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The Norwegian Music Industry in the Age of Digitalization



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Richard Bjerkøe

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Executive Summary

This thesis sets out to investigate impacts the digitalization of music has had for the music industry in Norway. The authors decided to explore the following research problem:

How has digitalization and the consequent downloading of music changed the economic situation for the Norwegian music industry and for the Norwegian record artists the last 10 years?

The following two sub-problems were also explored:

1. What are the primary income sources for Norwegian record artists today?

2. Has the total music related income for record artists today decreased compared to 10 years ago?

The thesis then goes on to review and discuss relevant theory on the subject; focusing on disruptive innovation and network economies.

The thesis was originally intended to consist of three main parts: interviews, questionnaire, and annual reports. But, due to a lack of respondents in the questionnaire, this section was reduced to a brief discussion of findings.

The authors conducted 14 in-depth interviews with different members of the music industry in Norway. A 10-question discussion guide was created and followed in all of the interviews.

The annual report section followed a framework developed by Johansson and Larsson (2010) to estimate the revenue of the Norwegian music industry as well as calculating the income for Norwegian music artists. In order to find these amounts many annual reports had to be collected, and the numbers in these reports were used to: find total record sales, calculate total remunerations collected, estimate total live market and to find the total amount of state subsidizations and grants. This study was done for the period from 1999 to 2009.

The authors found that the total music industry revenue in Norway was almost NOK 1,9 billion in 2009, increasing from NOK 1,4 billion in 1999. Adjusted for inflation the industry has only seen 4% growth in this period of time. Total artist income adjusted for inflation was NOK 545 million in 2009, up from NOK 255

million in 1999, and has grown 114% in the same period. Based on 'Kunstnerundersøkelsen' (Heian, M. T, K. Løyland, P. Mangset, and B. F Bakken. 2008), the authors estimated that the number of music artists in Norway increased with about 28% in the period from 1999 to 2009. On a per capita basis the artists have gone from NOK 80 000 in annual income from music, to NOK 133 000, which is a 66% increase.

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List of organizations and abbreviations

Organizations:

Arts Council Norway – Norsk Kulturråd – State institution that manages Norsk Kulturfond and distributes funds to cultural purposes.

Concerts Norway – Rikskonsertene – Organization underlying the Ministry of Culture established to make live music widely available

FFLB - Fond for Lyd og Bilde – foundation that hands out music related grants

FFUK – Fond for Utøvende Kunstnere – foundation that hands out music related grants

FONO – interest organization for Norwegian record companies

GramArt – Gramofonartistenes Forening – interest organization for Norwegian music artists

Gramo – collects remunerations for music use in Norway for performers and producers.

IFPI – International Federation of the Phonographic Industry – interest organization for the recording industry worldwide

Mfo – Musikernes fellesorganisasjon – trade union federation for Norwegian music artists, church musicians, music educators, opera singers, ballet dancers etc.

NCB – Nordic Copyright Bureau - administers the copyrights in the recording and production of music on cd, dvd, film, video, etc on behalf of composers, lyricists and music publishers.

Norwaco – copyright organization that enters into agreements and collects remunerations for the secondary use of sound and moving images. Norwaco also distributes the compensation given for private copying.

PKV – Privatkopieringsvederlag – the state compensation for private copying

TONO – manages performance rights and collects remunerations for music use in Norway for composers, lyricists and music publishers.

Abbreviations:

MP3 – MPEG-1 or MPEG-2 Audio layer 3, is a patented digital audio encoding format. It also a common audio format for consumer audio storage.

CD – Compact Disc, physical data storage medium. Often used for consumer audio storage

Streaming (media) – This thesis refers to streaming media, which is multimedia data transferred in a stream of packets that are interpreted and rendered, in real-time, by a software application as the packets arrive, Allowing for instant music consumption.

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Introduction

The music industry has experienced massive changes the last decade. The digitalization of music and the increased accessibility of music through the Internet and file sharing have left the traditional music industry – especially the record companies – in the dark as to what will happen next. During this period, consumers have gone from purchasing music in record shops to *streaming* their favorite songs directly to cell phones and computers. This *disruptive technology* (Bower and Christensen 1995) has left former industry giants struggling to survive while new challengers are emerging. Statistics show that the record sales have been cut in half the last decade (IFPI 2009). This has caused lively debates on whether and how the intellectual property rights of artists and record companies should be protected, and also how music should be distributed. Illegal downloading has played a significant role in changing the habits and purchasing patterns of consumers, and the actual income model for the musicians today.

When one speaks about the music industry, there is a tendency to equate this industry with the record companies that market and develop the artists and their records in different formats, including digital. But the music industry consists of much more than just record companies. (IFPI – The Broader Music Industry 2006):

“The recorded music industry is the engine helping to drive a much broader music sector, which is worth more than US\$100 billion globally. This is over three times the value of the recorded music market, and shows music to have an economic importance that extends far beyond the scope of record sales.”

Some of the important sectors are: music retail, music publishing, music hardware, music press, sound recording, tours and concerts, merchandise, royalties and rights with their respective collecting organizations.

The music industry is defined in this thesis as the parts of the music industry closely affiliated to recorded music. This means that according to the definition the music industry consists of record sales (both physically and digitally),

remunerations collected and distributed by the different collecting societies, the live music market (concerts, festivals etc), and state subsidizations and grants. Musical ensembles, orchestras, operas, choirs, conductors, music teachers etc. are *not*, by this definition, considered to be part of the music industry. It would be wrong to say that musical ensembles etc. do not record music, but this is not their main business (often not at all). Funds that have gone to or from any of these have been subtracted from the respective calculations. When the authors use the term 'music industry', the above definition is therefore the one used.

This thesis sets out to determine the magnitude of the change, and how the income model looks now compared to 11 years ago. It also analyzes and discusses the consequences of the technological change for the musicians themselves, the record labels, and the surrounding actors of the industry. Some sees the topic as controversial and there are many stakeholders, all skirmishing to adapt to the "*new*" musical industry that has emerged post digitalization of music.

The thesis is divided into two main parts in order to research the industry and sufficiently document how the situation has developed. The first part analyzes the viewpoints of the various stakeholders in the industry, mainly through interviews, revealing a largely negative impression of the situation throughout the industry, however not without exception. Secondly, and perhaps most interestingly, it analyzes the industry accounting figures, modeled after similar work done in Sweden. This gives an overview of the economic development the last 11 years for the entire industry as a whole and for the artists, before discussing this information in light of the findings in the first part. In addition to this, a questionnaire was made and sent out to Norwegian music artists, but because of a very low response rate and skewed data, only a few findings will be presented from this part. Note that these findings will only serve as indications and not evidence, for how things are in the industry.

The two main parts, and the results from the questionnaire, collectively make up a comprehensive picture of the Norwegian music industry today and its developments since the late 90s. There are few scientific works to date on the entire industry in Norway. This thesis hopes to provide a contribution towards a greater understanding of the situation and developments the last decade.

Background for the research

Through technological development the distribution and acquiring of music through the Internet was made possible in the 1990s. This development has in time not only been accused of leading to massive drops in CD-sales, but has also lead to public debates on the distribution of copyrighted material over the worldwide web. It is per definition illegal in most countries to download and share copyrighted material through the Internet, but despite this, file sharing of copyrighted music and other information persists globally.

Much research has been done with a focus on the music industry, especially after the introduction of Napster. Since then much of the empirical research has revolved around illegal downloading of music and what consequences this has had for music sales (Blackburn 2004; Liebowitz 2008; Oberholzer-Gee and Strumpf 2004; Zentner 2005). Blackburn (2004) studied total CD sales in the US and compared them to download statistics from the most popular file sharing networks. The conclusion he reached was that file sharing has a significant negative effect on total CD sales, but a positive effect for unknown artists. Since the negative effect is so large for the popular artists, who accounted for most of the total sales, and the positive effect were only present for relatively unknown artists, who only accounted for a smaller part of the sales, the total effect of file sharing was severely negative. Both of the studies from Peitz and Waelbroeck (2004) and Zentner (2005) showed that file sharing has created a significant reduction in sales of music. In fact, all of the studies that the authors have reviewed on this topic except one (Oberholzer-Gee and Strumpf 2007) have shown that illegal downloading has had a negative effect on total music sales. The study by Oberholzer and Strumpf was later explored and retested by Liebowitz (2008) who came to the opposite conclusion on their research. With this in mind, it becomes clear that illegal downloading has had a significant negative effect on music sales. These negative effects on sales have been present in Norway as well.

In Norway the music industry has gone from a peak of almost 15,5 million physical records sold in 1998, to a total sale of about 8,3 million physical records in 2009. This means that the industry has had a drop of physical sales volume of

more than 46% in roughly 11 years.¹ In income the figures show that a total income of about NOK 966 million in 1999 has been reduced to NOK 593 million in 2008 (Appendix 1).² This clearly shows an industry in rapid decline related to income from physical and digital copies sold.

This massive decline in music sold has affected several stakeholders in the music industry, but particularly the artists themselves and their record labels. A large change in an industry like this will have its fair share of media coverage and debate. One of the problems when focusing on the issue has however been the focus on record sales exclusively, and the income drops related to the drop in sales of these. The music industry is however much more than record sales, and record sales is perhaps not even the most important source of income anymore. There are however no scientific reports on the issue in Norway, which can clearly determine the effect the sales drop in recorded music has had for the artists and the other stakeholders. In this thesis the authors hope to shed more light on the issue by talking to the stakeholders themselves and also comparing these findings with the actual figures from the industry the last 11 years.

Problem formulation and thesis objectives

During the last the last decade the global music industry has experienced large changes in its income structure. Drops in the sales of physically distributed copies have caused massive waves in the industry both globally, and locally here in Norway.

How have these changes affected the musicians themselves and the other stakeholders in the industry? More specifically what are the changes in income level and income sources for the artists and the surrounding stakeholders? Based on these questions the authors have decided to focus on the following.

¹ Digital sales were not included in the volume sales because of the difficulty of comparing the number of digital units with physical ones.

² Inventory value of records sold, exclusive VAT.

Research problem

How has digitalization and the consequent downloading of music changed the economic situation for the Norwegian music industry and for the Norwegian record artists the last 11 years?

The authors will also try to find answers to the following to sub-problems that are directly linked to the research problem.

Sub problems:

- 1. What are the primary income sources for Norwegian record artists today?***
- 2. Has the total music related income for record artists today decreased compared to 10 years ago?***

Research objectives

The study hopes to accomplish the following research objectives to solve the stated research problems:

- Describe the Norwegian music industry and identify its most important key stakeholders.
- Describe the last decade's massive disruptions through theoretical descriptions.
- Conduct in-depth interviews with all of the most important key stakeholder groups.
- Perform a questionnaire survey towards the artists to quantitatively measure how the change has affected artists from various backgrounds.
- Identify and measure all key figures from the industry to research the changes occurred in different income sources the last decade.

Theoretical framework

In the theoretical framework the authors seek to put the changes experienced in the industry the last 11 years into a context that can explain why the changes have occurred, using strategic research and foundation. The fact that record sales and industry income has changed massively the last decade, is not in dispute and the authors do not wish to explore this fact. By putting the changes into the setting of the work by Christensen on disruptive innovation and Shapiro and Varian's take on the importance of intellectual property rights in a network economy, the authors hope to shed light on the developments in a strategic setting.

Disruptive innovation

Value networks are central in disruptive innovation theory for creating a context where the firm can identify and respond to customers. A value network is a concept discussed by several academics, for instance Fjeldstad and Stabell (1998). However the authors refer to Christensen's definition in this paper: "The collection of upstream suppliers, downstream channels to market, and ancillary providers that support a common business model within an industry" (1998: 296). This is a good description of the workings within the music industry, both globally and in Norway. As such the authors consider the Norwegian music industry a value network. In such value networks industries often experience change and transformational development over time. The music industry with its large changes and value network is perhaps one of the best examples of this. Lampel, Bhalla and Jha (2008), who have done some research on the value chain evolution of the music industry, found that there have been six major disruptions in the music industry (Figure 1). This can be useful for explaining the changes observed in the research and putting them into a strategic context.

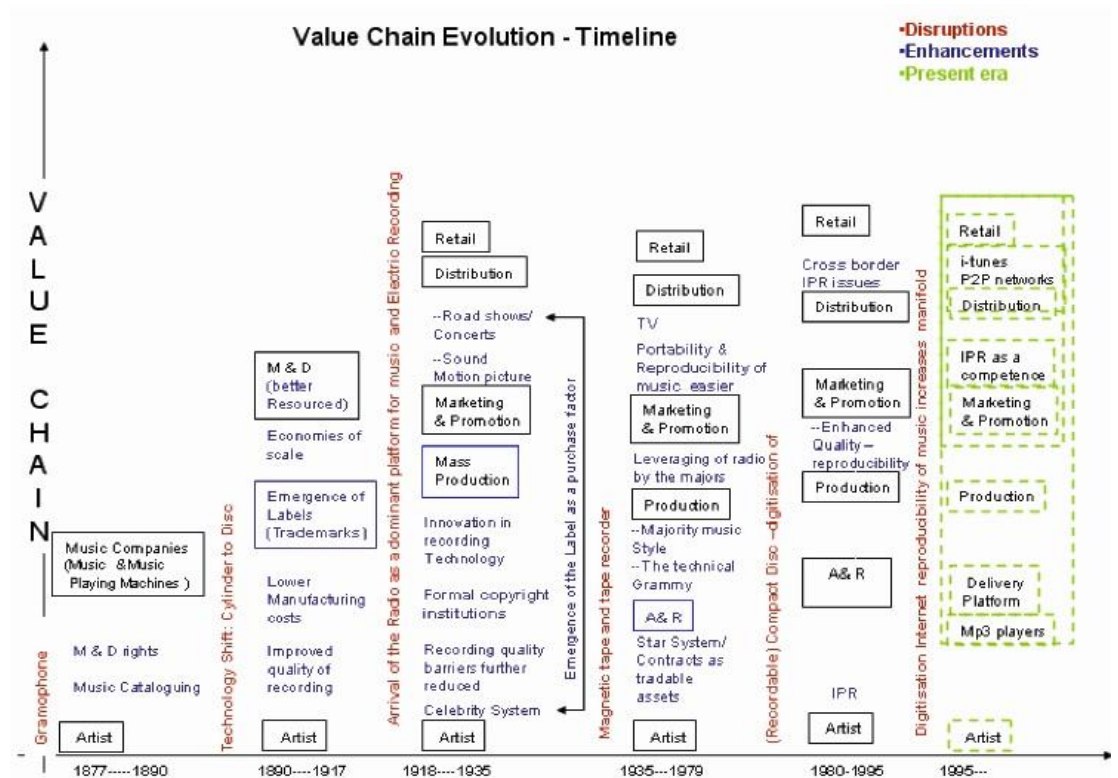


Figure 1: Value chain evolution – Timeline (Lampel, Bhalla and Jha 2008)

As one can observe from figure 1, the latest major change (digitalization, Internet etc.) occurred in 1995 and is continuing well into the 21st century. This latest disruption in the value chain is the setting for the changes the authors wish to observe in the paper.

Business literature uses the terms disruptive technology or disruptive innovations to illustrate innovations that ameliorate services and products in ways that are unexpected by the market. This is most often what has happened when a major disruption is experienced as mentioned in figure 1. A disruption most commonly occurs when a product or service is redesigned, for another set of customers, or by being lower priced than competitors. In order for disruption to take place there are three critical elements that must be in place. First there is the rate of improvement that customers can absorb in any market, which is observed in the dotted line in figure 2.

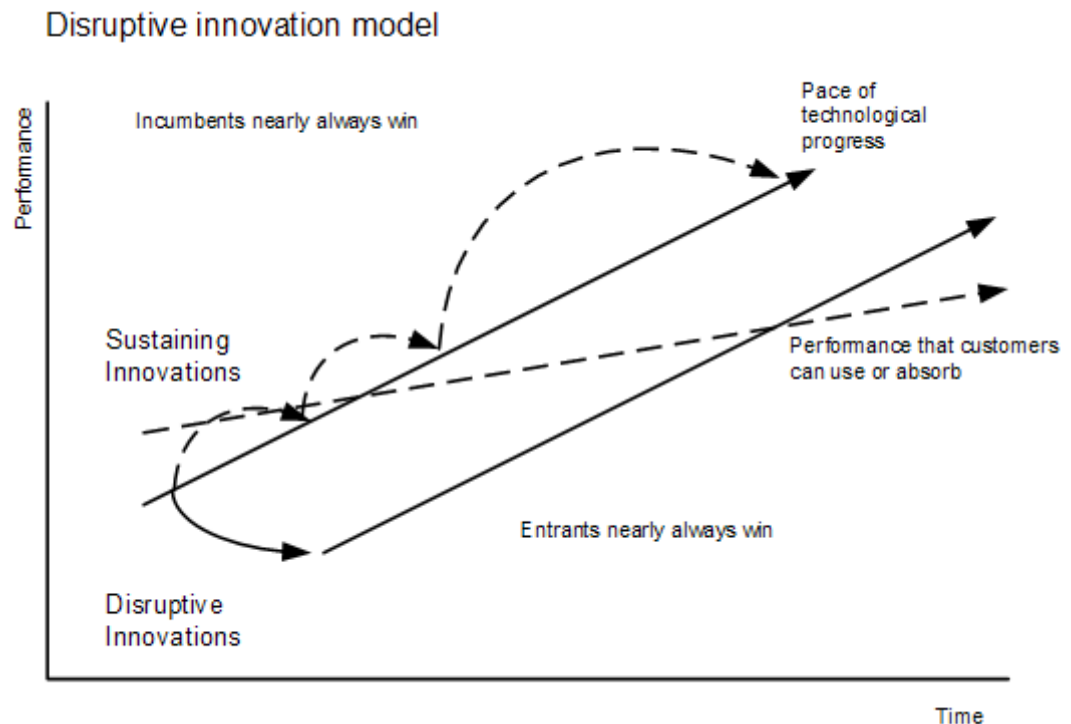


Figure 2: The Disruptive Innovation Model, (Christensen 2003 p.33).

