent in 2017, as it was constructed before the greater part of the contemporary music technology boom. Likewise, some challenge the importance of the “Top 40 Radio” model today, as the ways that listeners consume music are drastically different. Yet, even though the industry has changed dramatically since the 1970’s, Hirsch’s concepts of path dependency and gatekeepers remain relevant (Wikström, 2009).

A major leap between the concurrent and post-digitalization models is the emphasis on artist entrepreneurship. More recent conceptualizations of the music industry describe Do It Yourself (“DIY”) type models, where artists have more choice and ability to perform functions previously delegated to record labels and other artist service companies. Kusek’s “New Artist” model provides a good example as it characterizes direct interaction between the artist and fans and artist control over revenue streams. Other post-digitalization academics, however, have been more critical of the high degree of expectations of artists to be both creatives and business owners as there are potentially significant skills gaps (Hracs, 2015). While this may not be the case for all artists, at a minimum it was suggested that the requirements to do both business and composition might have detrimental effects on creative processes. Hracs’ development of the “Contemporary Manager” model is a reflection of this.

### ***Theories of Firm Formation***

Theories of firm formation grounded in transaction costs economics and entrepreneurship were also found to have existing and relevant links to the music industry. These theories are examined as they might contribute to both the exploration and understanding of current musician practices and music industry firm boundaries.

#### Transaction Cost Economics

One approach to the study of the changing music industry dynamics, specifically as they pertain to organizational boundaries and the vertically integrated label model, is to consider the theory of transaction costs economics (“TCE”). In this system, the equilibrium of firm boundaries exists where the organizational costs of transactions within the firm are equal to those to operate in the external market; associated costs to transact within a given market include costs of organizing, negotiating, and contracting and the “entrepreneur” that runs the firm must carry out the functions at costs below that of operating within the market (Willman, 2014; Coase, 1937). Applying TCE to the music industry, one might assume then that vertically integrated record labels exist because they carry out the majority of necessary functions of the music industry at costs below that of the aggregate to individually organize, negotiate, and contract with the numerous industry functions.

The second strand of TCE literature introduces asset specificity<sup>2</sup> to the study of TCE. Specifically, Williamson concludes that “classical market contracting will be efficacious whenever assets are nonspecific to the trading parties... and internal

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<sup>2</sup> Williamson should also be credited with introducing the implications of bounded rationality and opportunism on the study of TCE, however, the focus here is on asset specificity (Willman, 2014).

organization will displace markets as assets take on a highly specific character” (Williamson, 1981). Applied to the analysis of musical networks, Leyshon notes the importance of asset specificity in relation to the potential disruptiveness of software on the various networks within the musical network model. Moreover, Leyshon identifies creativity networks as having high asset specificity and reproduction and distribution networks as having relatively low asset specificity (Leyshon, 2001). Applying these theories to the contemporary music industry helps explain locations of firm boundary shift, specifically as it pertains to the significant changes in the reproduction and distribution networks. Lastly, Gander and Rieple apply TCE theory to the music industry in a study of the relationships between major and independent labels. The study finds that TCE only partially explains the existence of both major and independent labels and that other moderating variables such as governance efficiencies help explain the “hybrid organizational structures” (Gander and Rieple, 2004).

### Entrepreneurial Theories

Another strand of literature that was found to have ties to the creative industries includes work surrounding entrepreneurial theories. Building upon Knight’s works regarding risk and uncertainty, Kihlstrom and Laffont develop a theory that describes the relationship between risk aversion and prospects of becoming an entrepreneur. In this model, individuals are presented with two options: “operating a risky firm or working for a riskless wage” (Kihlstrom and Laffont, 1979). The end findings suggests that highly risk averse workers ultimately end up working for less risk averse entrepreneurs. In an alternative model of entrepreneurial firm formation, Laussel and Le Breton challenge the notions of variable risk aversion purported by Kihlstrom and Laffont. Contrary to the

former, they describe both the entrepreneur and worker as risk neutral, however, having different “productive efficiencies” (Laussel and Le Breton, 1995). Although not directly related to any one industry, these theories provide interesting insights into individual level characteristics of independent musicians operating in the DIY spectrum. Finally, Schumpeter contributes immensely to this field through his works in economic development. Schumpeter’s process of “creative destruction” describes simultaneous industrial creation and destruction that occurs as the result of “new combinations”, or the introduction of new products, new production methods, new markets, new product inputs, and new forms of organization (Essig, 2015). Although Schumpeter’s unit of analysis is the industry and not the individual or firm, his work offers some interesting insights into the transitional nature of the music industry.

While the previous conceptions of entrepreneurial activity are more theoretical, entrepreneurial theories or studies as applied directly to the creative industries are generally more descriptive in nature and suggest alternative motives for entrepreneurship. Essig, for example, develops a means / ends model of entrepreneurship applicable to the arts industry in which artists conduct entrepreneurial activities through their means to achieve desired ends; the process is mediated by a knowledge based system of for-profit firms, non-profit corporations, artist controlled production, or other discovered and created connections (Essig, 2015). Other contemporary studies suggest additional motivations for entrepreneurial activity within the music industry, including reduced barriers to entry, “esteem value”, and opportunism, among others (Hracs, 2012; Brown, 2012; Young and Collins, 2010).

### ***New Venture and Entrepreneurial Growth***

Lastly, literature on new venture and entrepreneurial growth was reviewed. This literature focuses on growth stage taxonomy and associated characteristics and becomes particularly interesting when it is considered in conjunction with the concept of artist growth. As discussed above, some of the new music industry models prescribe that artists self-perform many of the previously contracted functions. An examination of entrepreneurial growth stage taxonomy provides insight into some of the challenges faced by independent musicians.

As introduced in one of the first taxonomy based empirical studies, Hanks et al. develop a taxonomy of organizational growth stages defining the four distinct stages as start-up, expansion, maturity, and early diversification (Hanks et al, 1993). Johnson et al later depict this process as the “entrepreneurial life cycle”, categorizing the progression through start-up, growth, maturity, and exit and identify the major constraints and challenges associated with each stage as shown in **Table 3** (Johnson et al, 2011). Flynn and Forman further the study of entrepreneurial growth stages by examining relationships between intermediaries such as Venture Capitalists (“VCs”) and New Venture Organizations (“NVOs”). They find that VCs positively affect the performance of the NVO, depending on the life cycle stage of the organization by helping secure resources, aiding in long-term planning, and providing administrative functions to technically minded entrepreneurs and scientists (Flynn and Forman, 2001).

Entrepreneurial Growth Stage	Key Challenge
Start-up	Finding adequate capital and financing
Growth	Transitioning from entrepreneurial to managerial tasks
Maturity	Creating new growth in mature stages of organization
Exit	Determining the proper exit route for the venture

**Table 3: Entrepreneurial Growth Stages and associated key challenges (Johnson et al, 2011)**

Within the music industry, Next Big Sound has developed a “Taxonomy of Artists” (Next Big Sound, 2016). Using online data, the taxonomy categorizes artists according to social media presence, video streaming, and Pandora Radio into five groups: Undiscovered, Promising, Established, Mainstream, and Epic. The median values for each artist stage are depicted in **Table 4**.

Artist Stage	Facebook Page Likes	Twitter Followers	Instagram Followers	YouTube/Vevo Video Views	Pandora Artist Station Adds	Pandora Spins
Undiscovered	12	6	42	207	15	1,138
Promising	141	33	245	8,199	91	9,765
Established	3,486	606	3,936	690,025	1,607	354,466
Mainstream	20,626	4,973	26,163	5,918,360	15,738	5,797,440
Epic	114,748	43,817	240,410	63,405,000	92,093	33,681,700

**Table 4: Taxonomy of Artist median values as reported by Next Big Sound, 2016.**

## Research Design and Methodology

Building on the aforementioned literature, the objectives of this research were twofold. Firstly, the research sought to explore the activities and roles of contemporary independent musicians and entrepreneurs and the dynamics within the larger music industry field. Specifically, the research aims to address the range of activities that independent musicians and entrepreneurs are performing by conducting exploratory

interviews and then, using existing literature, theories, and industry models, help explain why these actors might be performing those activities. Secondly, the research seeks to expand upon existing music industry models through the development of a new model that could be suitable to the types of entrepreneurial activity observed within the growing industry<sup>3</sup>.

### ***Qualitative Research***

This research is based on an exploratory and qualitative study of the music industry. Through interviews with key actors in the space, including musicians, bands, songwriters, music technology entrepreneurs, artist managers, business managers, record labels and other critical actors, the research aims to provide a comprehensive study of an industry in flux. Data was collected by focusing on two key groups within the industry: independent musicians and songwriters and those responsible for providing artist focused services. Further supplementary information was collected through completion of a four week short course on the history of the music industry<sup>4</sup>, participation in music industry networking events in London and Nashville<sup>5</sup>, and reviews of contemporaneous industry data and reports.

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<sup>3</sup> As Identified in the International Federation of the Phonographic Industry's ("IFPI") 2016 "Global Music Report", total global music revenue is up 3.2%, despite the fact that physical and download revenues were down by 4.5% and 10.5%, respectively.

<sup>4</sup> Course titled "Music Business Foundations", provided through Coursera.org and Berklee online. The course is instructed by John Kellogg, an entertainment lawyer and Assistant Chair of Music Business Management at Berklee College of Music.

<sup>5</sup> Events included topical industry meetups through the Young Guns Network, a London based organization for young professionals in the media and music industry, and participation in and observance of songwriting "writing rounds" conducted in Nashville through the Nashville Songwriters Association International and an invitation to observe a co-writing session from one of the interviewed bands.

***Independent Musicians and Songwriters***

Independent Musicians and songwriters were interviewed in two music hubs: Nashville, TN and London, UK. While the notion of being “independent” can have multiple meanings in the music business, for the purpose of this study, independent refers to musicians that were not currently signed to a label (Major or Independent) or publishing deal. Using similar metrics as developed in Next Big Sound’s “Artist Taxonomy”, **Table 5** summarizes key demographics and statistics of interviewed artists<sup>6</sup>.