An example could be videoconferencing equipment made available through technological advances. Customers might demand this product, but the infrastructure found in-between customers through telephone and broadband might not be able to handle this new technology yet, limiting the use of the product. In truth there are customers both above and under this line, constituting many lines, but the dotted line represents technology that is “good enough” to accommodate the customers needs. The differences and range is exemplified through the curved line on the right of the figure 2.

Second there is a different trajectory for the innovations and technology provided by the innovating companies when introducing new products and services. This progress almost consistently outpaces the ability of the consumers in the dotted lines ability to adapt the development, as represented by the steeper sloping lines of the solid arrows in figure 2.

The third critical element is the difference between sustaining innovations and disruptive innovations. These are represented through the two different solid arrows in the figure. The sustaining innovation targets demanding customers that always want the latest thing, which is better than the previous model or the

likes. These innovations can be yearly updates or improvements, or they can be larger leaps in technology surpassing the competition. Because this game is about always improving to be able to demand higher margins, the established competitors almost always win, due to their motivation for this development and funds.

Disruptive innovations, on the other hand, do not offer better products to the established markets and the existing customers. Disruptive innovations offers instead benefits in form of lower cost, more convenient products and products that appeal to the less demanding customers. Once this new technology or products gain enough ground to be established the cycle begins. This new innovation will begin its own sustaining innovations and improving on a regular basis. At one point the product will have improved enough to start capturing the high-end demanding customers of the previous product. Once this is achieved the trajectory of the new product will eventually lead it to destroy the existing incumbents of the old trajectory. Since established actors in almost any business is always inclined to go up market and defend the most profitable end of any market, and never the low-end market which the disruptor enters. This means that they are in effect paralyzed and unable to react to disruptive innovation. This is called *asymmetric motivation* by Christensen (2003) and is the core of the innovators dilemma.

Bower and Christensen (1995) found that a technology could be disruptive in two different ways: low-end disruption and new-market disruption. There is also a third type in the form of sustaining innovations; this is however not a form of disruption such as low-end and new-market disruption (Figure 2). Sustaining innovations are innovations that improve existing products that are already appreciated by the customers in the established markets. An example of a sustaining innovation is an mp3 player like Apples iPod constantly re-launching with larger capacity for songs, more extensive functions and new designs.

A low-end disruption starts at the low end of the indigenous value network, and is made possible because of the incumbents' propensity to overshoot what the customers need and want (Christensen et al. 2004). The disruptors then target the customers the established firm looks at as the least attractive, by using a

low-cost business model. Because the disruptors use low-cost business models, they are able to charge much less than the incumbents for their products. These low-end customers are very often not missed by the incumbents, since they are often looked as too expensive to serve. The incumbents will instead flee the attack and move their focus on customers that are one step up in the value network (Christensen 2003). The disruptor will continue its innovation, and work its way up in the value network in the same manner as described earlier. This continues until the incumbent's only serves the high-end demanding customers. In due course, the disruptor will drive the incumbent entirely out of the market.

File sharing in its earlier days can be seen as an example of a low-end disruption. It required some skill to use, and effectively removed the most price-sensitive customers from the value network of the incumbents, the existing record labels and distributors of music. As the technology increased in ease of use, more and more people started using file sharing as a substitute to buying music (Liebowitz 2008), forcing the incumbents further up in the value network.

The other type of disruption, new-market disruptions (figure 3), creates a whole new market with customers owning and using the product or service. These disruptions have the distinctive feature of often being considerably easier to use and a lot cheaper to own than existing solutions. Streaming music services like WiMP and Spotify are good examples of new market disruptions in these days. These services are cheaper than buying copies of music, since you only gain access to the products (songs), through streaming, and not through acquiring the music physically or by paying for a downloaded mp3.

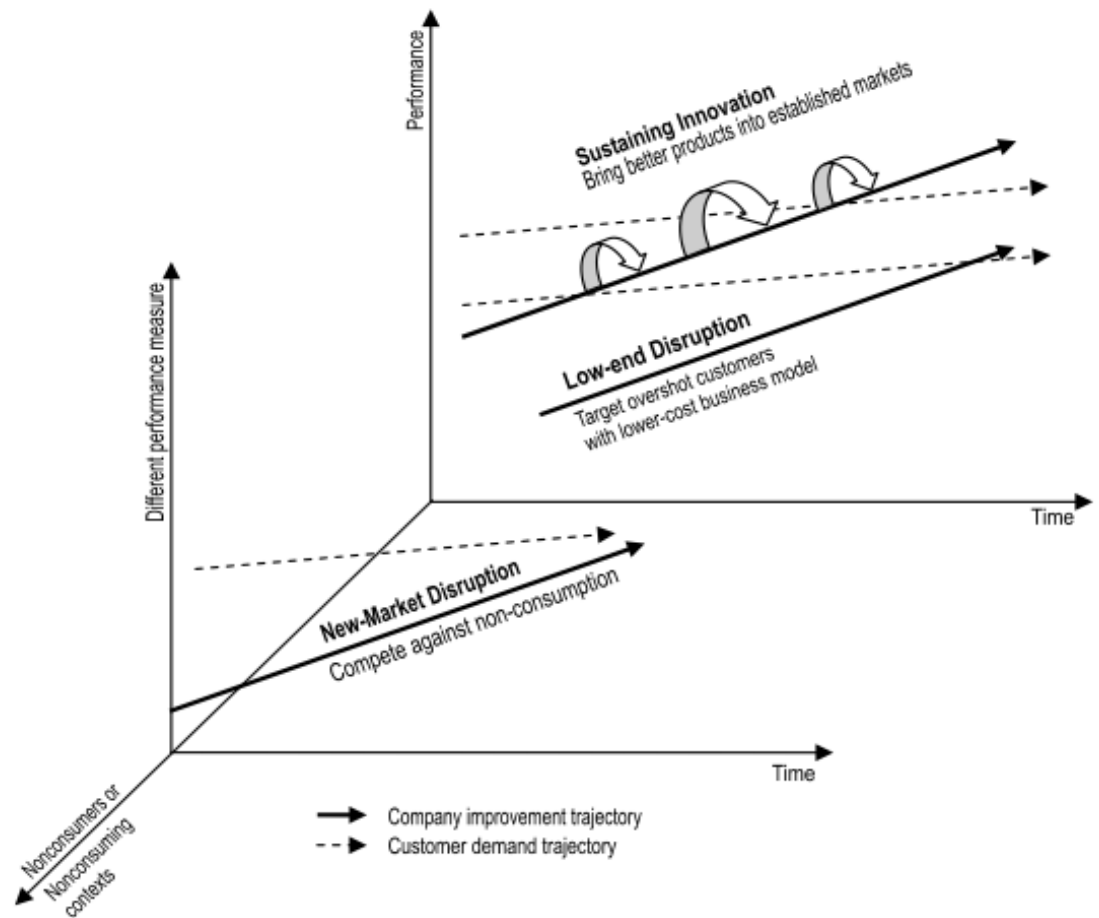


Figure 3: The third dimension of the Disruptive Innovation Model (Christensen, Raynor 2003: figure 2-3 p.44)

The new-market disruption of the music streaming services do not initially invade or challenge the main stream markets of for instance CD sales or even legal online sales. Rather it, as Christensen and Raynor describe in the *Innovators Solution* (2003): “pulls customers out of the mainstream value network and into the new one because these customers find it more convenient to use the new product”. It will be interesting to see what effect this new market will have on the remaining market of physical sales in the industry, as well as the effect on legal online trade of music.

Network Economy

Today's network economy consists of social networks, instant and inexpensive information sharing across the globe. Kelly (1998) says that economies of scale stem from the size of the network rather than that of the enterprise. This is at the core of changes in the music industry the last decade. In the current information economy, as Christensen and Raynor (2003) describe it, intellectual property rights face new issues, challenges and opportunities. In the music industry this for instance concerns the intellectual property rights the artists have to their music. This music is essentially information transferred from artists and all the way to consumers in different ways. When discussing information in this paper the authors adopt Shapiro and Varian's definition from *Information Rules* (1999); "Essentially, anything that can be digitized-encoded as a stream of bits-is information. For our purposes, baseball scores, books, databases, magazines, movies, music, stock quotes, and Web pages are all *information goods*."

Cost of information and pricing

In most cases this information is costly to create and manufacture, as is the case for music. A lot of production costs go into any song or album produced today, but these costs decrease according to the availability of technological equipment, making it cheaper and more accessible. However, production costs are still present and significant in most cases. Today the cost of making copies of this original piece of information is approaching zero. Not only is this copy cheap to produce, it is almost a perfect copy. In addition, most costs concerning the product are mostly sunk-costs when the first copy is made, these cannot be recovered. Eventually this means that products must be priced according to consumer value, and not the production cost. In an attempt to preserve the same level of prices post-digitalization the record labels have continued to price their products at the same cost as they were when physically distributed through CD's when sold digitally through the World Wide Web.

Another aspect concerning the price and cost is that when one begins to price information according to value for the consumer, and not cost of production, one will most likely have to start using price differentiation in one form or another. First-degree price discrimination was a term created by A.C. Pigou in

1920 to describe multiple, or personalized, prices. Pigoud discerned between first, second and third degree price discrimination, which have later been described by Shapiro and Varian (1999) as (1) personalized pricing, where one sells to each user at a different prices, (2) versioning, where a product line is offered and the users choose the version of the product they think is most appropriate, and (3) group pricing, where different prices are set for different groups of consumers.

An example of personalized pricing in the music industry can be found at concerts offering differing ticket prices for the same experience. The ones who pay the most get to stand closer to the stage than the ones who pay less. One can find versioning in Spotify's product line. Users who do not want to pay for the service can subscribe to the "Open" subscription and listen to free music for 20 hours, but the music will be interrupted with ads and the sound quality of the music is not the best. The ones who are willing to pay NOK 49,- for the "Unlimited" subscription get to listen to as much music as they want without the ads and the time constraint. However the sound quality is not the best in this case either. In their NOK 99,- "Premium" subscription the users get the best sound quality without ads, they can use Spotify on mobile devices, and they get to store songs on their devices for easier use. When students or other groups get discounts at concerts or music events they are subject to group pricing.

Managing Intellectual Property

If the producer can reproduce information goods cheaply, others can also copy them equally cheap. For many information goods producers, like musicians, the Internet will serve as "... one giant out of control copying machine...", like Shapiro and Varian (1999 p:4) describe it. This might lead to a situation where the producer of the information becomes unable to earn enough to cover the already sunk production costs of producing the information. This has been an outspoken concern of many industries even before the Internet. For instance, when the VCR was launched Hollywood producers were scared that home copying would reduce their income. It turned out that they would earn more from this video sales and rental market than they were making from the cinema showings.

Shapiro and Varian (1999 p. 97) discuss the tradeoff between ultimate profitability and the protection of intellectual property: "We think the natural tendency is for producers to worry too much about *protecting* their intellectual property. The goal should be to chose the terms and conditions that maximize the value of the intellectual property, not the terms and conditions that maximize the protection. If a little of your property is lost when you sell it or rent it, that's just a cost of doing business, along with depreciation, inventory losses, and obsolescence." This is also a reflection on the fact that "more liberal terms and conditions will tend to raise the value of your product to consumers but may reduce the number of units sold". (Shapiro & Varian 1999 p.102).

Figure 4.1. Balancing Terms and Conditions of Sale with Amount Sold

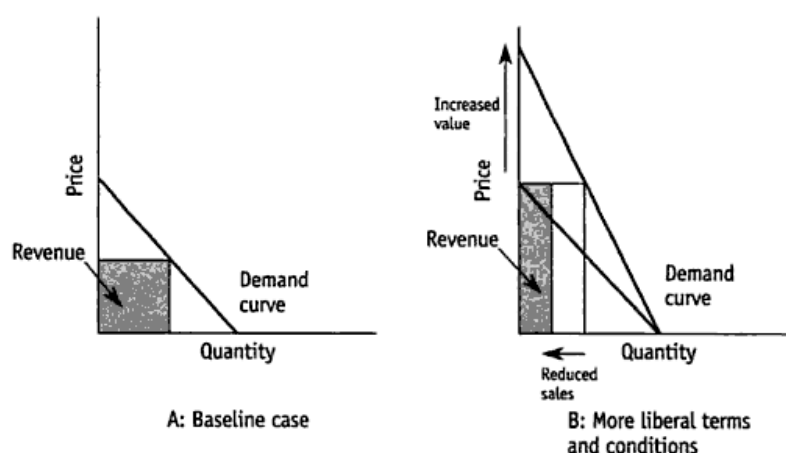


Figure 4: Balancing the T & C (Shapiro & Varian 1999 p. 99)

The aspect of transaction costs is also a critical one when one speaks of intellectual property rights management. These are the costs that the consumer or the producer pays to make the transaction happen. For instance to buy flowers to your girlfriend you must go to the store, perhaps by car, and buy the flowers. Afterwards you will have to travel back home, again perhaps in your car. The time spent, fuel consumed and perhaps also wear and tear on your car are the transaction costs. The Internet is today reduces these transaction costs, but we are not approaching a "friction free" economy, like some have predicted. The important aspect of transaction costs today is for the owners of the information goods to chose wisely what distribution system they will have for their product. There are often lock-in elements related to many distribution systems and placing the rights to distribute the product correctly will be increasingly

important in the information economy, maybe particularly for the record artists of the 21st century?

Network effects

Today's information age is constructed around economics of networks. There is no longer an industrial economy in the modern world. The element of positive feedback is a critical element in the today's network economy. It would be wise to learn from the lessons of the past, as Shapiro and Varian highlight: "Technology changes. Economic laws do not." (Shapiro, Varian 1999; p2).

In the positive feedback process, where the strong get stronger by positive word of mouth and increased customer base, there is also a dark side. The positive feedback towards one competitor also makes the weaker competitors weaker.

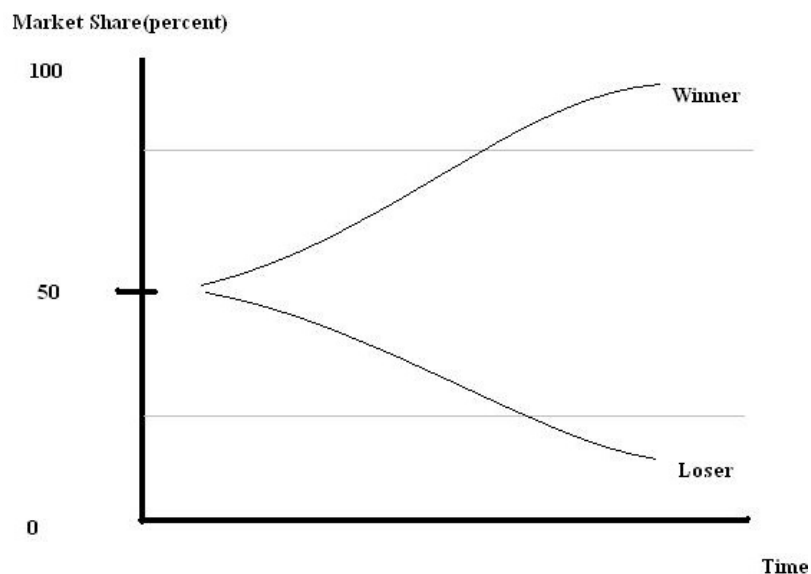


Figure 5: Positive Feedback (Shapiro & Varian 1999 p.177)

When the music industry was introduced to the new digitalized environment many new technological platforms were introduced to the distribution system. The positive-feedback systems will eventually lead to a dominating new technology taking its foothold for a period. Perhaps the new streaming competitors are now entering such a battle of domination. Historically the winners of such competitions will eventually experience their new technology through an S-shaped curve with three phases. The first is a flat slow period during launch, secondly there will be a steep rise in use due to positive feedback.

Finally the third point of adoption will be a leveling off, as the market will be saturated with the new product.

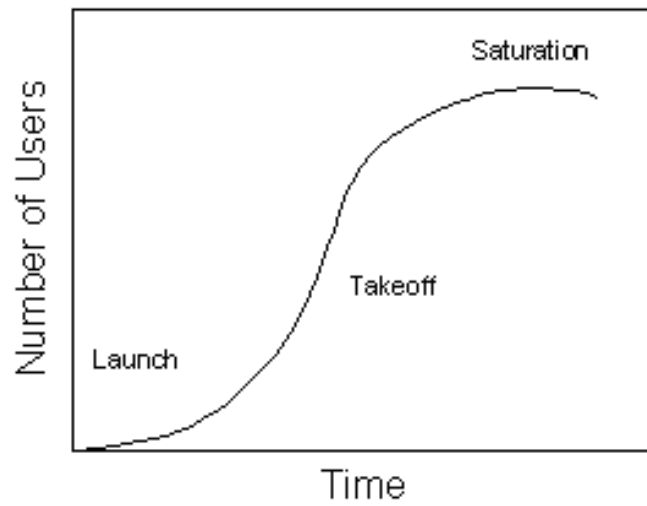


Figure 6: The adoption dynamics in the presence of a network effect (Shapiro & Varian 1999 p. 178)

Research Methodology

The work and research for this thesis has been highly dynamic in the sense of how it has developed since the work with it started. As such the authors have selected to approach the research with a "problem oriented" approach (BELL 2005). The work towards the industry has given two main research focuses in the thesis, which individually can be seen as pieces of research on the Norwegian music industry. In addition a third path was explored, which however did not result in a significant contribution.

Data collection

Both qualitative and quantitative primary data have been collected for this paper. Primary data can be collected in at least three ways, through experiments, observations and communication (Ghaur, Pervez and Grønhaug, Kjell 2005). The authors believe that experiments and observations are not the optimal way to collect primary data for this research; instead the focus has been on communication through in depth interviews and a questionnaire. For the quantitative data annual reports from the largest organizations which document financial transactions in the music industry, have been used.

Qualitative data

According to Reichardt and Cook (1979) qualitative methods have a focus on understanding from the respondent's point of view. The orientation is explorative, and one gets a subjective 'insider view' and a closeness to the data. Qualitative data are also process oriented and have a holistic perspective.