Artist ID	Interview Type	Music Genre	Country	Twitter Followers	Instagram Followers	Facebook Likes	YouTube/Vevo Video Views
1	Semi-Structured	Alternative Country / Rock	USA	3,564	804	11,429	133,764
2	Semi-Structured	Country	USA	1,572	521	1,113	1,950
3	Semi-Structured	Singer / Songwriter	USA	63	N/A	480	N/A
4	Semi-Structured	Singer / Songwriter	USA	1,002	403	540	51,446
5	Semi-Structured	Hip Hop and Rap	UK	905	186	96	29,404
6	Semi-Structured	Alternative Rock	UK	2,706	1,217	7,135	75,897

**Table 5: Musician and Songwriter demographics, social media, and video streaming**

<sup>6</sup> Where available, data was sourced to nextbigsound.com. Otherwise, data was collected by individually collecting figures from the respective media sites. All reported numbers are as of June 15, 2016. Only videos officially released by the artist are included. Numbers represent aggregate data of all artist uploaded content.

As the research seeks to identify trends and themes throughout the entire industry, musicians from a variety of genres were interviewed. Applying Next Big Sound's taxonomy, the artists that were interviewed aligned with the undiscovered and promising stages of artist development. Interviews were conducted in a semi-structured manner in either individual or group settings and followed a topic guide that was organized to cover five key areas including artist background, community, business, technology, and challenges.

### ***Music Industry Entrepreneurs and Professionals***

Interviews were also conducted with a variety of more traditional music industry professionals as well as emerging music technology focused entrepreneurs. Semi-structured and unstructured interviews were conducted in person in Nashville, TN and London, UK or virtually with organizational founders and senior management level personnel. A summary of contributing music industry entrepreneurs and professionals is included in **Table 6**.

Interviewee	Music Business Function	Role in Company
1	Music production and media	Co-founder
2	Digital marketing and media development	Founder
3	Song writing and co-working	Founder
4	Musician tax accounting	CPA
5	Major label	VP
6	Creative sector business planning and consulting	Creative Business Consultant
7	Live media and concert streaming	COO
8	Music business planning, artist management, and funding	Business Manager
9	Live event bookings	CEO and Co-Founder
10	Music business education and artist management	Founder and Director
11	Live event bookings and ticketing	Co-Founder
12	Fan and consumer focused networking platform	Founder
13	Capital provision (crowd funding)	Founder
14	Capital provision (private investment)	Co-Founder

**Table 6: Music industry entrepreneurs and professionals interviewed**

## Data

In an effort to understand some of the new and emergent activities and roles exhibited by contemporary independent musicians and music industry entrepreneurs, a thematic analysis of the data was conducted. Using transcripts, audio recordings, and notes produced during the course of the interviews, themes were identified and reported as discussed below.

### ***Thematic Analysis***

Leyshon's "Musical Network" model was selected as the baseline for the thematic analysis as it is one of the first models to account for the digitalization of the music industry. The data was analysed in the context of the existing industry functions; a discussion of new instances of industry functions is included in the **Results** section. For the purpose of the analysis, specific interrelated industry functions within each network were grouped together when appropriate. Emergent themes and perceived challenges as discussed during the course of the interviews with musicians and entrepreneurs were identified and any instances of potentially disruptive "new combinations" created by the music industry entrepreneurs are included in the column titled "New Combination". A summary of the thematic analysis is included in **Table 7**.

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Networks		Industry Function	Emergent Themes	Perceived Challenges	New Combination	
<b>Creativity</b>			Artists	-Creative control and rights ownership -New networks of collaboration -Importance of quality of content -Value of flexible supporting careers	-Access to capital -Content over-saturation -Capital vs. control trade-off -Multiple careers	-New product -New process
			Song Writing			
			Studio Musicians			
			Sound Engineers			
			Musical Instruments and Supplies	-Equipment as assets and investment -potential revenue stream		
			Performance Venues	-Increasing importance of live music revenues -Primary source of revenue (touring)	-Exposure vs. revenue paradox -Necessity of legitimacy	-New market -New product -New process
			Producers	-Decrease in fixed costs leading to more artist experimentation with recording and production	-Favor for favor effect	
			Recording Studios			
			Artist Management / Talent Agencies	-Importance of team and business plan -Changing roles -Key members of music network	-Building a team that aligns with artist's goals	-New product
			Legal Services			
			Recording Companies (Record Labels)	-Maintained roles as gatekeepers and status symbols -Value of new revenue streams and 360 deals	-Uncertainty of future revenue streams -risk vs. ownership	
			Music Publishing			
			Manufacturing	-Outsourcing of functions to independent manufacturers -Emergence of aggregator platforms -Direct sales largely at shows -Share of retail profits		
			Retail Outlets			
			Promotion and Distribution	-Importance of new channels including social media, online video, streaming services, playlist curation, self-promotion, and brand building	-Importance of self-promotion and brand building requires new skill sets	
<b>Consumption</b>		Shops / Stores	-Value of true fans and natural promotion -Creation of quality content			
		Electronic Delivery Channels				
		Mail Order				

Table 7: Summary of thematic analysis

## **Results**

The results of the thematic analysis are discussed by industry function and grouping, where applicable. Emergent themes, perceived challenges, and disruptive new combinations observed within each are discussed below.

### Artists, Song writing, Studio Musicians, and Sound Engineers

The Artists, Song writing, Studio Musicians, and Sound Engineers grouping refers to the “aesthetic producers”<sup>7</sup> within the creativity network. This group of industry actors is one of the focal points of many contemporary music industry models, as practitioners and scholars alike suggests that this group can and should be functioning more independently<sup>8</sup>. Interviews with independent musicians explored these claims in depth. Some unique themes emerged throughout the course of discussion.

Firstly, all artists that were interviewed had auxiliary jobs to support their music careers. While the ultimate goal was identified as growing into a financially sustained music career, at current levels, music generated revenues alone were not enough to cover the expenses of supporting a music career and daily life. Most of the artist met these requirements through flexible-hours jobs. Regardless of whether or not an artist had a management team, the challenges of managing multiple careers and the day to day activities of being a musician were a recurrent theme. This helps explain why some artists are looking for new networks of collaboration to assist in both the creative and business processes.

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<sup>7</sup> Term refer to the creatives in the “Loosely Coupled System” model.

<sup>8</sup> See (Kusek, 2014) and (Wikström, 2009).

Secondly, all of the independent artists were interested in some form of rights ownership of their music and maintaining creative control. This was characterized by the notion that the trade-off between music rights ownership and upfront capital is becoming more imbalanced and that creative control is even more important in a highly segmented commercial market. This phenomena is described as the capital vs. control trade-off and defines a scenario in which artists must make present day valuations and predictions regarding their future success. In practical terms, as an artist seeks additional funding, whether it be through a more traditional label contract or alternative source, they must decide how much control and ownership they are willing to forfeit.

Lastly, independent musicians emphasized the importance creating high quality content. As discussed with one band, “the double edged sword” of technology has simultaneously created a system of openings and barriers in regards to web enabled content production. Specific challenges include attracting the attention of both consumers and industry professionals in the saturated market; artists viewed high quality content as the mechanism to help overcome the challenges associated with low market entry barriers.

Music industry entrepreneurs operating around artists and song writers are addressing the aforementioned challenges by engaging in interesting new combinations of product and process innovation. One such entrepreneur created a 24 hour co-writing space to help songwriters work in safe and comfortable spaces on hours that accommodate unpredictable schedules. The anytime access facility is an example of a new product that is also impacting the traditional process in which songwriters work and connect by applying a co-working space type model. Other entrepreneurs have

focussed on different aspects such as capital provision and fan engagement. It is likely that the number of artists focused services will continue to grow as more artists elect to maintain more ownership and control of their creative endeavours.

### Musical Instruments and Supplies

Limited information was collected on the musical instruments and supplies industry function. However, it was apparent that some artists are thinking of instruments and supplies in more business minded terms, considering these and other equipment as business assets. Further study regarding entrepreneurial musicians and instrument and supplies functions is necessary.

### Performance Venues

Live performance venues and touring have been widely cited as the artists' most likely source of immediate cash flow<sup>9</sup>. Consistent with these prescriptions, interviewees identified live performance as their top source of revenue. For less established artists, however, access to venues can be limited as they must either self-perform booking functions or generate enough traction to work with top local booking agents. Either way, musicians need to build reputation to gain access to increasingly select venues. This leads to what was identified as the exposure vs. revenue paradox, or the scenario in which musicians must sacrifice revenue for the opportunity to build reputation and fan base. As such, many artists play shows as opening acts at large festivals that pay little or nothing in the hopes of reaching a larger audience. At the same time, these brand building shows can generate significant travel expenses and little revenue as the

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<sup>9</sup> See (Wikström, 2009).

likelihood of getting a guaranteed payment for performance is small<sup>10</sup>. Thus, tours that function as both brand builders and revenue generators can turn into loss leaders for early stage musicians, especially when the uncertainty of payment is high.

Music industry entrepreneurs have sought to disrupt this space by offering new products, new processes, and creating access to new markets. Some music technology focused companies are working on new products to better connect musicians directly with consumers through the creation of promotion and payment platforms. Others are creating new processes and markets by connecting smaller venues directly with musicians through more efficient, transparent, and enjoyable platforms as well as creating new markets for private concerts. Thus, by focusing on artists at different stages in their careers, live music oriented entrepreneurs are both creating new markets and growing existing ones.

### Producers and Recording Studios

The production and recording functions are another part of the music industry that have been dramatically impacted by technological innovation. It is evident that significant reductions in the once prohibitively expensive costs of equipment ownership and recording have enabled more artists to experiment within these fields. It also appears that the residual effects of increased levels of self-production, mixing, and recording might be leading to new opportunities for collaboration. This was characterized by the significant number of available service for service (or “favor for favor”) networking and collaboration opportunities.