Semi-structured interviews have been conducted with representatives from most of the identified stakeholders in the industry. This interview type, often referred to as qualitative research interviews (King 2004) is recommended when there is some need for flexibility in the interviews process (Saunders, Thornhill, and Lewis 2009). A small interview guide was created, and used during the interviews, making sure that all relevant topics were addressed each time. In addition, this form allowed the authors to explore specific areas in more detail where the information was particularly large. For instance the record labels had much input on income levels and were able to elaborate to some extent on this topic. The 'insider view' in this type of data provided the much-

needed insight for the authors on how the industry functions on a daily basis, both currently and during the last decade.

In addition a questionnaire was done towards the Norwegian music industry artists themselves, but did not result in significant research findings and is such only mentioned briefly with some interesting indications of how things are.

Criteria for evaluating qualitative research

Instead of focusing on reliability and validity in qualitative research, Guba and Lincoln (1994) suggest two other primary criteria: trustworthiness and authenticity. Trustworthiness is made up of four criteria: credibility (paralleling internal validity), transferability (paralleling external validity), dependability (paralleling reliability) and confirmability (paralleling objectivity).

Credibility was ensured when the authors interviewed the necessary industry actors. The authors also made sure that different respondents validated the findings and conclusions reached in the interviews. In order to have *transferability*, rich accounts of the details of the music culture were provided. This “thick description” (Geertz 1973) makes it easier for others to make judgments about the possible transferability of findings to other environments. *Dependability* is reached by keeping records of all the phases of the research process, and then having these records “audited”. Records have been kept, but it has not been possible for others to work through the extensive material. The large amount of data collected for qualitative research is part of why this method has not become a pervasive approach to validation. The authors have tried as best they could to not allow personal values or theoretical inclinations to sway the conduct of the research and the findings deriving from it, ensuring *confirmability*. *Authenticity* has been reached by fairly presenting the different viewpoints among the different interview subjects.

Quantitative data

In order to calculate total the total music industry revenue in Norway and the income of Norwegian music artists much financial data is needed. These numbers are not produced by the industry themselves, but it can be calculated by using the annual reports of selected companies in the music industry, and

also various other industry statistics. The authors collected annual reports from the following industry organizations: TONO, NCB, Gramo, Norwaco, Concerts Norway (Rikskonsertene), FFUK, (Fond for utøvende kunstnere), FFLB (Fond for lyd og bilde), Øyafestivalen, Buktafestivalen and Rockefeller. Many of these annual reports also contain information regarding other funds and grants given away in the industry. Record sales statistics were collected from IFPI Norway's webpage. Arts council Norway's (Norsk Kulturråd) numbers were collected from their webpage.

These annual reports contain information regarding financial transaction to and from the industry. Many of them are also very detailed, making it easier for the authors to find exactly how much has gone where. In other cases where detailed sums are not available, figures are estimated based on industry standards.

Validity of qualitative data

Validity is defined by Cooper and Schindler (2008) as "a characteristic of measurement concerned with the extent that a test measures what the researches actually wishes to measure". Therefore, when the authors were in doubt about numbers or estimations, the authors contacted the relevant people in the industry to confirm or reject the proposed figures to increase the validity of the research. The authors conducted the interviews with industry representatives before the research regarding the annual reports was done. This eliminated many questions, and made the research process much clearer, further increasing the validity of the research.

Reliability of qualitative data

According to Bryman and Bell (2007) reliability refers to the consistency of a measure of a concept. The figures used in this study to calculate the industry revenues and artist incomes are taken from publicly available reports, approved by a registered public accountant. Anyone trying to calculate the industry revenues and artist incomes in Norway can use the same numbers, and will most likely end up with the same results. The authors therefore argue that the calculation of music industry revenues in Norway and the income for Norwegian music artists have high reliability.

Part one – Interviews

This first main part of the thesis covers the interviews conducted with the stakeholders in the Norwegian music industry. The authors also included the media into the interview process to get their impressions of the industry and viewpoint on the changes the last 11 years. In sum 14 interviews were conducted within a total of 6 stakeholder groups.

The authors start by discussing the type of data the interviews provide to the thesis, specifically how the inputs from the stakeholders contribute to the discussion about the developments in the industry. A description of the process and how the actual interviews were conducted are provided in detail as well. A further description of the interviewed stakeholder groups is provided, followed by the actual findings from the interviews. This first part of the thesis is concluded by a discussion of the findings from the interviews.

The process

When the authors first started the initial work with the thesis they were aware they did not have sufficient knowledge of the industry to research and observe it in a satisfactory fashion. A natural consequence was that the in-depth interviews were conducted to initiate the process of understanding the industry, identifying its key stakeholders and most importantly getting direct input on the situation from these stakeholders.

A challenge in the initial phase was identifying well-suited interview subjects. Fortunately, through some acquaintances of the authors, a good mapping of central figures in the Norwegian music industry was possible before the actual interviews took place. After the interviews were conducted, a process to verify that the most important sectors and actors had been covered was performed. A good reference turned out to be produced by one of Norway's biggest daily newspapers, Aftenposten (2009). Aftenposten did an article called "Disse styrer Musikk-Norge" (These [people] control Music-Norway). This article categorized the industry into the 3 following sectors; people who control what we listen to, the most important network builders, and finally the people who control the money. Cross checking the interview subjects with the people listed in the article showed the mapping of interview subjects had been more accurate than the authors had hoped for initially. In sum all three categories have been covered

and several of the people listed as the controlling powers of the industry had been interviewed directly. In addition to these important controlling powers in the Norwegian music industry, others also involved in the industry had to be interviewed; namely the artists themselves and representatives from the media that followed the industry closely.

A second challenge was to determine what questions should be asked to the interview subjects. A list of 10 key questions was developed on the basis of the research questions and insights gained from the preliminary talks with some industry insiders prior to the actual interviews. The questions themselves are explained and described in more detail below. The insight gained from these interviews gave the authors a more comprehensive understanding of how the Norwegian music industry functioned and had developed during the last decade. The most essential key stakeholders were identified early through talks with experienced participants in the industry, others also presented themselves through the interview process.

One of the most surprising discoveries made during this part of the research was not the research findings themselves, but how the research process and thesis topic was welcomed in the industry. The authors experienced an industry with strong willingness to contribute to the research with both personal opinions as well as statistical data.

The stakeholders

Freeman (1984) describes a stakeholder as “any group or individual who is affected by or can affect the achievement of an organization’s objectives”. Although the authors do not see the Norwegian music industry as an organization, it is looked on as an entity that can be applied with the same definition without particular difficulty. For all intents and purposes the industry is seen as the object of which the stakeholders can “affect or be affected by”.

In this section the stakeholders that have been included are described in more detail, as well as underlying reasons for their inclusion in the thesis. As mentioned several stakeholders, 6 in total, have been identified through the research conducted. Since most stakeholders in the music industry in Norway are large groups, consisting of many individuals, organizations or companies, the

authors found it necessary to interview several of these in order to get the best possible view of their opinions, differences in opinions, and what they agree on. Others, such as major record labels, are so few in numbers in Norway that one or two will provide a representative image of the stakeholders.

During the research process 14 interviews were conducted. In sum, the interviews have given insight to the industry needed to create an image of the opinions in different stakeholder groups. These interviews have also contributed as background information for the authors and their understanding of the industry. The authors will now present the different stakeholders that were mapped and interviewed, and also share some thoughts around these.

Artists

The artists are the ones producing the product, music, and they are obviously also one of the key stakeholders. In the paper they are considered to be any



artist performing music that can be distributed digitally and sold for a fee. The artists are identified as the main stakeholder in the industry because of their essential role in concern to production of the product the industry is built around. Their motivation is, in the authors view, mainly an economical one.

Several artists were interviewed for the paper and it was important to try and capture a wide as possible range of different artists. Therefore, popular artists, unknown artists, niche artists and local artists were interviewed to get a varied opinion base.

Record labels

This stakeholder contains all of the record labels or companies, which produce,



distribute and generally facilitate to the trade of music in Norway today. These can be both independent record labels as well as major international record labels. An interesting aspect is that recent figures show a significant drop in total sales (IFPI 2010), but prices have remained about the

same. Meanwhile it is known that the income is lower on digitally distributed music since downloading and albums sold online go for about half the price of a

record in a record store. Since a fall in income for record labels is directly related to the drop in artist's sales, they share much of the same motivations. A clear sign of how critical the drop has been in the last years for record labels becomes apparent in one interview quote with a former record label executive, mentioned later in the paper. It outlines how much worse the situation has gotten the last 10 years for the record labels in Norway. The interviews with this stakeholder include several different record label executives in a wide range of sizes, from artists representing themselves to some of the biggest labels in Norway and the global music industry.

Interest groups

The interest groups are covered in this paper by organizations working for the rights and welfare of musicians in Norway, as well as organizations working the rights and welfare of the record label industry. These organizations have motives that are so directly aligned that the authors feel they can be discussed as a common group, as opposed to two singular groups.



This stakeholder is intended to be a reflection of the artists and the record labels opinions and interests, and as such they should have directly aligned motives with these other stakeholders. However the authors have found it interesting to examine if these motivations and interests actually align or if there are any differences. As discussed, both the record labels and artists have been concluded to have mainly economical motivations in the issue but the authors did however uncover a more varied set of motivations while interviewing the interest groups.

Specifically the authors found it interesting to hear the concern of FONO (interest group for the independent labels in Norway), about the future quality of Norwegian music. This brings up an ethical motivation and the concern about the technological development actually leading to deterioration in the quality of the artists and their musical product. FONO argue that if all record companies of any size and competence are closed down due to lack of income, then who will decide what is good enough music to deserve the support that FONO claims artists need to develop into the quality they should have. Things such as career

guidance, selecting the right concert venues, marketing, high quality recording, are mentioned as forms of support from the record labels. A large portion of the most significant interests groups in Norway was interviewed for this paper.

Governmental authorities

The governmental authorities, represented by Espen Arneberg Børset (Senior Advisor) and Lise Kurseth (Advisor) from the Ministry of Culture, have also been interviewed. Lise Kurseth was responsible for the research done by Heian, Løyland and Mangset (2008), and Espen A. Børset is involved in the revision of



the law governing the issue, “Åndsverksloven”. This law covers intellectual property rights management in Norway, and has a special section on downloading and distribution of digital content. In the actual interview it was difficult to get answers to any of the

10 questions since they were not allowed to comment on many of the subjects on behalf of the current government. However a good impression of the departments view on the subject was made clear through some statements, which can be found in the result section of the interviews.

A journalist in a leading Norwegian newspaper expressed the following concerning the political aspect of the issue; “None of them [the political parties in Norway] will want to take a stance on this, since the party that does so will become immensely unpopular. This subject has become a real hornets nest for all parties included”. The journalist then went on to explain that what he meant by this is that all of the parties have this issue on their political agenda, while none of them really seem care to take any action on it. The reason for this is quite clear according to our interview subject; “The first one to take a stance and actually say ‘we are going to stop the thievery that is being committed in this industry towards the different stakeholders’, will become immensely unpopular among the voters. Almost every voter has an opinion on this subject, since so many actually listen to and acquire music.”

Consumers

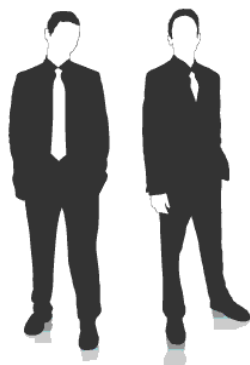
This stakeholder consists of current consumers of music, mainly in form of consumers actively seeking and acquiring music by different methods and means. Apart from the record labels' worries that the quality of the industries



output will eventually deteriorate, there are few apparent downsides to the consequences of digitalization for consumers. The availability, as well as the selection, has never before been better and it is getting increasingly better almost every single day. The motivation the consumers have in this issue will most likely be both economical and ethical. On one side, consumers are likely to prefer to pay as little as possible for their music consumption, but they still want a good selection and good accessibility. On the other hand they are also ethical to a certain extent and would most likely prefer to get this product in a legal fashion that supports the contributors. This ethical motivation has come under critical observation since there is a large amount of "music piracy" present. The authors feel however this may come as a consequence of the behavior of another stakeholder, namely the public authorities. The authors believe that since this unethical behavior is not penalized to any real extent, it weakens the ethical barrier for breaking the law.

New entrants

A new entrant in the issue is the emergence of companies providing *streaming* services for music. They have developed and emerged through what the authors



see as a vacuum left by current actors in the industry, and their unwillingness or incapability to adapt to new technological development. Unlike other new entrants, such as iTunes that operate with the same business model as the record labels i.e. charging for the acquisition and ownership of songs, these new entrants provide you with unlimited access to all music for a monthly fee instead. This service has been around for some time in several places across the globe, but the use of it in Norway has not exploded until recently. The service, provides instant access to a vast amount of music within seconds while

operating your computer or portable device, like cell phone or mp3-player. This part of the music industry is looked upon as very promising and the actors providing the service in Norway have clear economical motivations for this technology to become the dominant one in providing music to the consumers. Recent research (Aspiro/Norstat 2010) shows that illegal downloading of music actually decreases as a consequence of the new streaming services such as WiMP and Spotify. The research conducted in Norway, show that over half the respondents (54%), say that streaming causes them to not to download music illegally anymore. The authors were not able to interview this stakeholder directly but have had a lot of help from several new entrants, particularly Swedish Aspiro, which have entered the market in a joint venture with Telenor and Platekompaniet to provide the subscription based music streaming program WiMP.

***Media**

The media in this thesis is considered to be newspapers, media houses and other public journalism forms that report on the Norwegian music industry in the daily media coverage. Although not a real industry stakeholder, they have been interviewed in this paper to get the perspective of an outsider that is well informed and interested in the subject without having an actual stake in the industry. The knowledge and information found in this group has been very informative and helpful to the authors in getting a good understanding of the industry and its lesser-known aspects. A well-known journalist from a leading Norwegian newspaper selected for his insightful articles on the industry was interviewed.



Grouping the stakeholders

The work by Bryson (2003) on stakeholder mapping has been found useful in the process of identifying and grouping stakeholders. This framework is used to map the stakeholders in terms of their level of interest of the industry performing well, and their relative power or influence over the industry. The authors used the information gathered from the interviews and other talks with industry stakeholders to map how the different stakeholders would be positioned in the matrices. It is however important to note that this mapping is not based on other data than the relative opinions of the stakeholders

themselves and how the authors have interpreted these opinions. This mapping is shown in figure 7.

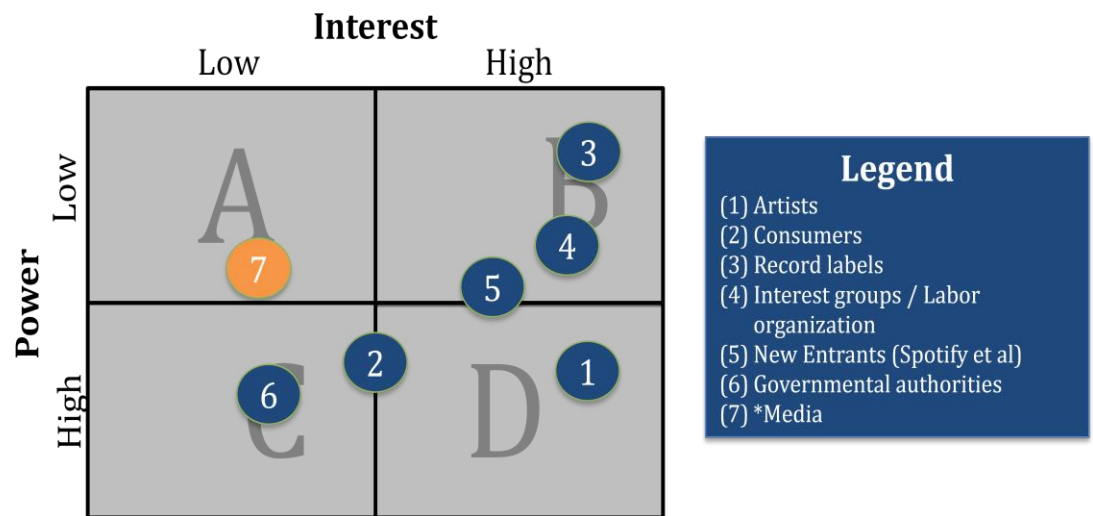


Figure 7: Stakeholder mapping

The A quadrant contains stakeholders with relatively low power and low interest. Being an industry subject to substantial changes very few stakeholders display low interest, and surprisingly the authors found that many of the stakeholders also have relatively high power in the industry. This group consists solely of the media (7), which is not an actual stakeholder, but a group that might have more influence than is easily measured. They have however had an important monitoring function over the developments the last 10 years and the authors have tried to utilize the knowledge gained from this monitoring function in the interviews.

The quadrant B contains several key stakeholders in the industry. However some of these stakeholders might not possess the same level of power over the industry they did only a decade ago. Others in this group, such as the new entrants (5) to the industry, might however be rising in their relative level of power towards the industry. The record labels (3) of different sizes are present in this group. The authors recognize that it might be possible to divide into large and small record labels to further differentiate their power in the industry. However, the authors feel the lack of influence successfully shown the last decade can justify the placement of the stakeholder in the B quadrant. The interest organizations (4) such as GramArt, FONO and MFO are also found in this quadrant. They have a certain level of influence in accordance to their numbers and members however, their size and all the differences in opinion in the

member base works to prevent strong actions in one direction or another. Their interest is however very strong in the issue.

The quadrant C contains stakeholders that have large influence and power, but lower interest in the subject than the ones who have large economical motivations. In this quadrant one finds the governmental authorities (6), which govern the legal part of the issue. They might as discussed have larger motivations but taking a passive approach to the developments the last 10 years effectively neutralizes these. The consumers are also in this quadrant and they have, as mentioned, mostly motivations concerned to the quality and price of the product. The authors believe the development displayed by consumers the last 10 years show that the majority is not very concerned with the ethical and legal issue around the development.

The quadrant D, which contains the most powerful stakeholders, only includes the artists (1) themselves. This stakeholder has a lot of power to influence their own fate in the industry as well as a high interest in any outcome for the industry. In the authors' view most of the power in the coming years will be placed in their hands and by adapting to the new technological development, through streaming of music, and more live performances the artists themselves will decide how bright the future will be for the industry and themselves.

Anonymity

Several of the subjects interviewed for this thesis wanted to be anonymous, and the authors have chosen to apply anonymity to all of them, except the before mentioned public figures. This has most likely helped the authors gain access to more outspoken opinions from the different stakeholders.

The likelihood of parts of the thesis becoming publically distributed has also contributed to the decision to preserve anonymity of the interview subjects within the different stakeholder groups. This is a controversial subject both within the industry and that concerns many others outside the music industry.

The questions

The authors have in all of the interviews focused on 10 key questions connected to the research question. By doing so it has been possible to explore differences in opinions and knowledge on the different subjects, as well as to analyze the results more effectively after the interview part of the thesis was concluded. Almost without exception most of the interviews provided additional information to the thesis not directly connected to the questions. This came as a result of the discussions, and to some extent frustrations, the different questions provoked from the interview subjects. As a result many discoveries were made, concerning both the industry and the stakeholder views, which were unexpected to the authors prior to the interviews.

The first three questions are directly linked to the income issue and volumes in the Norwegian music industry. The fourth, fifth and sixth question concerns consequences of the changes in income in the period. The seventh, eight and ninth questions are concerned with the people who influence the industry and how they have performed towards illegal downloading. The last question is very much an open question concerning possible solutions to the problem of declining physical copies sales.

Note that all of the questions and interviews performed were done in Norwegian.

- 1. How is the total income of the music industry today, specifically the part of the industry related to records artists, compared to 10 years ago?**

This question is designed to see the level of insight into the different types of income related to the music industry. Since record sales are only one part of the total income for the entire industry.

- 2. Has the amount of physical copies of music sold now compared to 10 years ago changed?**

This question is really mostly a control question to see the awareness of the decline in the sales. It is a commonly known fact that the sales have gone down considerably in Norway the last years.

3. How will the income of well-known artists fare, compared to moderately and unknown artists as a consequence of the digitalization of the industry?

The question is designed to explore the suspicion of the authors to the statement that well-known artists will be more exploited, relative to their total income, by illegal downloading of music than smaller artists.

4. Do you think artists have to perform more concerts now compared to 10 years ago?

A question designed to provoke reflection to the fact that artists might now focus on other income sources when physical copy sales decline.

5. Has the difficulty level for unknown artists to breakthrough changed the last 10 years?

Again a question to provoke thoughts concerning the lowered income of record sales, leading to less income for the record labels backing new prospects.

6. Have certain music genres been less affected by the digitalization in the music industry than others?

By digitalization of music and the digitalization issue, the authors refer to the transformation of music from analog to digital format and how this opened for illegal copying and transfer of music in a much greater scale than before through the Internet. It is claimed that certain genres of music have listeners who do not search the web for illegal copies of the music they prefer e.g. classical music listeners. This would potentially also open up for other comments concerning genres of music in Norway.

7. How have the interest groups handled the digitalization issue?

The authors were curious to how the interest groups' actions were regarded by the different stakeholders. This question was meant to give the opportunity to tell both positive and negative experiences.

8. How have record labels handled the digitalization issue?

Asked for the same reasons as question number 7, only this time with regards to the record labels.

9. Do the public authorities take the changes that have occurred the last 10 years in the music industry seriously?

Asked for the same reasons as question number 7, but also with a somewhat provocative formulation to make the interview subjects reflect on if the public authorities actually have done anything towards the issue.

10. Do you have a suggestion on how to solve the challenges in the industry today?

An open question asked to get an impression on how the different stakeholder groups viewed the seriousness of the issue and how they would approach it to solve the issue.

The authors were well aware that to some extent most interview subjects would not have the sufficient information needed to answer the question correctly. However they should show what impression they had of the situation and give insight into how different stakeholder groups experienced specific issues.

The answers

Having conducted 14 in depth interviews has resulted in a large amount of data which is relevant and interesting, and some without specific value. As a result, the authors will only provide answers that are evaluated to be of significance to the research and which adds value and insight to the thesis. This is done both in form of discussions based on responses as well as actual quotes from the interview subjects. The same procedure is used consequently for all questions.

All 10 questions are discussed in this part with inputs from all stakeholders. However only significant inputs from interview subjects are discussed and highlighted. This is necessary due to amount of data and information within the total in-depth interview data gathered.

1. How is the total income of the music industry today, specifically the part of the industry related to record artists, compared to 10 years ago?

This question gave total consensus amongst all of the stakeholders interviewed, and they agreed that the total income had been radically reduced during the last 10 years. There was however differences in how much the total reduction had been and one could see a clear tendency towards bigger, better-known artists claiming bigger losses than smaller artists with smaller audiences. The figures

ranged from 80% decrease in income from two of the most known artists interviewed, to a 30% decrease from the niche artists with a much smaller audience. The record labels emphasized the fact that it would as a consequence become much harder to be signed by a label in addition to their lost income the last 10 years. As they themselves said;

"We will not be willing to invest money into an unknown promising artist in the same way as before. This is a consequence of the fact that now we are not sure we will ever make any money of this artists, even though he has reasonable success." – Executive, medium sized Norwegian record label.

"...when making a record now, the only question you ask in advance is how much money am I prepared to loose on it, because there will be no profits..." – Nationally well known artist the last 25 years.

The last statement, from a long time performing artist, indicates that a record produced today has become a tool to market oneself for established artists; live concerts and spin off products from the music is the real income. It was however also made clear that the production of records, although no longer profitable, was still required to support the generation of other incomes for the artists according to the artists. For the lesser-known artists on the other hand, CD sales were actually seen as a nice income in addition to the live performances. The interest groups highlighted another aspect of the issue with a statement concerning the smaller artists that have not yet become a record artist.

"We have seen that the local live bands, that performed at weddings, parties and such are disappearing. They are pushed out of the market by the established artists basically taking their jobs, since they need the money from these jobs themselves." – Executive - Artist interest organization.

So as this interest group highlights, the artists are now seeking alternative and new sources of income, effectively moving into the market of the less known artists and reducing their income and market.

2. Has the amount of physical copies of music sold now compared to 10 years ago changed?

As with the previous question, there was complete consensus between the stakeholders on this question. The number of copies sold was much lower today than 10 years ago, but it still decreases rapidly according to the stakeholders. There was not found any specific differences in opinions here and there was wide agreement that physically distributed copies would be reduced into a niche market for people who desired a physical copy or added value besides sound of their music in their possessions. There was however an interesting perspective from a moderately well known jazz artist that claimed that the future income would at least come in part from physically distributed products:

“People are now buying much more LPs again, and this shows me that people want something more from the music product. An added value only accomplished by delivering the product (the music) with something else, maybe a physical product that tells you something about the artist or similar.” - Moderately well known jazz artist.

The record labels expressed a view that the amount of physically distributed copies should be kept at a certain level by public authorities. This was in part to provide subsidizations to the struggling industry and to keep a certain level of knowledge in the industry, specifically within the record label:

“In our view there should be a massive sale of both physically and digitally distributed music to schools, kindergartens, libraries, and other public services in order to preserve the music and provide much needed funds to the record industry and the artists.” - Executive, medium sized Norwegian record label.

3. How will the income of well-known artists fare, compared to moderately and unknown artists as a consequence of the digitalization of the industry?

While doing preliminary work it became apparent that the established artists that have had some track record and fan base would potentially lose more as a consequence of the digitalization since they had the largest volume of CD sales.

But, both the interest organizations and record labels specifically argued that a lot of the smaller and up and coming artists will have to leave the business all together and this is worse than losing 80% of a large sum of money. This is in our view another aspect of the issue, and a very interesting one. The statement might in itself be correct but it ignores the fact that these stakeholders were pointing out:

***“Definitely, we do not need the same level of exposure (for marketing) and as such the new situation is solely a bad one for the established artists like us.”
– Established well-known folk-artist.***

“We appreciate the fact that our music is being listened to by much more people now. The market for our music in Norway is very small and the new digital distribution has made it much easier to tour Europe.” – Moderately well known jazz artist.

The *new entrants*, in the form of WiMP and Spotify, on the other hand can potentially provide through their new technology much needed income to the small and niche artists, much more then had existed 10 years ago. This is an illustration of what has become known as the Long-tail distribution principle. Chris Anderson popularized this principle in 2004 and later in his book (Anderson 2006). This theory describes the strategy of selling small volumes of a large number of unique items, instead of only selling large quantities of a few items can be very beneficial for the ones applying this strategy. It is the total sales of the large number of "non-hit items" that is called the "Long tail".

4. Do you think artists have to perform more concerts now compared to 10 years ago?

This question was also widely accepted as a true statement. As mentioned in the first question, one of the interest organizations, pointed at the fact that this was already in great effect and had negative consequences for the local lesser-known artists. According to artists themselves, record labels, interest groups and even media, the concerts and similar activities done by artists is increasing rapidly to keep up with the drop in income elsewhere. What will this mean for the artists? The authors found a few several interesting views from the different

stakeholders on the subject:

“Most artists that can make a decent living from concerts today established themselves in a time while CD sales were still good. That’s a fact that deserves attention. Not many un-established artists and newcomers could make a living playing concerts today. The consequence is in reality that un-established artists and newcomers will have to give up and find something else to do.” - Well-known national pop-artist.

“If you want to live of music in Norway today you are much more dependent on the concert market then you were 10 years ago, but that doesn’t mean that recorded music should be free! These are two separate products that have to be respected on their own right, even though they are dependent of each other. Its like milk and cheese, both come from the cow”! - Well-known national pop-artist.

“I don’t think an excellent artist like Cat Stevens would have survived today, he would have had to quit music early. I heard him live once and it was a heartbreaking experience.” - Established well-known folk-artist.

As one can see from these quotes the concert part of the income has become very important for Norwegian artists the last 10 years. This can be linked to value chain evolution theory (Christensen, Roth and Anthony 2004) and how it describes that the value chain evolves in an industry and this relocated where the money is made. It often begins with technological improvements and reliability overshooting what customers need or want. Customers then become less willing to pay for further improvements and reliability. Suppliers that can give customers what they want, when they want it, are the ones who can earn great margins. Now the competitive pressures force the companies to evolve and become faster and even more responsive. Changing the architecture on the products from proprietary and independent to a modular design solves this problem.

“We experienced a large rise in the ticket prices for live performance about 4 years ago. The prices almost tripled in a matter of 2-3 years. It was obvious

that the pressure for higher income through live performances was causing this. The strange thing is that most consumers have just quietly accepted it.”
– Executive, national ticket service company.

“Many artists are today completely dependent on their income from concerts, this creates a new situation for many artists that are not used to the frequent traveling and concerts.” – Executive, Record label interest group.

5. Has the difficulty level for unknown artists to breakthrough changed the last 10 years?

This question has to a large extent already been discussed in previous answers. Unknown or small artists will appreciate the fact that they are reaching a wider audience, although record labels on the other hand claim that they are much more restrictive on which artists that get record contracts these days. This is a difficult and divided question. Most stakeholders however agreed on that it might be easier to get known now compared to 10 years ago, but they will meet a big problem of small or non-existent income.

“Of course less known artists might get more hits on their websites, Myspace and what not, but there is no money in that.” – Well known artist, black metal.

“Unknown and small artists obviously will prosper as a consequence, just think of exposure towards the rest of the world for these less known artists.”
– Journalist, national newspaper.

6. Have certain music genres been less affected by the digitalization in the music industry than others?

This question originated from the fact that much of the focus on the issue has been on popular artists, as well as the fact that certain genres have typically older or younger audiences dependent on the genre. This is then related to the age groups that are quickest and most proven to adapt new technology.

It turned out that most stakeholders agreed that genres like classical music and other genres that are less probable to have a young audience would be less affected by the digitalization, but most also agreed that this was just a question

of time and a consequence of digital distribution still being relatively young. As the users age with the technology, more and more of the music industry will be consumed and affected like some genres already have been.

“Classical music probably hasn’t noticed much of a drop in income due to downloading and mp3s, although, I doubt there ever was much money in that genre.” – Established well-known folk-artist.

“Luckily, black metal fans are amongst the most hardcore fans within music, and they tend to buy more of their music than fans of other genres. In that aspect it seems we have chosen the right music genre.” – Well known artist, black metal.

7. How have the interest groups handled the digitalization issue?

The interest groups themselves claimed that they were trying their utmost to handle the situation that has developed. Although MFO, to a greater extent than GramArt, claimed they should have handled the situation in a better and more technological fashion earlier. They also claim that they now see the importance of adapting to the situation rather than fighting it. The other stakeholders varied in the reactions from expressing they didn’t even know there were organizations working with the issue for the artists, and to others that claimed they were aware of them and thought they were doing an awful job. Many although expressed that they thought it was an ungrateful task for an industry in big difficulties. The interest organization for the record labels expressed a great deal of concern about the lack of interest from public authorities, both nationally and internationally.

“We actually have organizations working for our rights? I guess the fact that I didn’t know that expresses what sort of a job they are doing.” - Moderately well known artist, jazz.

“They are really in the dark about what to do, how could they hope to handle this large global issue?” – Executive, medium sized Norwegian record label.

“We really try to help our members, and we are actively talking to the

government, artist themselves and labels to see to it that our members get the best possible outcome from the changes we are experiencing these days".
– Executive, national artist interest group.

8. How have record labels handled the digitalization issue?

The income has dropped dramatically for this stakeholder and this is reflected in one of the quotes mentioned below. They have, as is well known, tried several ways to stop the distribution of digital music through copy protections, DRM formats, legal action and several other unsuccessful actions. Today in Norway, few international labels remain and the marketplace is rapidly being filled with independent small labels based around few or a single artist. The record labels themselves expressed little optimism but rather looked to the old golden days for some sort of comfort rather than looking forward. The other stakeholders in the issue expressed a fear that if this stakeholder disappeared completely, an important quality control function in the business would be lost, as well as a lot of competence in developing music into better products.

"10 years ago we had ten major international record labels in Norway, today we have three left. And of these three, only one is actually making money anymore." – Executive, medium sized Norwegian record label.

"The record labels have always been and are still just a part of the value chain that makes the prices higher for consumers and income lower for us artists." – Established well-known folk-artist.

"I don't think they know what to do anymore. They have probably lost all inspiration, and most of them are too small to make any difference anymore anyway." – Well-known artist, black metal band.

"I think that all the known ones will be gone in 20 years, new and more technological friendly labels will appear. There has been a lot of consolidation in the market as well, and this will continue for a business in change I believe." – Journalist, national newspaper.

The most interesting interview in consideration to this question came with the

top executive of one of the remaining major international record labels in Norway. In contrast to all other stakeholders the authors talked to he had a clearly positive outlook on the future of music. *“Streaming is going to take us to untold heights and we’re going to start learning lots about our customers and what they want to listen to”*, he told us. His major concern was however that the music industry had not developed the last 20 years and that the music industry globally had not really discovered any new revolutionary segment in decades, and that the quality of most music emerging today was really uninspiring.

“To be honest we tried our best ever since we saw the downloading started. We have ever since the mid 90s used a lot of money to try and make our own online products to sell to the public. We have to admit however the things we made came to late, and weren’t good enough. It’s not easy competing against a free and high quality product! Also to be honest it wasn’t our core business, this is highly technological and the ones who have succeeded like iTunes came from a technological background, not a music industry background like us”. – Executive, major international record label.

9. Do the public authorities take the changes that have occurred the last ten years in the music industry seriously?

This was a question that triggered much response from all of the stakeholders interviewed. The responses ranged from laughing disbelief at the efforts from public authorities to others getting closed to aggressive because of the question. Few or none of the interviewed stakeholders believed the public authorities were treating the issue in a satisfactory or even respectful fashion. As stated before by a quote from the journalist in the national newspaper, this had become a real “hornets nest” for the authorities facing the issue. All although agreed that they would have to get involved to salvage the situation before it got too bad. If they would not do so, the technological new entrants like Spotify or WIMP would, in many of the stakeholders view, be the only likely market solution to the problem, if the solution does indeed turn out to be as profitable as the entrants themselves claim. The authorities themselves met us for a talk and gave us a little input to what was going on behind the scenes. They could however not share a lot of information on their efforts currently.

"Too a great extent we are subject to what the EU decide to do concerning the matter, but we are also monitoring what our neighbor countries are doing these days. A similar warning system as they are planning is not unlikely in the future, perhaps, but nothing is certain. We have established a panel of experts on the issue who are working with us to help us decide the best course of action". – Ministry of Culture

"The authorities are completely absent in the issue. They always have been. It is their responsibility to make the terms and ensure that they are followed on the Internet in the same way they do elsewhere in the society. Illegal music distribution on the Internet is their fault and they could easily solve it if they wanted to, they are just too afraid of touching on the subject of anonymity on the Internet." - Well-known national pop-artist.

"I think the authorities are not addressing the subject because they do not know how, this problem is beyond them and their limited set of responses." – Well known artist, black metal band.

"I'm actually a little afraid of some of the opinions amongst politicians. I had to travel recently to a annual meeting for one of the parties in the current government, to ensure that some ridiculous decisions were not made. I also wanted to try and talk some sense into some of them. They truly believe music should be free and distributed without restrictions." - Executive, national artist interest group.

The authorities, as one can see, mentioned a preventive warning system, which is being discussed in the Nordic countries. It effectively sends an official warning home to the people who have been identified to download copyrighted material illegally. Further actions taken against the consumer if he proceeds to break the law concerning the matter is however not a topic at this stage in any of the Nordic countries.

10. Do you have a suggestion on how to solve the challenges in the industry today?

To conclude the interviews, the authors rounded off with a question on a possible

solution to the problem of declining income from physical sales of CDs. The different responses were as varied as the respondents. Many artists talked about the need for added value to your music product today, not just selling a song but an experience and something extra you take with you from the product. Others hoped for a copy protection that would arrive and stop the possibility for illegally distributing music again. Some record labels wanted an expanded public spending on physical products to distribute among public facilities such as schools and libraries across the country. The interest organizations were more focused towards the legal issues and the laws governing the rights management of the products. However, the people who perhaps had the best overview, the executives of the major record labels, were the least worried of them all.