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<sup>10</sup> It is a common occurrence for musicians to be paid by the number of fans that attend the event (or door sales) which is unpredictable in unknown and new markets

While artists were generally positive about the prospects of networking and collaborating with other artists, some pointed out the potentially negative effects of good for good trading, including the devaluation of work. These insights suggest the importance of precedent setting and establishing co-creative norms, as is prominent in co-writing. Additionally, the perceived value of working with critically acclaimed producers or in professional studios did not seem to be affected by technological accessibility. Musicians that did have some form of or access to at home studios were using the studios largely for high quality demo and web content creation, not EP (extended play) or album production.

### Artist Management / Talent Agencies and Legal Services

The Artist Management / Talent Agencies and Legal Services grouping refers largely to the artist's "team", or people that traditionally helped the musicians with more business and legal oriented aspects. As discussed by Hracs and noted by interviewees, good management, booking services, and legal services have significant impacts on an independent musician's careers. Discussions with the interviewees around their management confirmed that many were seeking and finding managers that performed many of the functions described in Hracs' "Contemporary Manager" model (Hracs, 2015). However, in contrast to Hracs' findings regarding the manager coordination function, some of the interviewees identified that they were taking more active roles in the management of their networks, connections, and tasks. As described by one interviewee, their management team helps source connections and the artist is responsible for maintaining those relationships. Similarly with the business functions, the management team provides resources and guidance while the band is accountable

for regular performance and maintenance. Independent of discrete management style, all interviewees currently working with management identified the importance of having a good manager. Furthermore, all interviewees currently working with management self-performed these (or similar) tasks by themselves at early stages in their careers. Facing some of these challenges alone appeared to create a sense of confidence amongst the artists when it came time to address the issues associated with developing a team.

Music industry entrepreneurs have taken interesting approaches to impacting these spaces through the development of new products that aim to provide connections and education. Business models discussed varied from virtual management platforms that help connect musicians and management teams based on project needs to the creation of music business specific tax accounting literature. Other entrepreneurs seeking to impact the education space were aiming more broadly and creating new music business curriculum based on business experience and experiential learning within music management and other parts of the industry.

### Recording Companies (Record Labels) and Music Publishing

Record labels and music publishing companies have traditionally held central and prominent roles within the music industry and the networks associated with both are extensive. However, as the industry continues to evolve, some have questioned the relevance and future roles of these incumbents<sup>11</sup>. As such, many of these companies have been exploring new business models and ways in which to participate in the available sources of income. Labels, in particular, have started contracting with artist in

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<sup>11</sup> Wikström states “There is no place for the record label in the new music economy” (Wikström, 2009, pg. 143).

new ways, including with what are termed “360 deals” that enable participation in additional revenue streams<sup>12</sup> generated from licencing, corporate sponsorships, and live performance, among others. As explained by industry professionals, these types of contractual relationships help mitigate some of the uncertainties associated with the future of record label specific revenue streams.

Interviewed artist and entrepreneurs had differing opinions regarding 360 deals; some were more positive about the prospect of signing an all-inclusive record deal, while others viewed the deals as invasive. However, despite individual opinions regarding 360 deals, interviewed artists and entrepreneurs did agree on the value of the networks of resources that both labels and publishers provide. From a strategic standpoint, this has led more entrepreneurial artists to explore ways in which they might work with labels and publishers in less traditional capacities, accepting more of the business risk at earlier stages in their careers in exchange for ownership of anticipated future revenue streams and the prospect of more favourable deal terms. Interestingly, this entrepreneurial position appears to fit Kihlstrom’s and Laffont’s proposition of the entrepreneur faced with the perception of “operating a risky firm or working for a riskless wage” (Kihlstrom and Laffont, 1979).

### Manufacturing and Retail Outlets

The manufacturing and retail outlets industry functions have undergone some of the most dramatic changes within the music industry. As identified by Leyshon, these functions are contained within the reproduction and distribution networks and thus have

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<sup>12</sup> While there are exceptions, especially amongst independent labels, record labels traditionally only participated in music recording revenue streams and, as explained by Wikström, in 360 deals “the record labels accept most of the business risk, and the artist lose most of their creative control” (Wikström, 2009)

low asset specificity (Leyshon, 2001). According to Williamson, as nonspecific assets, these industry functions should be highly susceptible to “classical market contracting” and largely driven by production costs (Williamson, 1981). As discussed with interviewees, most have contracted with companies that provide retail functions via both physical and digital mediums and the motives for choosing such companies appeared to be principally economic.

Consistent with the contemporary debate on artist payment, there is a significant concern amongst musicians regarding compensation for the work that they create. Generally, artists have selected companies to perform manufacturing and retail functions in both the physical and digital spaces that they perceive as operating fairly. Artists also highlighted the importance of a band or company website as a point of direct album and merchandise sales as the direct links between artists and consumers serve as key sources for information exchange.