“In the old days one was able to make a decent copy protection on the old VHS cassettes. They were impossible to copy! There has to be a way to put a real copy protection on CDs as well. They managed it with VHS so why not CDs?” – Well-known artist, black metal band.

The record labels proclaimed their newest weapon in the issue, which are the artist contracts that are known as 360-degree contracts. This means the record label owns not just a share of your income but often the rights to the music and just about every aspect of your artist income. These contracts are becoming more common now to ensure the income of the labels by giving away royalties and rights of songs to the labels instead of the artists that created them. They also mentioned the need for subsidization from the state, which none of the other stakeholders looked upon as a reasonable solution, not even the artists themselves.

“The EU has to regulate this, and the authorities domestically have to take a clear stance and decide what sort of music industry they want left in Norway. We need to start subsidizing the artists and the record labels by making the state buy large amounts of physical and digital copies for schools, kindergartens, libraries and such.” – Executive, medium sized Norwegian record label.

Almost all of the stakeholders also agreed that the new streaming services

looked like the most promising new source of income for artists, and increasingly like the future for the industry along with increased live performances.

“First of all you need to solve this problem by making piracy less attractive. Provide a superior service and when that is done I believe the campaigns for awareness against music piracy would be more effective. Spotify and similar products are a big step in the right direction. I don’t want to own the music; I just want it easily available. ” – Journalist, national newspaper.

“I think the prices for digital music need to be increased. The consumers need to get used to the fact that it costs more. The value chain needs to be simplified and the cake redistributed and a new contract arrangements must be made.” - Well-known national pop-artist.

Another consensus was the fact that the issue has no quick fix or easy solution. However, the most interesting comment came from one of the executives of a major record label, he felt that most of this would solve itself and it was up to the artists and the labels to take advantage of the new technology and its possibilities instead of fighting it. The majority was still quietly resigned to the fact that the best days in the industry have come and passed, the issue now is just to save what is left. Although this paints a dreary picture there is also traces of optimism, entrepreneurship, willingness to fight for their trade and belief that possibly something new is in store for this industry.

“I think the business is being overly pessimistic. Think about it, I haven’t used any money on music since the 90s. Today I am paying a monthly fee for my music and I believe this will become the reality for large volumes of customers who never paid for music before, perhaps the income might even surpass what the industry had?” – Journalist, national newspaper.

“If I had the solution for this issue then my Cadillac would be twice as long!” – Established well-known folk-artist.

Part two – Annual reports

This part of the thesis broadly follows the method of Markus Larsson (2009), and Johansson & Larsson (2009). These two reports study how the revenue for the Swedish music industry, as well as revenues for artist have changed in the period 2000-2008. They found that the music industry in Sweden generates basically the same revenue today, as it did in the year 2000. Total artist revenues, on the other hand, have increased by 34,6% in Sweden since the year 2000 according to their work. Johansson and Larsson found these numbers by studying economic data presented by IFPI (International Federation of the Phonographic Industry), STIM (Swedish Performance Rights Society), SAMI (Swedish Artists and Musicians Interest Organization), Copyswede (Collecting Society for Certain Copyright Areas), and annual reports from individual companies in the music industry. They adjusted the data to prevent double accounting in certain copyright areas, since a number of the economic reports from these organizations overlap. The authors intend to follow the same methodology as Johansson and Larsson, and have therefore obtained relevant annual reports for the Norwegian music industry.

Before this study was done, we expected the numbers for the Norwegian music industry would be about the same or somewhat lower than the Swedish ones. In fact, the authors thought that the growth in total revenue and total artist income would be negative in Norway, since the music industry in Norway is looked on as quite a lot smaller than the Swedish one, and because of a lower perceived export rate of music. We expected to find that the internal shifts in share between recordings, collecting and live revenue would be quite close Swedish numbers. The actual findings along with detailed descriptions of the sources are presented in the following part of the paper.

Industry organizations

Economic data was collected from IFPI Norway (International Federation of the Phonographic Industry), TONO, NCB, Norwaco, Gramo, Øyafestivalen, Buktafestivalen and Rockefeller. Various grants were also studied, including funds distributed by Arts Council Norway (Norsk Kulturråd), Concerts Norway (Rikskonsertene), Fond for Lyd og Bilde and Fond for Utøvende Kunstnere. A

small introduction is given to each organization or company, before the economic data is presented.

The music industry in Norway is complex, as it is in most countries. It is therefore possible that the authors have not included an organization or a fund that perhaps might be important or necessary. The authors have however tried to include as many sources of revenue, income and grants that could be identified as relevant to this thesis and study.

IFPI

IFPI (International Federation of the Phonographic Industry) represents much of the record industry worldwide. In Norway IFPI represents about 15 members, plus an additional 130 members that fall under the umbrella of the 15 members. Gramofonplategrossistenes Forening (GGF) (Association of Norwegian Record Distributors) is the largest record companies' trade organization, and is affiliated with IFPI. GGF makes the annual summary of the Norwegian music sales, which are the statistics IFPI presents. These numbers are presented at IFPI.no, and are the same figures applied by the authors in this paper.

The statistics regarding CD-sales and digital music sales for this thesis are taken from IFPI Norway's annual statistics. The statistics from IFPI represents almost all of the Norwegian music sales, and is the most accurate available in Norway. The sales figures show net sales from record companies to record dealerships, without VAT.³ It is the record companies' responsibility to pay the respective fees to NCB, and because of this, the fee, and other expenses the record companies have, might be included in the price to dealers. Physical sales include albums, singles and music videos/DVDs and digital sales include both Internet and mobile based downloading and streaming. Digital sales were not introduced to the statistics until 2006.

The next two tables show the amounts in the respective years, as well as how many percentages each category has sold in terms of albums. The distribution is based on volume sales until 2006. After this it is based on value.

³ Net sales from record companies to dealers, without VAT, is used instead of price to consumer because the authors do not regard music stores in general, both physical and digital, as part of the creative music industry. When using net sales from record companies to dealers without VAT, one can exclude these stores, making the final calculations easier, and in the authors' opinion, more correct.

IFPI

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Physical	966	998	929	986	921	923	804	704	659	553	504
Digital								26	42	57	89
Total	966	998	929	986	921	923	804	730	701	610	593

Inventory value of records sold, ex VAT. Numbers in NOK million. Numbers from ifpi.no

Table 1: IFPI record sales divided by physical and digital

IFPI

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Classical	6	5	4	4	4	4	4	4	5	4	5
Norwegian	19	17	18	19	20	25	36	40	37	38	48
International	76	78	78	76	76	71	60	55	58	58	47

Yearly revenue albums, distributed by category. Written in percentage of total. Numbers from ifpi.no

Table 2: IFPI record sales by category, written in percentage

It is also interesting to look at how income from digital sales is distributed. These numbers are also collected from IFPI Norway's annual reports. As mentioned earlier, IFPI Norway did not start to report digital sales numbers until 2006.

Total Digital Revenue

Year		2006	2007	2008	2009
Internet	Single Track	6	15	25	30
	Album	4	9	16	32
	Streams	1	1	2	13
	Other	3	1	0	0
Total Internet		14	25	42	75
Mobile	Single Track	3	8	8	7
	Truetones	7	6	4	3
	Streams	0	0	0	0
	Other	2	3	2	1
Total Mobil		12	17	15	11
Total		26	42	57	86

Numbers in NOK million. Numbers from ifpi.no

Table 3: Total digital revenue last 4 years

An important source of income for artists comes through their contract with a record company. Based on their contract, it is common to get paid according to how many albums that are sold. Most of these contracts are kept secret, but industry executives have told the authors that it is common to receive between 15 – 20% of net sales. As far as the authors know, there are no statistics from the record companies regarding payments from record companies to artists.

Stores in Norway have the opportunity to order CDs from wholesales in other countries, and some of these sales might not be in the statistics presented by

IFPI. Consumers themselves can also order CDs and digital files from other countries, making it even more difficult to calculate the entire market accurately.

TONO

TONO is a private limited company, founded in 1928, owned and operated by its members, composers, lyricists and music publishers. The company manages performance rights for music in Norway, and through the "management agreement" (forvaltningsavtalen) the copyright holders of these rights transfer them to TONO. Management of the mechanical rights (CD, DVD etc.) is transferred from TONO on to NCB (Nordic Copyright Bureau).

TONO represents *composers*⁴, *lyricists*⁵ and *music publishers*⁶, and currently has over 18,000 members. Through reciprocity agreements with similar companies in other countries, and with membership in the umbrella organization CISAC, TONO manages in reality the whole world repertoire. Compensation for broadcasting and other public performance of music is collected by TONO, which is then distributed to the holders of the performed works. In other words, one can get money from TONO for concerts, radio, television, advertising use, film use and use of music on the Internet. Media outlets such as NRK radio / TV, TV2, P4, etc. must submit their playlists to TONO in order for TONO to know who has played what and to compensate the right people accordingly. The same applies to artists that have played a concert. Annual revenues and results for distribution are shown below.⁷ Results for distribution is the amount that is left from the remunerations collected after TONO has deducted all of its costs.

Included in earnings for distribution are what TONO calls "Nasjonale midler", which go to promotion and different grants given away by TONO.

TONO											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Yearly revenue	184	198	255	234	255	258	266	285	298	322	366
Earnings for distribution	144	159	211	186	200	208	219	234	245	262	311

Numbers in NOK millions. The numbers are from TONO's annual reports.

Table 4: Tono revenues and distribution figures (Annual reports)

⁴ Composers are the ones who have "made"/composed the music.

⁵ Lyricists are the writers of the text in a recording.

⁶ Music publishers are the ones who publish, and very often, finance a recording.

⁷ Annual revenue equals gross performance remunerations minus losses and provisions to the Norwegian composer fund (Det norske komponistfond), plus income from foreign countries plus/minus return on financial investments.

The grants totaled in 2008 over NOK 9 million. In addition to the amounts listed above, TONO also gives 2% of its gross performance remunerations to "Det norske komponistfond", which was in 2008 a little less than NOK 6 million. It should be noted that the amounts shown above does not show exactly the amount transferred to the respective copyright holders during the year. For example in the year 2008 NOK 247,4 million was actually transferred to the copyright holders, but NOK 262,4 million was collected according to the annual report. The difference in these amounts has to do with varying times of collection and distribution, and allocations to funds.

As mentioned earlier TONO also collects money from concerts held in Norway. This means that for every concert played, a certain amount is collected and distributed to the copyright holders. The amount collected differs from concert to concert, but the authors have estimated that TONO collects about 5% on average of the ticket revenue. This number was then confirmed by TONO to be a good estimate of the average ticket revenue collected. The reason for why an average number has to be used stems from the concert-collecting model (Appendix 2) used by TONO. Each concert organizer pays a varying amount to TONO according to how much revenue is generated, or according to how many attended the concert if it was free of charge. Since TONO's focus is on how much needs to be collected from each concert, and not on how much is collected from total ticket sales, an exact average number is not calculated by them.

From the amount collected from concerts it is possible to make an approximate estimate of how much the Norwegian concert arena generates in total ticket revenue. The following table displays the amount collected by TONO from concerts, and also total live revenues minus 5 % collected by TONO.

Live Revenue											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Concert remunerations collected by TONO	14	14	16	18	23	23	30	30	31	36	40
Tot. live rev. minus 5% coll. by TONO	265	273	313	335	429	442	561	576	597	691	765

Numbers in NOK millions. The numbers are from TONO's annual reports.

Table 5: Live revenue and concert remunerations (Tono annual reports)

The live numbers presented are almost for certain too low, since not every concert played in Norway is reported to TONO. The organization Norske

Festivaler (Norwegian Festivals) have calculated that in 2009 all of their 80 members had a collective revenue of about NOK 350 million (E24 2010). The live revenues presented does not reflect merchandise sales either, since these sales are not possible to find in any statistics. In any case, the live revenue numbers calculated from TONO's concert remunerations are the most accurate numbers available to the authors.

What is also interesting to look at is the difference of the money collected that is sent abroad and that which is received from abroad. This number can indicate the popularity of Norwegian artists abroad.⁸

TONO

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Remunerations sent abroad	70	69	71	92	95	108	97	118	117	121	134
Remunerations received from abroad	9	14	16	16	17	18	20	20	21	18	25

Numbers in NOK millions. The numbers are from TONO's annual reports.

Table 6: Tono Remuneration figures (Tono Annual reports)

NCB

NCB is a Nordic copyright company for Recording Rights to music, and manages the Nordic countries and Estonia, Latvia and Lithuania. It is an industry association owned by the Copyright KODA Nordic companies in Denmark, Stef in Iceland, STIM in Sweden, TEOSTO in Finland, and TONO in Norway. Beyond this, NCB also has reciprocity agreements with similar companies around the world. In this way NCB represents virtually all protected music in connection with the recordings etc. in its management area. One of NCB's main tasks is to collect money from anyone who prints up and sells music both physically and digitally, and distribute it to the copyright holders of the music. This also applies for music used in films, videos etc. The remunerations collected through NCB in Norway are distributed through TONO.

The numbers below show how much has been given to the copyright holders in Norway the last few years and the total amount collected by NCB in Norway.⁹

⁸ TONO does not have agreements with organizations in all of the world's countries, so the numbers are best used as indicators for the ratio between remunerations sent abroad and received from abroad. Norwaco has collected parts of the amounts shown.

NCB

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total collected in Norway	112	106	122	115	122	106	110	98	96	86	86
Total distributed to Norway	28	28	31	32	39	40	42	44	43	40	41

Numbers in NOK millions. The numbers are from NCB's annual reports.

Table 7: NCB figures

GRAMO

While TONO collects compensation for composers, lyricists and music publishers for broadcasting and other public performances of music, Gramo does the same for *performers*¹⁰ and *producers*¹¹ in the same area. This is done a bit differently in Sweden, where two separate organizations do this job: SAMI for the performers and IFPI for the producers.

Gramo, founded 7th of June 1989, as a result of the passing of the law §45b of the Copyright Act, that gave the performing artists and producers the right to compensation for the use of their recordings. From 01/01/1990 concerning the right use in broadcasting, and from 1.7.2001, it was expanded to include other public performance (use in the cafe, shop, hotel, etc.). This addition of public performances explains much of why there was an increase in collected revenues in 2001 and the following years. Norsk Musikerforbund, Norsk Tonekunstnersamfund, Norsk Skuespillerforbund, Skuespillerforeningen av 1978, FONO and IFPI Norway were responsible for the creation of Gramo.

It is important to note that GRAMO only collects fees for recorded music that is published by third parties. They do not collect money for recordings made by NRK, live recordings, etc., unless it is from a live CD. The distribution of money is split 50/50 between the performer and producer sector. It is in the performer sector that the different music organizations act on behalf of their members and distribute the money accordingly. IFPI and FONO are the main organizations in

⁹ A historic exchange rate website had to be used in order to get the total amount collected in NOK in Norway in 1999. Year-end rates were used in the calculation. (<http://www.x-rates.com>).

¹⁰ Performers are those who have contributed on a recording.

¹¹ The producer is the owner of a recording. In the Copyright Act §45b the producer is called "tilvirker" or "manufacturer". The "tilvirker" is the one that is legally and financially responsible for the recording of a performance and can use the production rights in different contexts. Producer rights can be bought, rented or sold, and the rights can thus be managed by other companies than the original "tilvirker"/producer. This producer role must not be confused with studio producers, distributors, or companies that publishes recordings on license.

the producer sector. A genre independent points system, where the contribution as a musician is divided into points depending on the role in the recording, is used by Gramo to calculate the size of the remunerations given.

Gramo have reported the following revenues and amounts collected for redistribution to the copyright holders:

Gramo											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue	51	68	71	83	102	109	102	120	127	131	135
Results for distribution	37	50	60	58	85	47	103	82	99	102	100

Numbers in NOK millions. The numbers are from Gramo's annual reports.

Table 8: Gramo figures (Gramo annual reports)

The same caveat applies to Gramo as it did with TONO. The amounts shown above do not indicate the exact amount transferred to the respective copyright holders during the year. The difference in these amounts is due to varying times of collection and distribution. As with TONO, remunerations that cannot be traced back to the copyright holders within a certain time limit will be used as collective funds for cultural events in the music industry.

In addition to this, there is the money transferred to Fond for utøvende kunstnere (FFUK). A levy for FFUK has been established under Norwegian law for the broadcasting and public performance of non-protected repertoire. The levy has come into force both for public performance and for broadcasting, and Gramo collects the levy on behalf of the foundation. A lot of the funds to FFUK are remunerations that are paid for the use of repertoire from the USA. There are some countries, including the USA, that have not ratified the ROMA-convention, and therefore will not exchange remunerations for the use of music. The table shows how much has been transferred to FFUK in total from Gramo, and also approximately how much of this that has been transferred from FFUK to people in the Norwegian music industry¹².

¹² Remunerations transferred to the categories music and funds for recording have been used to find the amounts distributed to music by FFUK.

FFUK

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Given to FFUK by Gramo	*	*	*	17	21	19	25	33	33	37	41
Distributed to music by FFUK	8	9	8	9	9	9	10	12	18	21	22

Numbers in NOK millions. The numbers are from Gramo's and FFUK's annual reports.

*No numbers available to the authors

Table 9: FFUK figures (Gramo & FFUK annual reports)

NORWACO

Norwaco is a copyright organization that enters into agreements for the secondary use of sound and moving images. Norwaco acts as an intermediary between copyright holders and users in the fields of broadcasting, film and video via cable and comparable solutions. The organization enters into agreements for expanded use of program content in these media, collects the agreed remuneration and distributes it to the copyright holders. In addition to this, Norwaco distributes the compensation given for private copying, which is assigned over the Norwegian state budget. This scheme started in 2005, and according to the ministry of culture this compensation is meant to give "copyright holders a certain compensation for the extensive losses they suffer, since the technological evolution has given private copying whole new dimensions" (Lino 2005). In other words the compensation for private copying is meant to compensate for legal private copying. The numbers presented are from 2006 and on. Part of the share from the compensation for private copying also goes to a fund called "Fond for lyd og bilde", earlier known as Kassettagiftsfondet. "Fond for lyd og bilde" gives support to projects and productions.

Norwaco distributes the remunerations through member organizations. These member organizations are also subject to costs and do not distribute the full amounts received to their respective members. In order to get a better picture of how much is given to the members of these organizations, one has to subtract the costs of each organization. The amounts distributed to the different organizations are rarely transferred directly over to the copyright holders themselves, but are often divided through different grants and cultural projects.

Since Norwaco does not only collect remunerations from music, the authors have chosen to look at the total remunerations given to the members of the

music agreement (musikkavtalen). These members are FONO, GramArt, IFPI, MFO, Norsk Tonekunstnersamfund and TONO. The total remunerations to certain music organizations from Norwaco are shown below. Note that these numbers are without the compensation for private copying, which is also sent out to the same organizations.

Norwaco											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
FONO			0,3	0,4	0,7	1,4	0,8	0,7	0,9	1,4	1,0
GramArt			0,6	0,9	1,7	1,4	1,5	3,8	1,7	1,4	2,1
IFPI			1,5	4,6	6,2	7,7	7,9	7,1	5,3	9,3	8,1
MFO			0,6	0,9	1,7	1,4	1,5	3,8	1,7	1,4	2,1
Norsk Tonekunstnersamf.			0,1	0,2	0,4	0,3	0,3	0,8	0,4	0,3	0,5
TONO	9,9	8,4	10,5	17,2	23,3	23,5	24,8	27,6	26,1	32,9	40,4
Musikkavtalen			0,1	1,3	1,9	2,1	2,0	3,3	3,7		
Miscellaneous*			0,3	0,3							
Sum	9,9	8,4	14,1	25,8	36,0	37,8	38,7	47,2	39,7	46,8	54,0

*Miscellaneous contains unspecified remunerations from Kringkastingssektoren

Numbers in NOK million. The Numbers are from Norwaco's annual reports.

Table 10: NORWACO figures (Norwaco annual reports)

Note that for 1999 and 2000 Norwaco's annual reports lack the level of detail concerning remunerations sent to music organizations that the other reports have. The remunerations sent to TONO are therefore the only ones reported in the table for those years.

Compensation for private copying in the music industry is shown below, meaning that compensation going to other causes than music are left out. Amounts given to FONO, GramArt, IFPI Norge, Mfo, Norsk Tonekunstnersamfund, TONO are shown together. Grants given by Fond for Lyd og Bilde (Fund for Audio & Video) is shown below. Note that payments to IFPI and TONO are sent to both Norwegian and foreign copyright holders.

Privatkopieringsvederlag incl. Fond for lyd og bilde											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TONO FONO IFPI +++								15	21	17	17
Fond for Lyd og Bilde	14	13	13	11	11	11	9	9	11	11	12
SUM	14	13	13	11	11	11	9	24	32	28	29

Numbers in NOK millions. The numbers are from TONO's and FFLB's annual reports.

Table 11: Private copying compensation (Tono & FFLB annual reports)

Arts council Norway (Norsk Kulturråd)

The Arts council Norway was established in 1965 and has three main tasks: firstly to administer the Norwegian cultural fund (Norsk kulturfond) and tasks delegated from the ministry of culture, secondly being an advisory body for the state and the public in cultural issues, and finally, to take initiative to research

and develop activities in cultural areas where the council finds it necessary to make special effort. The Arts council is financed over the state budget, and is in 2010 given a total of NOK 430,1 million under the name Norsk Kulturfond. Out of these, NOK 126,3 million is given to the music sector. The total amount to Norsk Kulturfond can be found in post 55 in the state budget (Statsbudsjettet 2010).

Money from the Arts council goes to support different music related affairs. These include support to: promoters within the music field i.e. various clubs and scenes; touring and concerts; music festivals; music ensembles; church music; procurement arrangements for music; and various other purposes like recording and project based support.

Arts Council Norway

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Music ind. allocatio	9	38	48	49	50	55	52	57	69	75	91,98

Numbers in NOK million.

Table 12: Arts council Norway figures (Norsk kulturråd Web pages)

Music allocations in Arts council Norway is shown above¹³. The management responsibility for a number of schemes were transferred from Concerts Norway to Arts council Norway in 2000, hence the large increase.

Concerts Norway (Rikskonsertene)

Concerts Norway was founded in 1967 on the initiative of the Norwegian Cultural Council (Norsk Kulturråd), with the main purposes described in the following way: Concerts Norway will make live music of high artistic quality accessible to all people in the country.

The organization is currently governed by The Ministry of Culture. Concerts Norway engages hundreds of artists annually through over 9000 concerts in all Norway's of 433 municipalities, both for schools and kindergartens. Financing of Concerts Norway is done over the state budget and by income from public performances. Concerts Norway also receives funds from "The Cultural Rucksack" (Den Kulturelle Skolesekken). In 2010 this amount will be about NOK

¹³ Music allocations were found by taking total allocations minus 20 percent. These 20 percent go mainly to music ensembles and church music, which do not go under the authors' definition music industry.

9,5 million. The table below shows Concerts Norway's spending in the Norwegian music industry.¹⁴

Concerts Norway

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Concerts	68,6	50	62	67	74	87	96	73	82	80	100
Percentage relevant	34 %	33 %	35 %	43 %	38 %	40 %	41 %	40 %	40 %	48 %	54 %
Sum	23	16	22	29	28	35	39	29	33	38	54

Red = estimation

Numbers in NOK million

Table 13: Concerts Norway (Annual reports Concerts Norway)

Analysis

In the following section the authors intend to provide an overview of the total revenue of the Norwegian music industry and also calculate the total income for artists in Norway.

Music sales

The numbers presented by IFPI Norway, show that CD sales have seen better days. The album and single sales were at their peak, revenue-wise, in the year 2000, and have shown a continuing downward trend ever since. Digital sales were introduced in IFPI Norway's statistics in the year 2006, have displayed an strong growth since then. This does not make up for the downfall of physical music sales, as seen from the graph showing the sales (Figure 8) for both physical and digital music from the year 1999 until today.

¹⁴ Where the total amount spent on concerts is not directly shown in the annual reports the number is found by looking at the total amount spent on concerts, fees, and travelling and multiplying this number with the percentage of relevant concerts held by Concerts Norway. The authors have defined the following concert categories as relevant in this case: Jazz, Pop-rock, folk songs (viser) and 'others'. In the cases where the genre distribution is displayed as both public concerts and school/kindergarten concerts, and average of the two is used. The authors have not included ticket income from public concerts, since this amount should be included in the estimated live revenue presented earlier.

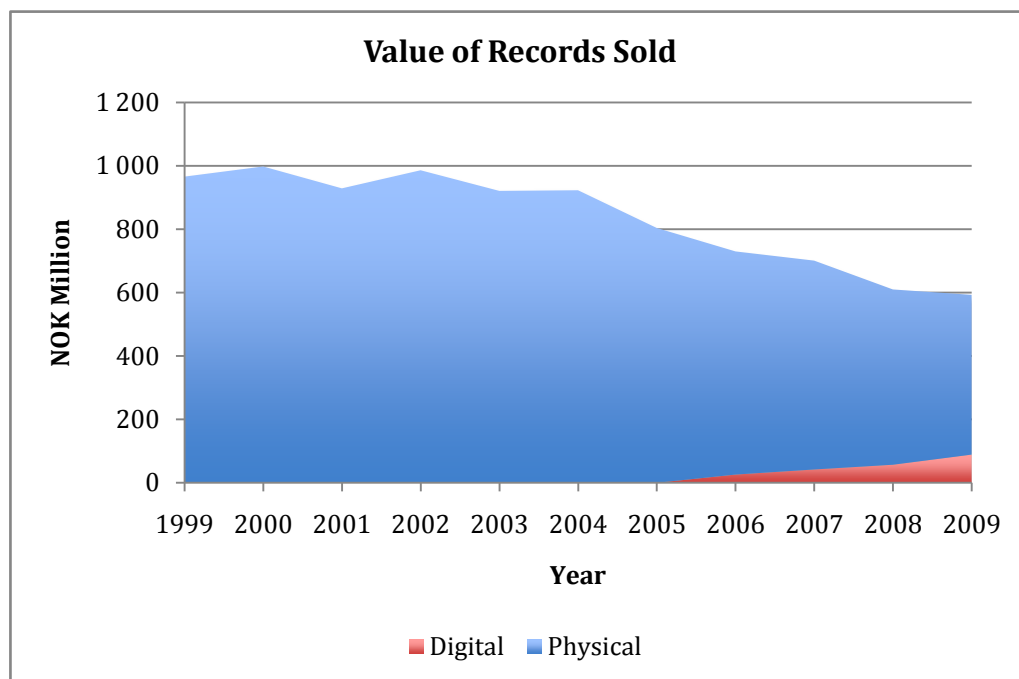


Figure 8: Value of records sold

The chart shows the dramatic drop in sales in physical music, from NOK 966 million in 1999 to NOK 593 million in 2009. These sales have almost been cut in half during the last decade. This has resulted in an industry having to change, and reduce many of their overhead costs. Layoffs and fewer record artists signed have been some of the most prevalent changes, and whole business models have had to be rethought in order to adapt to the market. Illegal downloading and file sharing is one, but not the only reason for this downfall in physical music sales. Many have argued that a too late introduction of good legal music services from the record companies is the main reason for the downfall in physical music sales (Knopper 2009). In any case, digital sales are increasing rapidly, and new services have been introduced, such as the before mentioned services WiMP and Spotify. There has been an increased use of bundling music on mobile phones and other portable equipment. This might be some of the explanation of why there was an increase in digital sales of over 57% in 2009. In fact, when looking closer at the sales numbers from IFPI Norway, one can see that there was only a 3% drop in revenue from sales in 2009, compared to 2008 when there was a drop of 13%.

It is interesting to note that music sales in Sweden in 2009 actually increased by 10%, making Sweden one of the first countries in the world to break the

negative trend (IFPI Sweden 2009). The fact that Sweden implemented the EU Intellectual Property Rights Enforcement Directive (IPRED) in Swedish law April 1, 2009, might explain some of the difference from Norway. IPRED makes it possible for copyright holders, like the movie and record companies, to require that ISPs provide the personal information of people suspected of downloading copyrighted works, considerably easier than before. In other words, it has become easier to enforce the intellectual property rights in Sweden after IPRED was implemented, which might have made people a bit more skeptical to download music illegally. But even though CD sales have plummeted, 2009 became one of the very best years for Norwegian music. Sales of Norwegian music passed the sales of international music for the first time ever, with a total share of 48%. International music had a share of 47%, while classical music had a share of 5%. One can see in the graph below that there has been an increasing interest for Norwegian music in Norway the past few years.

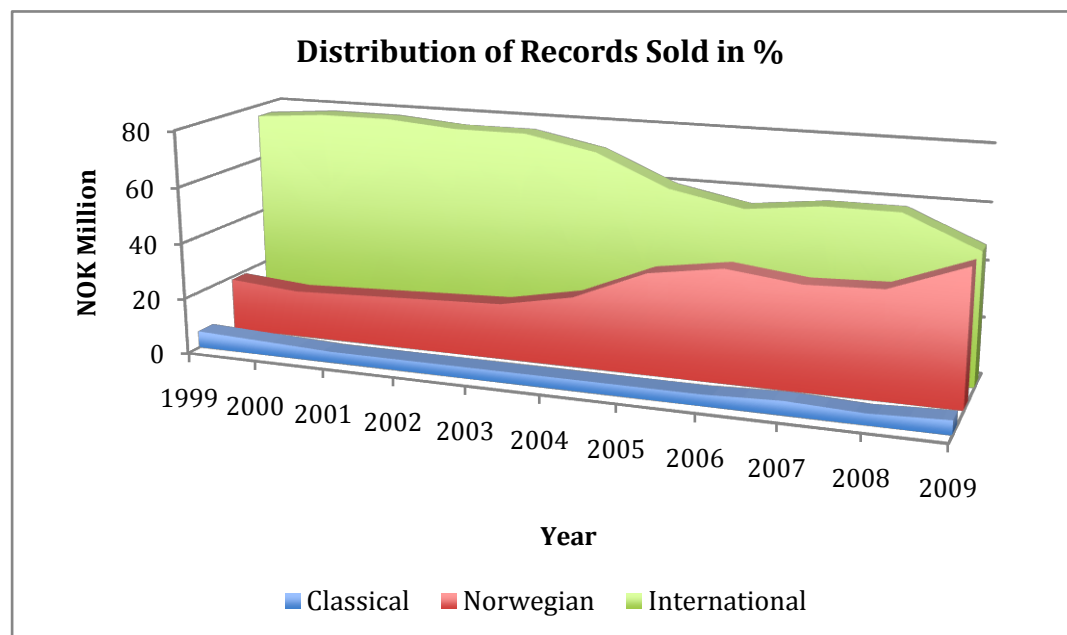


Figure 9: Distribution of Records sold in %

According to two record company executives some reasons for why Norwegian music has become more popular in Norway the past few years might be: TV and radio stations have exposed Norwegian music in an increasing manner, Norwegian artists have become more professional and better compared to before, the support arrangements for artists and producers have become better,

the concert market has increasingly become more interested in Norwegian artists, and international/foreign music is shared more on bit torrent sites.

Collecting societies

The two main collecting societies in Norway are TONO and Gramo. As mentioned earlier TONO collects compensation for *composers*, *lyricists* and *music publishers* for broadcasting and other public performances of music, and Gramo collects for the *performers* and *producers* in the same area. In addition to this NCB collects, on behalf of TONO, from the record companies that produces and publishes music, both physically and virtually, and Norwaco collects from the use of music in TV, films and video when it is distributed via cable. The graph below shows the total revenue for TONO and Gramo, and Norwaco's music related revenue (excluding the remunerations sent to TONO), from 1999 until 2009.

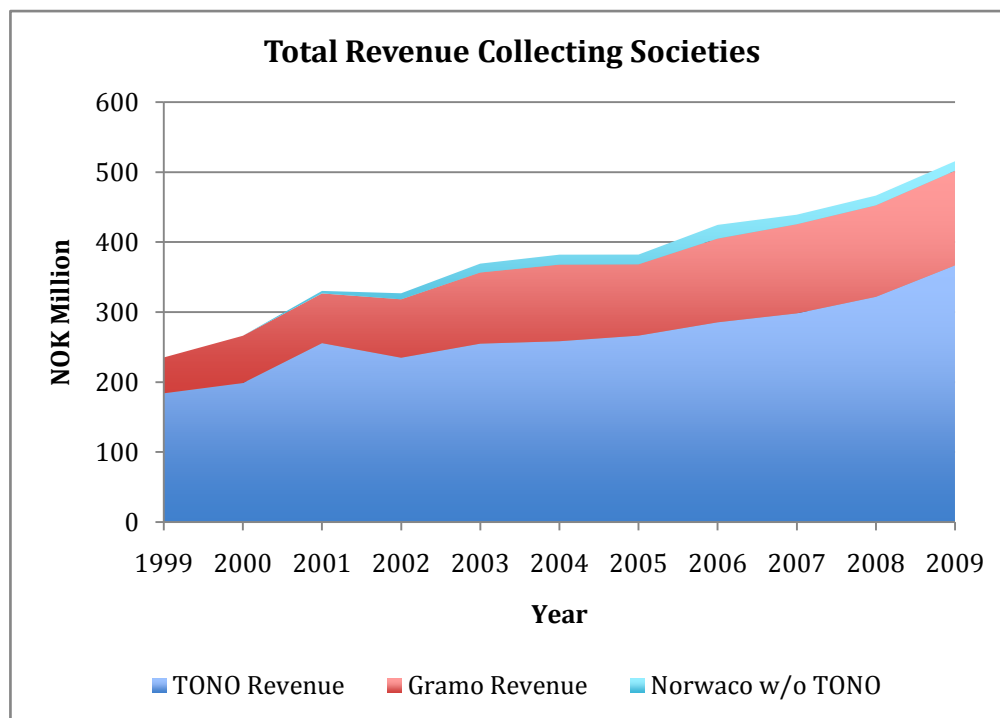


Figure 10: Total revenue - Collecting societies

As one can see, the graph (figure 10) shows a clear trend upwards. TONO, Gramo and Norwaco have in sum almost doubled their collective music related revenues, from approximately NOK 235 million in 1999 to NOK 515 million in 2009. This increase in revenue is not unexpected, and there are several reasons for why. The number of artists has increased significantly from 1999 until today. There has been an increased effectiveness of collecting the remunerations, an

increased focus on getting agreements with more venues and organizations, and of course the increasing use of music.

Number of Norwegian music artists

Telemarksforskning Bø (Heian et al. 2008) calculated that there were 2090 artists categorized as either active musicians or composers in 1996 and 5902 in 2006. Of these 5902, the authors have calculated that about 2400 of these artists do not fit in this thesis' definition of the music industry, making the total number of artists about 3500 in 2006.¹⁵ The real growth in artists was estimated to be 31% from 1996 to 2006, which is about 83 new artists each year. The remaining growth was due to a change in definition in the two surveys performed. It follows from this that the number of registered music artists was about 2900 in 1999 and about 3750 in 2009. Adding 10% unregistered active music artists to this, makes the number of artists in 1999 about 3200 and about 4100 in 2009. In other words, the industry has seen a growth of about 900 members, or 28%.¹⁶ This increase was discussed with an industry organization executive, who confirmed that the number was realistic. The table below shows the revenue of some of the major music related state subsidizations and grants in Norway.¹⁷

State Subsidizations & Grants

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
PKV inkl. FFLB	14	13	13	11	11	11	9	24	32	28	29
FFUK	8	9	8	9	9	9	10	12	18	21	22
Arts council Norway	9	38	48	49	50	55	52	57	69	75	92
Concerts Norway	23	16	22	29	28	35	39	29	33	38	54
Sum	54	77	90	97	98	110	110	121	152	162	197

Numbers in NOK million

Table 14: State subsidization and Grants (combined annual reports)

Live revenues

As described earlier in the interview and the questionnaire sections, artists in general believe that both revenue and concert activity has increased for live performances the last ten years. This is also a common notion when reading both newspapers and articles, but as far as the authors know, no such data has

¹⁵ The authors subtracted all of the members of "Norsk kantor- og organistforbund" and 50% of the members of "Norsk musiker- og musikkpedagogforening".