### Promotion and Distribution

Promotion and distribution functions operate in the distribution network and, like other functions belonging to this space, have also undergone significant changes over the past several decades. As characterized in Hirsch’s Top 40 industry model, the Promoter Distributer played a key role in connecting the record labels with radio programming and was responsible for making sure that an artist song was heard by the public. The overall role of the promoter distributor has not changed, however, the number of new channels of which to promote and distribute through and who is doing the promotion and distribution has. Specific emphasis has been put on the importance of multimedia applications and brand building as there is a distinct perception shift from

the idea of promoting something to be heard on the radio to the idea of marketing a brand to be used in multiple media applications.

As expected, all artists interviewed undertake active roles in the self-promotion and distribution of their materials through social media, online video, and various streaming services. A key variant between those interviewed, however, was the degree to which an artist used tools to track and measure their own growth or the effects of their promotion and distribution efforts. As explained by an artist entrepreneur that also manages a digital marketing consultancy, being able to understand and interpret data is critical to understanding how an artist might reach new fans or convert the casual listener into a concert goer. This was identified as a challenge for some of the artists as this function does require entirely new skillsets. Although perceived as a potential challenge, artists did reiterate the point of understanding one's fan base and the mediums in which those fans consume music.

Furthermore, a new class of tastemakers is entering the music promotion and distribution scene. One such occurrence is the gaining importance and function of playlist curation within streaming based services. In this capacity, playlist curators design musical playlists by selecting music that is tailored to a specific target audience and have a significant amount of influence over an artist's exposure. Not surprisingly, many labels have formed their own playlist curation teams to help promote signed artists. Independent musicians will likely shift focus towards this aspect of the digitalized music industry as well.

### Shops/Stores, Electronic Delivery Channels, and Mail Order

Shops/Stores, electronic delivery channels, and mail order make up the consumption network and represent the places that music is purchased. As Leyshon broadly defines the network as the “organizations, delivery systems, and consumers themselves” and the organizations and delivery systems were addressed in the discussion of the manufacturing and retail outlets section, this part will focus largely on the artist-consumer relationship (Leyshon, 2001).

Throughout the discussion of these relationships, artists and music industry entrepreneurs indicated that they are focusing on the importance of satisfying the key customers. In addition to expanding music reach and penetration, artists stressed the importance of growing the demographic of fans that will be likely to both purchase the majority of content that is created and organically market the artist. Consumer engagement techniques discussed include focusing on the entire fan experience (pre, during, and post consumption), being engaging and responsive on social media and other direct platforms, and involving fans in the design and co-creation of products and merchandise. However, underlying all of this, artists emphasized the necessity to create good musical content that consumers will genuinely enjoy, as actively engaging consumers without quality content was perceived as wasted effort.

### New Industry Functions

Relative to the baseline model, two new industry functions were identified during the research process: alternative finance providers and fan and consumer oriented services. As summarized in **Table 8**, alternative finance providers and fan and consumer oriented services exist in the creativity, distribution, and consumption

networks, and emphasize the growing importance of the direct connections between the creativity and the consumption networks.

Industry Function	Suggested Musical Network	Description	Entrepreneurial New Combinations
Alternative finance providers	Creativity, distribution, and Consumption	Alternative funding sources from traditional advanced based system. Includes raising money through crowdfunding based websites and private investors of which are generally used to support creation of musical content, and associated marketing and touring expenses	-New markets
Fan and consumer oriented services	Creativity, distribution, and Consumption	Next generation platforms that encourage fan-fan and fan-artist interaction. Going beyond the concept of digital fan clubs, these platforms provide new ways for fans to engage with artist, artist created content and other fans	-New products

**Table 8: New industry functions**

The alternative finance providers allocate capital to artists, independent of the typical cash advancement system utilized by labels. Although it is a small but growing class of financiers, alternative finance providers largely consist of participants in crowd funding campaigns and a smaller number of private investors. As this is still a relatively nascent field, it is undetermined how relationships between alternative finance providers and artists will evolve in the future. What is evident, however, is that entrepreneurs and investors are creating new types of markets that have the potential to further disrupt the ways in which musicians can be funded.

Fan and consumer oriented services refer to the growing number of services that focus on fan-fan and fan-artist interaction. Activities associated with fan and consumer oriented services go far beyond the typical functions identified within the distribution network that end at the point of purchase. Instead, this new industry function characterizes the growing number of ways that fans can engage with artist created content or develop networks amongst themselves. The 3<sup>rd</sup> party nature of these services aim to supplement rather than replace the necessary direct artist-consumer relationships.

### **Conceptualizing an Entrepreneurial Growth Model**

The last part of this paper develops an entrepreneurial growth model of the music industry using a synthesis of the prior literature and research. As shown in **Figure 1**, the model describes the relationship between the size of an artist's following (Y-axis 1) with their respective progression through artistic stages (X-axis) and the scale and scope of the individual artist's musical network dimensions (Y-axis 2). The X's denote the potential stall points in the growth cycle and the intermediaries serve to mediate the transition from one stage through to the next. The shaded rectangular areas denoted N1 through N5 represent the cumulative musical network that is developed at each artist stage and are comprised of the individual industry functions within the creativity, reproduction, distribution, and consumption networks. The total cumulative network size at any given point in time is the sum of current and past networks.

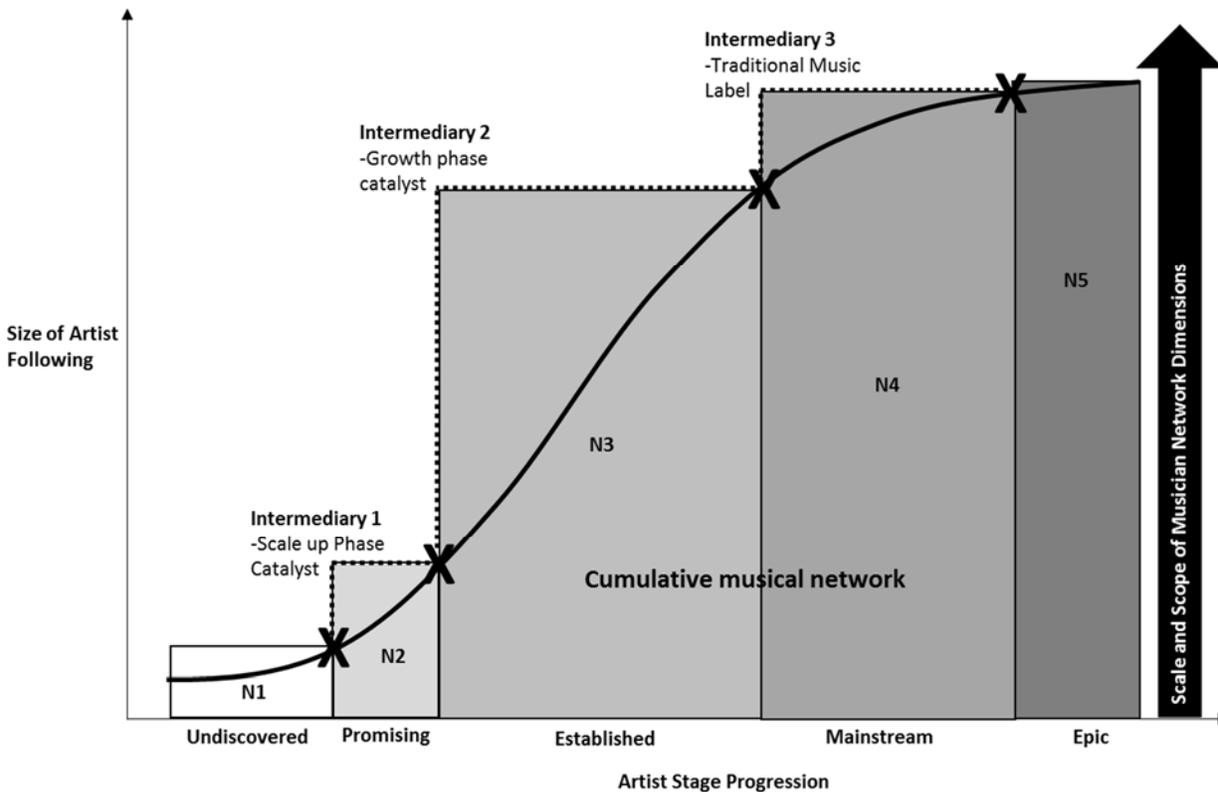


Figure 1: Entrepreneurial growth model of the music industry

### ***Stall points and the role of intermediaries***

The role of intermediaries in the proposed model serve primarily to help artists transition from one artistic stage to the next and assist artists through the progression of the stall points<sup>13</sup> associated with growth. The stall points occur where there are significant differences in organizational typology and can be interpreted as the points at which many artists will fail to progress. Relative to the high technology industry, Hanks et al characterize these boundaries with changes in contextual and structural dimensions (Hanks et al, 1993). Applied to the music industry using the taxonomy developed by Next Big Sound, these points represent the boundaries between artistic

<sup>13</sup> The term “stall points” was graciously taken from a conversation with Dr. Brittany Jones.

stages and reflect the requirements for each artist team to increase the size and value of their respective networks and brands for continued and sustained growth.

As discussed with independent musicians and music industry entrepreneurs alike, the challenges associated with growth in the music industry are significant and include access to capital, audience visibility, ownership rights, and uncertainty and risk. These challenges can be contrasted with those identified by Johnson et al as they relate to entrepreneurial growth stages (Johnson et al, 2011). Thus, it is suggested that new and existing forms of intermediaries, identified as scale up phase catalysts, growth stage catalysts, and traditional labels, will be instrumental for independent and label artists alike<sup>14</sup> as they progress throughout the growth cycle. The proposed intermediary roles are summarized briefly in **Table 9**.