¹⁶ Another way to calculate the total number of music artists in Norway can be to use the number of members of TONO or Gramo, but that will lead to including many "sleeping" members that are not regarded as active musicians, making the calculations very inaccurate. .

¹⁷ The Ministry of Culture (2007-2008) calculated total initiatives and schemes within rhythmic music that get State funding. The total amount in 2008 was NOK 176 million, without the record procurement arrangements. Adding these arrangements brings the total number closer to NOK 190 million. This confirms that the authors' estimations are close to the actual amounts.

been provided in Norway. The reason for this is that none of the industry organizations collects, summarizes or reports these numbers. It has also proven to be difficult to collect accurate economic data from the actors involved. The most accurate number one can use to estimate the total live market in Norway, is to look at the amount collected for concerts performed. From this number it is possible to calculate the approximate total live market in Norway. As described earlier, TONO collects in average 5% of ticket revenue from concerts. The graph depicting the total live revenues in Norway is shown below.

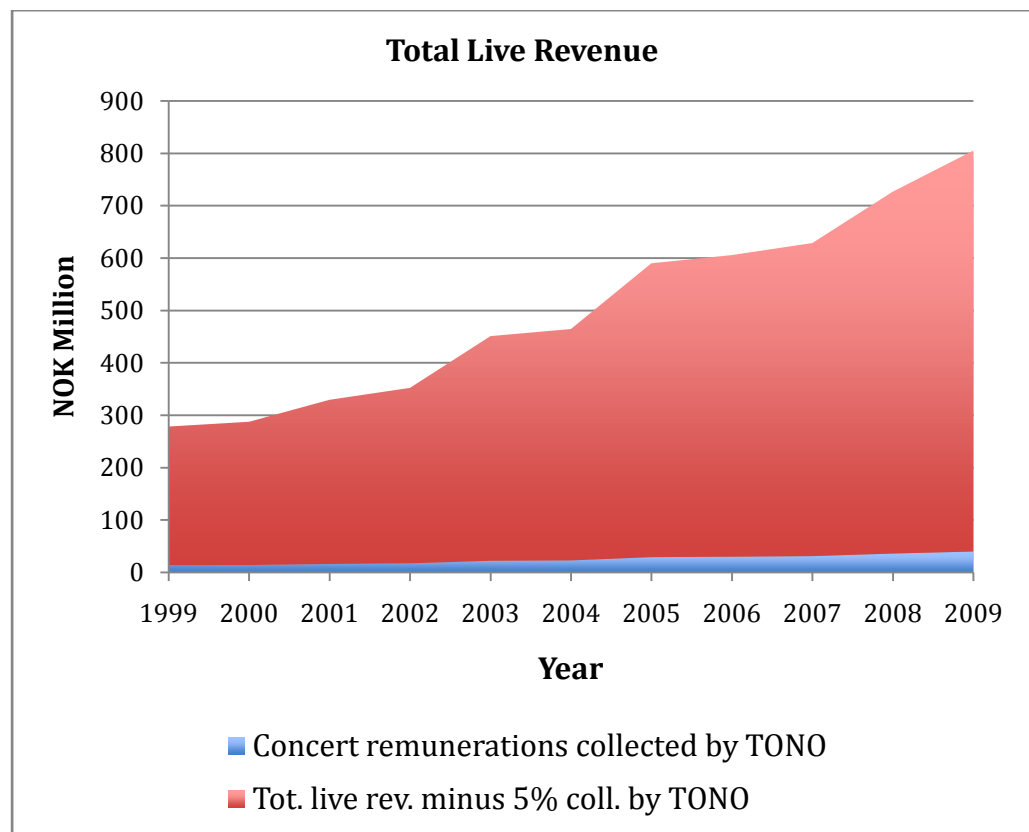


Figure 11: Total Live revenue

Total live revenues have increased with over NOK 520 million the last 10 years, from about NOK 278 million in 1999 to about NOK 805 million in 2009. Some of this increase might have to do with better reporting and collecting techniques, but the main reason for the increase is higher ticket sales and prices, as was mentioned in the interview section of the thesis. Some of the interview subjects, in the interview section of the thesis, mentioned a steep increase in ticket prices for live arrangements between the years 2003 – 2005.

In order to validate this trend, revenue numbers from a few festivals and venues have been collected. The table and graph shows revenue numbers from Øyafestivalen, Rockefeller and Buktafestivalen.

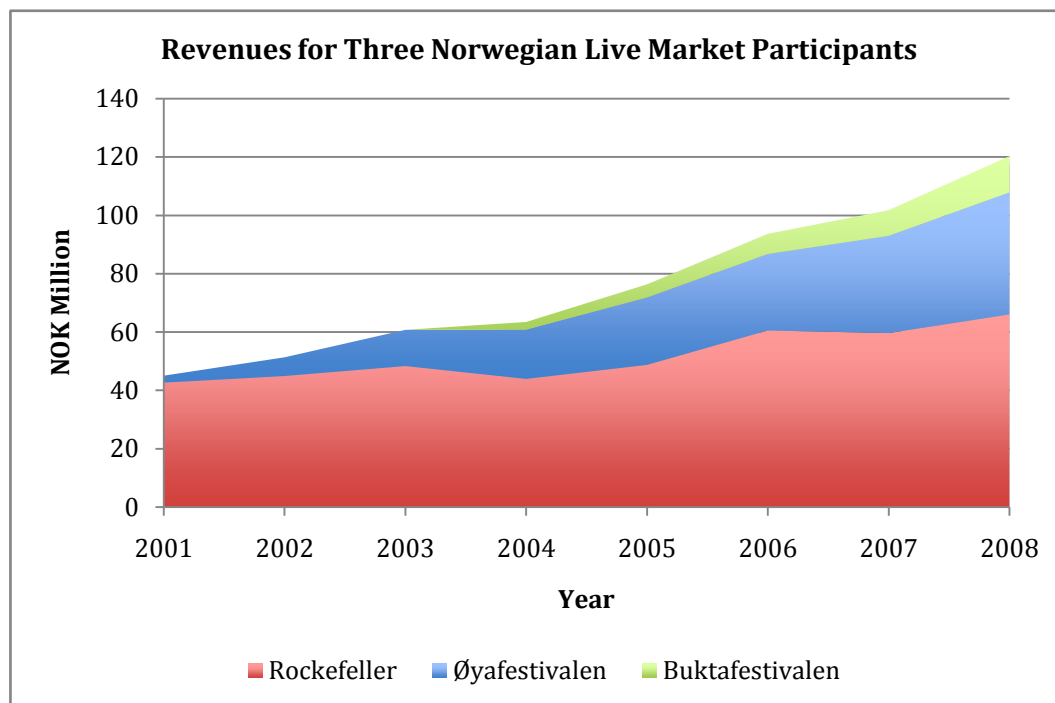


Figure 11: Revenues for Three Norwegian Live market participants

Revenues for Three Norwegian Live Market Participants

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Øyafestivalen	0,55	2	2,4	6,4	12,4	16,9	23,1	26,2	33,3	41,8	44,6
Rockefeller	*	*	42,6	44,9	48,3	43,9	48,7	60,5	59,6	66	*
Buktafestivalen	*	*	*	*	*	2,6	4,5	6,9	8,8	12,4	8,4
Sum	0,55	2	45	51,3	60,7	63,4	76,3	93,6	102	120	53

*No numbers available to the authors. Numbers in NOK million.

Table 15: Revenues in Mill. NOK from Norwegian live market participants (Annual reports)

As one can see, the overall trend of the live companies corresponds well with the estimated total live revenues in Norway.

Even though there has been a significant increase in the live market the past few years, it does not mean that every artist has received more money from his or her live performances or toured any more in the same period. As presented earlier, the Internet gives small artists increased possibilities to spread their music, and gather an audience earlier than before. We agree with Johansson and Larsson (2010) when they say that it is very difficult for small artists to make a living on live performances. They argue that the increase in live revenues has

probably benefited mainly artists that already have a successful career, as well as a substantial back catalogue of recorded music. The record companies have most likely invested heavily in these artists, an investment the live promoters now benefit from. This is of course the main reason why it becomes more and more common for the record companies to involve themselves more in live performances, and write contracts that gives them an increased share in live revenues (Aftenposten 2008, Dagbladet 2008).

It must be noted that this is an estimation of the live market in Norway, and not exact economic accounting. If the average percentage collected from TONO differs significantly from the one used, then that is a source of error that has considerable effect on the model. However, the authors have this figure directly with TONO to get an as accurate estimate as possible. It is also impossible for TONO to collect remunerations from every single concert held in Norway, and some promoters may use a different kind of categorization of concerts, placing the remunerations collected in a different category, which then does not get accounted for here. This last scenario is not very likely.

Music industry revenues in Norway

Based on the numbers collected and presented from the record labels, collecting societies and live promoters, and adjusting them for overlap, it is possible to show the development in the Norwegian music industry from 1999 until 2009.¹⁸

Total Music Industry Revenue in Norway

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Physical & digital sale	966	998	929	986	921	923	804	730	701	610	593
Collecting Societies	235	266	330	327	369	382	382	424	439	466	515
Live revenue	265	273	313	335	429	442	561	576	597	691	765
Sum	1466	1537	1572	1648	1719	1746	1747	1730	1737	1767	1873

Numbers in NOK million.

Table 16: Total music industry revenue in Norway

¹⁸ State subsidizations and grants have been left out of this calculation since the authors do not have the revenue numbers for the different organizations and establishments that hand these out. These subsidizations and grants are therefore only included in the calculation of total Norwegian artist income.

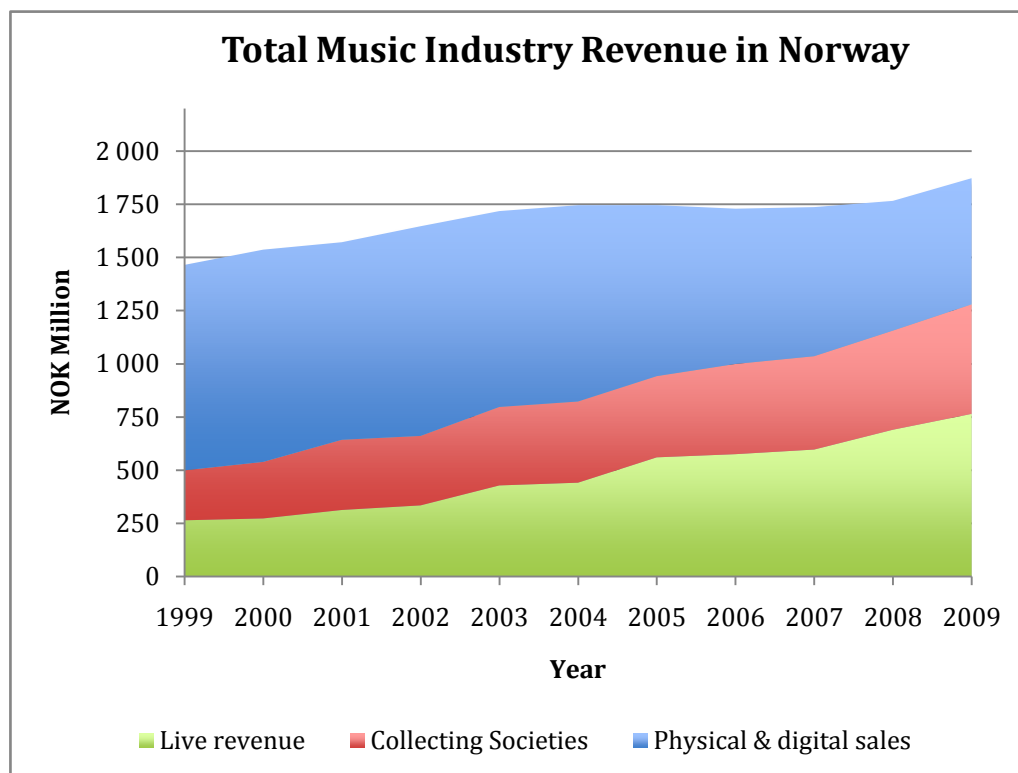


Figure 12: Total Music Industry revenue in Norway

In 2009 the total revenue of the three parts in the music industry totaled NOK 1873 million, compared to NOK 1466 million in 1999. This is an increase of approximately NOK 407 million (not adjusted for inflation), or about 28% in 11 years. The years from 2003 to 2008 showed barely any total revenue increase at all. All three segments had a standstill from 2003 to 2004, before record sales plummeted in 2005. Fortunately, for the industry, live revenues and collecting revenues seemed to compensate for much of the fall at the same time. It becomes clear that the most important source of revenue in the industry has changed during this decade. Physical and digital sales have gone from a total market share of about 66% in 1999 to about 32% in 2009, whereas live revenues have gone from 18% in 1999 to about 41% in 2009. The collecting societies have also seen an increase in total market share, from 16% in 1999 to 27% in 2009.

The record labels are clearly the ones that have lost the most as seen in the graph above. Although the industry has shown a growth of about 28% in total these last years, a decline in recording revenues might have significant long-term effects on the music industry. The record labels have traditionally been the ones finding new talent, and also the ones that record their music and promote

their songs or albums. A reduction in revenue here forces the record labels to be more selective on new talent, picking only the "safe" bets. Steve Knopper has given a detailed description on how this has affected the industry in his book *Appetite for Self-Destruction: The Spectacular Crash of the Record Industry in the Digital Age* (2009). Long-term consequences are that new entrants will have to fill the shoes of the record companies, and that there might be a reduction of "non-mainstream" or niche music offerings because of a reduced willingness to take risks. It is not possible to specify which kind of artists, writers, producers or labels that experience an increase or decrease in revenue from their creative work, based on the figures provided by the industry associations.

It is interesting to look at the actual growth in the music industry as well, meaning adjusting the numbers for inflation in the period. Statistisk Sentralbyrå (SSB) calculates the annual rate of inflation in Norway, and their calculator has been used to find the following numbers.

Music revenue*

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Physical & digital sales	1187	1189	1074	1126	1026	1024	878	780	743	623	593
Collecting Societies	289	317	381	373	411	423	417	453	465	476	515
Live revenue	325	326	362	382	478	490	612	615	633	705	765
Sum	1801	1831	1818	1881	1915	1937	1907	1848	1842	1804	1873

*Adjusted for inflation

Table 17: Total music revenue adjusted for inflation

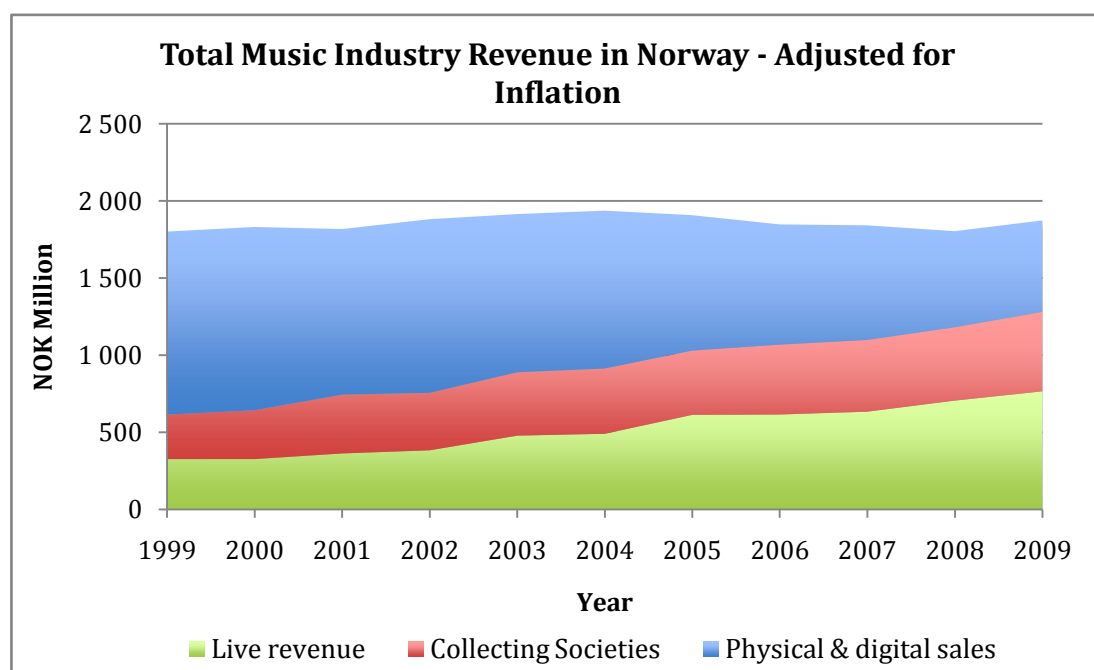


Figure 13: Total Music Industry revenue in Norway - Adjusted for inflation

Adjusted for inflation, the music industry revenues in Norway have grown from NOK 1801 million in 1999 to NOK 1873 million in 2009. This is a growth of NOK 72 million, or about 4%. In other words, the total music industry revenues in Norway today is basically the same size, revenue wise, as it was 11 years ago. The actual change has mainly occurred in the income sources altering their relative size and importance within the industry. The Norwegian music industry is clearly an industry experiencing a period of dramatical change.

Note that the numbers used for summarizing the figures in the music industry have been adjusted to compensate for double accounting. They will therefore differ from the ones found annual reports in some instances.

State subsidizations and grants are not included in the calculation of total music industry revenue. Many numbers presented with the relevant organizations and foundations only show the amounts given to the artists, and do not reflect the actual amounts given to the different organizations and foundations by the Government. The amount given to them by the government is higher than the grants given, since it is supposed to cover administration costs etc. However, in some cases it was not possible to calculate the relevant amount that was transferred to them by the Government with the numbers that were available to the authors. It was therefore decided to exclude government subsidizations and grants from the calculation of total music industry revenue in Norway.

The calculations of music industry revenues in Norway do include revenue from international artists.