Intermediary Type	Intervention Points	Sample Offerings
Scale up phase catalyst	Provides resources and guidance past Undiscovered / Promising stall point and through Promising stage	Initial funding and start up resources
Growth phase catalyst	Provides resources and guidance past Promising / Established stall point and through Established stage	Additional funding and growth resources
Traditional Music Label	Provides resources and guidance past Established / Mainstream stall point and through Mainstream stage  <b>OR</b> Provides resources and guidance from the Undiscovered stage and through Mainstream stage	Staying power associated with brand recognition and discrete services <b>OR</b> full vertically integrated services

**Table 9: Summary of proposed intermediaries**

<sup>14</sup> It is important to note that while the scope of this research was on independent musicians, the notion of independence is only representative of an artist's status at a given point in time. As the music industry is largely driven by contractual relationships, artists can fall in and out of label contracts frequently.

While the concept of culture industry intermediaries is not novel<sup>15</sup>, the proposed model expands upon existing literature and suggests that new classes of intermediaries will play important roles at variable stages of the musician growth cycle, serving as knowledge and resource centers that help artists with efficiencies in transacting, strategy, and funding, among other activities.

***Cumulative networks of creativity, reproduction, distribution, and consumption***

As music industry entrepreneurs enter the various musical networks, both musicians and entrepreneurs will continue to grow and build their respective individual networks. Similarly, those on the consumption side will continue to seek out new ways to interact with the musicians and artists that they admire. Thus, the model explains the music industry from a dynamic and entrepreneurial perspective as a system of staged networks. While each network is comprised of the creativity, reproduction, distribution, and consumption networks, network composition will vary at each artist stage as certain industry functions will hold more weight; it is the artist and artist's team responsibility to create, build, and navigate through these networks. The intermediaries discussed above may provide valuable assistance in this capacity.

Each artist stage is associated with a different part of the cumulative network that might become part of the artist's overall value as they seek to grow themselves as a brand. While it is probable that there will be some network attrition as the artist progresses through the growth cycle, those network dimensions that were once utilized in other capacities might contribute to future revenue streams in the forms of

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<sup>15</sup> See Essig, 2015.

advertisements or endorsement deals. Thus, it is argued that entrepreneurial artist could potentially benefit more from the value of creating their own networks, instead of absorbing pre-existing ones. Mathematically this is such that  $N1+N2+N3+N4 > N4$ . While the equation does not account for the time value of going instantaneously from N1 to N4 as is often the case with a fully integrated system, it also does not account for the prospects of opportunity and career longevity associated individual network building. Lastly, it is suggested that incumbents might benefit from a more entrepreneurial system as they seek to reduce the amount of risk in their investments and expand their own networks. This is characterized by reduced uncertainty associated with more information and access to more non-traditional resources that will inevitably be associated with the exploration and exploitation functions of the entrepreneurial artists.

## **Conclusion**

Practitioners and academics alike have made strong claims regarding the future of the music industry. This paper provides one explanation of how the model of an industry in flux has changed and the ways in which independent musicians, music industry entrepreneurs, and professionals are responding. As more music industry entrepreneurs and service providers seek to enter the market in both lower and higher asset specific functions, the number of paths available of which an artist might progress will undoubtedly increase. However, this is not to say that the role of tastemakers and gatekeepers is diminishing; it is argued that the role of gatekeepers and tastemakers will likely remain a critical function as the near infinite availability of content present in an environment of increasing media outlets requires filtration mechanisms. Furthermore, this research has highlighted some of the key challenges faced by contemporary artists

and music industry entrepreneurs and the importance of individual musical networks. It is suggested that new forms of intermediaries might emerge to help artists and entrepreneurs navigate through increasingly diverse creativity, reproduction, distribution, and consumption networks and advance through the potential stall points along the way.

While the research has sought to provide a comprehensive study, several limitations should be considered. Firstly, the music industry supply chain is large and complex and contains numerous actors. As evidenced by the research, new entrants are rapidly entering the industry and the number of industry participants continues to grow. Though saturation was reached for the scope of this research, the study was limited to focusing on a relatively small number of independent musicians, music industry entrepreneurs, and professionals. Due to time and capacity constraints, some actors could not be included. Secondly, as discussed by both music industry academics and practitioners, the industry is highly contextual and geographically dependent. As the research was conducted primarily with interviewees located in two specific music industry hubs, the validity of the model should be tested in other geographical contexts. Lastly, the taxonomy used to characterize bands was developed by Next Big Sound and, at the time of this research, includes dimensions based on social media, video streaming, and Pandora Radio data. While this provides a good baseline, it is suggested that additional structural, contextual, and musical network dimensions of a musician or artist and their associated teams needs to be included in developing future taxonomies.

Other opportunities for future research include studies of new and emergent supply chain actors. As this research sought to provide the level of breadth necessary to develop a new industry model, there are opportunities for future researchers to explore music industry entrepreneurship in greater depth as more artists explore other paths to sustainable music creation. Finally, the emergence of new music industry functions, such as alternative finance providers, and new intermediaries, as suggested by this paper, will provide opportunities for studies around the roles of intermediaries and their respective impacts on entrepreneurial and artistic success.

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