Artist revenues in Norway

Based on the numbers presented and collected it possible to estimate how much the artists are earning today, compared to what they were earning in 1999. The authors have chosen, to a certain extent, to follow the model and framework used by Johansson and Larsson (2010). The model gives 20% of Total (T) Recorded Revenues (R) to artists, 80% of collecting revenues (C) after administrations costs, and 50% of Live Revenues (L) to artists after venues and promoters have taken their share. After discussions with a few industry executives, the authors have chosen to use 70% of collecting revenues instead of 80%.

The authors have chosen not to use Johansson and Larsson's methodology when it comes to collecting revenues regarding TONO and Gramo, since more detailed numbers are available to the authors than the Swedish study had. TONO's¹⁹, Gramo's²⁰ remunerations will therefore be handled individually. Remunerations from Norwaco will follow the formula below:

$$R(T-4/5) + C(T-3/10) + L(T-1/2)$$

Johansson and Larsson (2010) used 20% for recorded revenues, instead of the more common 10% (Times Online Labs 2009) since record deals are different, and record labels often pay advances to artists. These advances are often not reported anywhere, but represent a significant part of many artists revenues. The scope of these advances is usually confidential, but they can be larger than the actual income from future music sales. Since more and more artists release albums and songs by themselves, on their own labels or such, a larger share of the recording revenue goes back to the artists. Times Online labs (2009) used a share of 90/10 of live revenue to artists and venues. Johansson and Larsson (2010) used 50% to better reflect costs that are present when performing live. As with recording revenues, deals are different, and artists may receive a larger or a smaller share of the revenue. Some artists might argue that 50% income is still regarded as too much from live performances, but this figure also includes income from merchandise.

In addition to this, the authors have added the different state subsidizations and grants to the total.²¹

Although the authors have done their very best to only include income related to Norwegian artists, the table and graph presented may include revenue from international artists performing in Norway. The development portrayed does

¹⁹ Income to artists from TONO has been calculated the following way: (Earnings for distribution)*(2/3) minus remunerations sent abroad plus remunerations received from abroad. Two thirds of the earnings for distribution was used to remove earnings related to record companies, which are on average about one third of the total.

²⁰ Gramostatistikken (Gramo Statistics) was used to find the earnings from Gramo. This statistic shows accurately how much has been given out to the artists. Since the authors do not have Gramostatistikken for the years 1999-2002 and 2009, these numbers have been estimated.

²¹ PKV's and Arts Council Norway's amounts have been multiplied with the collecting percentage (70%) to compensate for overhead costs in the organizations the funds go to. The amounts from FFLB, FFUK and Concerts Norway to artists are already accurate.

not reflect the development for all artists in general, but it reflects the development in this particular music industry sector as a whole. The numbers found in the following charts and graphs should therefore be used with caution. The information found should not be looked on as exact economic accounting; rather it should be used as an estimate for the development over time.

Total Income with State Subsidizations and Grants for Norwegian Music Artists

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Record sales to artist	37	34	33	37	37	46	58	58	52	46	57
Collecting to artist	53	75	118	83	95	88	110	104	106	106	137
Live to artists	66	68	78	84	107	110	140	144	149	173	191
State Subsidization and Grants	51	65	75	83	83	94	95	96	120	130	160
Sum	208	243	305	287	322	338	402	402	427	455	545

Numbers in NOK million

Table 18: Total income w/State subsidization and Grants

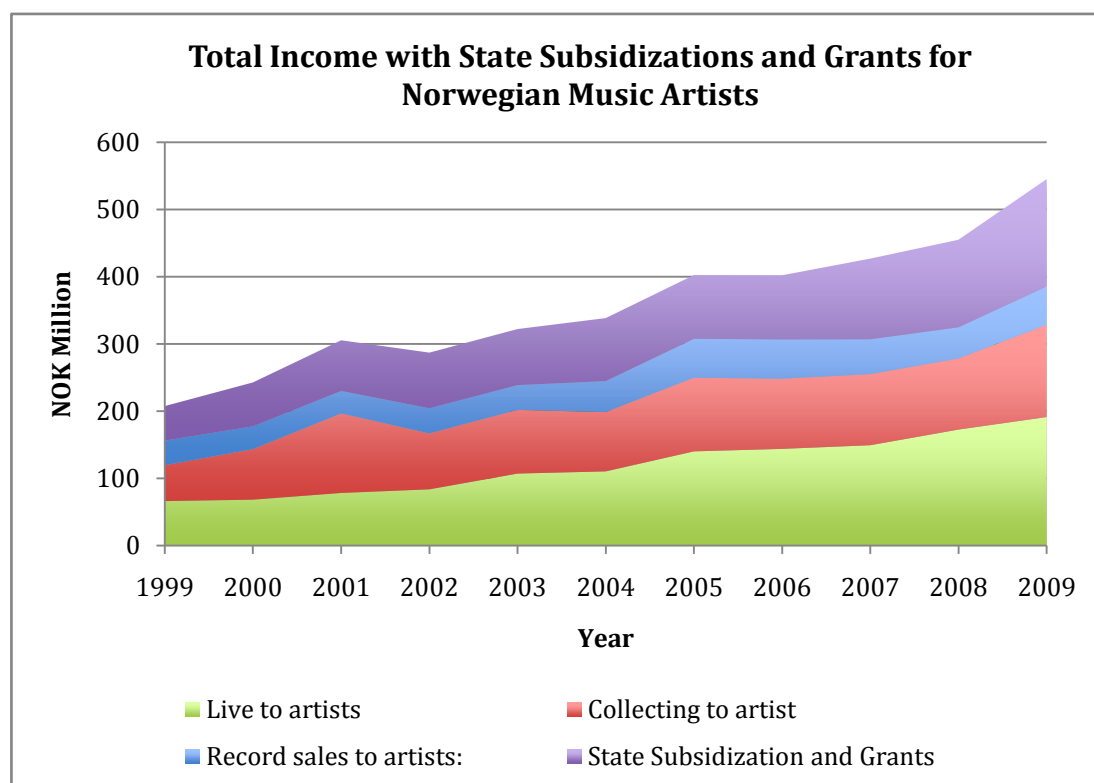


Figure 14: Total income with State Subsidization and Grants for Norwegian Music Artists.

Total artist revenues have gone from NOK 208 million in 1999 to NOK 545 million in 2009, which is an increase of about 162%. Excluding state subsidization, the income from 1999 to 2009 has increased with NOK 229 million, or 147%.

This is a much more dramatic increase than the music industry as a whole, which has had an increase of 28% in the same periode. The reason why the artist revenue has gone up much more than the industry, has to do with where the artists get most of their revenue from. Looking at record sales to artists, these have gone from NOK 37 million in 1999 to NOK 57 million in 2009, which is a 54% increase. The reason for why Norwegian music artists earn more from record sales today, eventhough total sales have dropped, has to do with the increased share of Norwegian music being sold. Collecting remunerations to artists have gone from NOK 53 million to NOK 137 million, a 158% increase, and live income to artists have gone from NOK 66 million to NOK 191 million in the same periode, creating a 189% increase. State subsidizations and grants have increased from NOK 51 million in 1999 to NOK 160 million in 2009, an increase of NOK 109 million or 214%.

According to this, Norwegian artists have seen an increase in all four of their income sources during the past eleven years. This goes contrary to the common belief that artists have seen a decline in income because of the digitalization of the industry.

The loss of record sales because of consequences of the digitalization of the industry has not affected the Norwegian artists in the same brutal way as it has the record companies. Artists earn in general 20% or less from record sales, and a decrease in record sales would most likely be compensated by an increase in one or more of the other three income sources. It is interesting to see that the income streams from the collecting societies, live, and state subsidizations and grants are generally much more important income sources to an artist than record sales. Previous research on the subject also shows that this has been the case for a long time. The biggest increase is seen in income from live activities, and artists seen as a group, have experienced almost a tripling from this source. It is also a source where the artists gain a high percentage of the income, 50 % as mentioned compared to 20% of record sales. This means that artists who are not able to tour or play live will suffer more economically today, than eleven years ago.

We have also adjusted the artist revenues for inflation:

Total Income with State Subsidizations and Grants for Norwegian Music Artists*

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Record sales to artists:	45	40	39	43	41	51	63	62	55	47	57
Collecting to artist	66	90	137	95	106	98	120	111	112	108	137
Live to artists	81	81	91	96	119	122	153	154	158	176	191
State Subsidization and Grants	63	78	87	95	93	104	103	102	127	133	160
Sum	255	289	353	328	359	375	439	430	453	465	545

*Adjusted for inflation Numbers in NOK million

Table 19: Total income w/State subsidization and grants – Adjusted for inflation

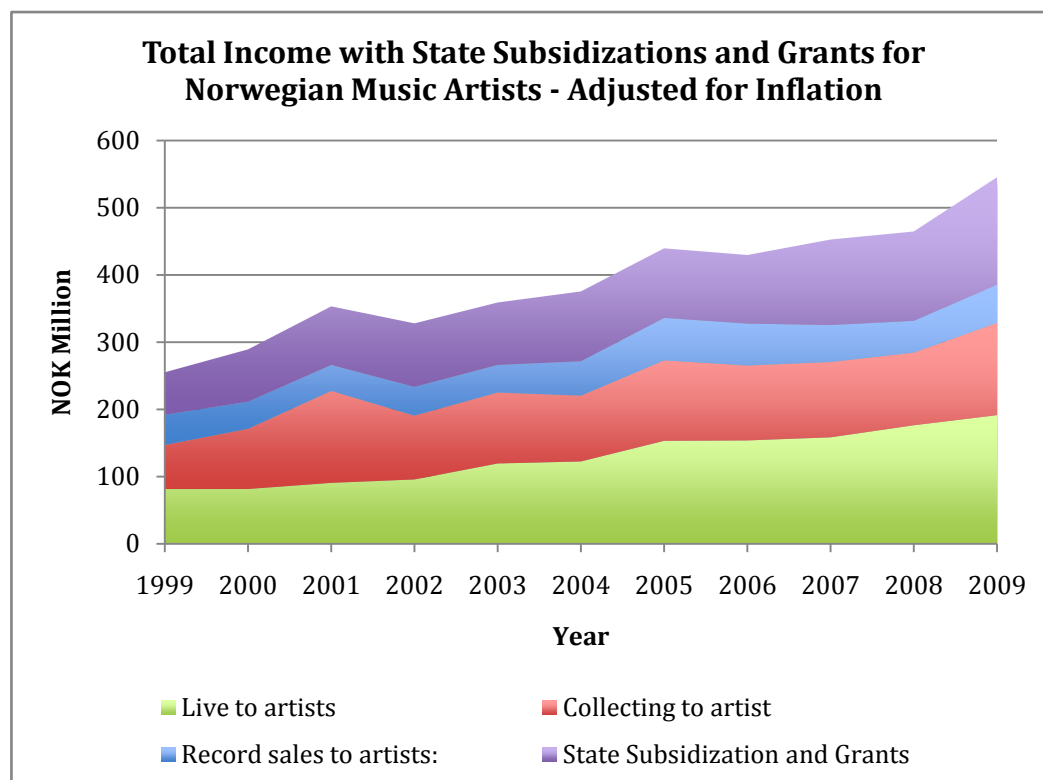


Figure 15: Total income w/ State Subsidization and Grants for Norwegian Music Artists – Adjusted for inflation

Adjusted for inflation, total artist revenue has gone from NOK 255 million in 1999 to NOK 545 million in 2009, an increase of about NOK 290 million or 114%. Excluding state subsidizations, the increase has changed from NOK 192 million to NOK 386 million, which is an increase of NOK 194 million or 101%. This goes to show that the artists themselves, as a group, have seen tremendous more growth than the industry as a whole.

Since the total number of artists in 1999 and 2009 are available to the authors, it is possible to calculate an average income from music for artists in Norway. With 3200 artists in 1999 the average income from music would be about NOK 65

000. With 4100 artists in 2009 the average income from music is about NOK 133 000, creating an increase of NOK 68 000 or 105%. Adjusted for inflation the income has increased with from about NOK 80 000 to NOK 133 000, an increase of NOK 53 000, an increase of 66%.

Telemarksforknings Bø (Heian et al. 2008) calculated the average income of musicians and composers in 2006. The average income was for this group NOK 219 800 and the median NOK 174 900 in 2006. One must note that the authors removed several members of this group, since they do not belong in the authors' definition of the music industry. Many of the artists that were removed have fixed income since they work as conductors, music teachers, or in a choir, opera etc. This fixed income, pushes the average artist income up, in the research performed by Heian et al. (2008).

Findings from the annual reports section

By using the industries own economic reports, the authors present the following results:

- The Norwegian music industry, seen as a whole, has seen its revenues rise from NOK 1 466 million in 1999 to NOK 1 873 million in 2009, an increase of NOK 407 million, or 28% in 11 years. But, if these numbers are adjusted for inflation, they have gone from NOK 1 801 million to NOK 1 873 million in the same period, an increase of NOK 72 million, or about 4%. In other words, the total music industry in Norway is about the same size today as it was in 1999, but the revenue shares have changed.
- Total artist income have gone from a total of NOK 208 million in 1999 to NOK 545 million in 2009, an increase of about 162%. Adjusting artist revenues for inflation showed that total artist revenue has gone from NOK 255 million to NOK 545 million in the same period, an increase of about 114%.
- Norwegian music artists have on average seen an increase in income from NOK 65 000 in 1999 to NOK 133 000 in 2009, an increase of NOK 68 000 or 105%. Adjusted for inflation in the same period the increase has

gone from NOK 80 000 to NOK 133 000, an increase of NOK 53 000, or 66%.

- Total revenues for recorded music have dropped dramatically for record labels and artists in the same period. Live promoters, venues and artists have seen a great increase in revenue because of strong growth in the live sector. Artists also benefit from a growth in total revenue from the different collecting societies. State subsidizations and grants are becoming more and more important for the artists income.

It is worth noting that the authors have been neutral and careful in the previous calculations and estimations. Most likely a lot of the figures are somewhat higher, but the authors argue that the overall trends and shifts in the industry will remain the same regardless of this.

The questionnaire

When preparing for this study, we concluded that in order to give the best possible answers to the research problems, quantitative data would have to be collected directly from the artists themselves, as well as from the music industry organizations like IFPI. Collaboration was then initiated with both Musikernes Fellesorganisasjon (MFO) and GramArt to give the authors access to send out a questionnaire to many of their respective members. The goal was that much of the quantitative data in this study would be based on a questionnaire sent out to relevant members of MFO and all of the members of GramArt.

The questionnaire was based on information collected through the in-depth interviews by the authors and previously mentioned types of secondary data. The authors used an online survey tool delivered by Questback Norge to produce and deliver the questionnaire out to the artists. Unfortunately, the questionnaire ultimately got a very low response rate and the results were strongly skewed. Of about 5000 possible respondents a little more than 300 actually answered. Adjusted for some invalid respondents the total number was even less. There might be several reasons for this, but the authors concluded that it was better to leave out the questionnaire as a main part of the thesis. The results were not significant on a satisfactory level and would serve in any case only as indications and not explanations towards the two other main parts of the thesis. Instead the time and resources available for the thesis work was directed towards, what the authors believe are, much more interesting findings in the other two parts of the thesis.

Findings

- Income from record sales (physical copies) has never been high for the artists themselves. Ten years ago 70% of the respondents had 0 to 9 % income from record sales. Today about 50% have 0 to 9% of their income from record sales. This is supported both in the interview section and the percentage used to calculate total record income in the annual report section of the thesis.

- Remunerations from the collecting societies have increased. In average, about 5 to 10% of the total income ten years ago has become 15 to 30% today. This reflects the research done in the annual report section (figure 10).
- Few of the artists in the survey earn 100% of their income from music; most of them earn about 10 to 20% of their income from music. This reveals an industry where quite few are able make a living solely of this profession as a record artist.
- Digital sales were not present ten years ago, but today over 20% have income from digital sales. Although the amounts and percentages are still quite small, the growth in this segment is large (figure 8).
- Live has always been an important source of income, and is increasing in importance, more so than remunerations and record sales. Ten years ago 25% of the artists earned more than 50% over their music related income from live performances. Today the number of artists with more than 50% of the income from live is closer to 37%. These results are also clearly reflected in the findings in the annual report section of the thesis (figure 15).

It is very important for the authors to point out that these findings are just indications, rather than strong research evidence. These results should be used with caution, and the findings might not be applicable to all artists in the Norwegian music industry. However the authors do find clear indications that the results support the findings in the interview and annual report sections in more cases than not.

Discussion of findings

The work and its progress

The most obvious reason the authors had for working on this topic was the immense focus on it from the media, the industry stakeholders and rest of us in the form of consumers. Ever since the first headline in the media about Napster, the file-sharing service, the world has been watching with great interest at the changes in the music industry. A brief search on the Internet on 'illegal file sharing', 'income + music industry', or even just 'Pirate Bay', and one will discover a large amount of articles and "doomsday" predictions for the music industry. All of this sets a great scene for a thesis to be written. In addition, the authors quickly understood that few papers had been written about the consequences for the artists themselves. Here in Norway the opinions are as many as there are artists and the hunger for information is also large, but few scientific evaluations has yet to be produced for the Norwegian music industry.

The authors then evaluated the best ways to do scientific research that the industry could use to understand their own situation and the changes that has occurred the last 10 years or so. Initially the authors thought a large questionnaire that asked the entire artist population, that fit the authors' definition of record artists, would be the best approach. By measuring how the artists themselves had experienced the changes, the authors could put this into quantifiable data and produce a paper about the changes. While working on the undertaking of getting as many as possible of the thousands of Norwegian record artists to answer, the authors also looked into other solutions.

The authors' lack of knowledge on the industry quickly made it certain that it was necessary to speak with industry figures with the needed insight. This quickly became another large undertaking resulting in the in-depth interview part of the thesis. The authors understood that by talking to as many as possible of the critical stakeholders a lot could be learned, not only about the industry, but also about how the industry perceives itself. The results found here gave the confidence that such a thesis was needed and that the Norwegian record industry would help the authors to produce what was needed to get the full picture. Through talks with some industry key people, knowledge and access to other important and interesting industry people was gained. This continued

throughout the interview process and eventually the authors got to a point where attention was brought to a similar paper done in Sweden recently. This paper had evaluated the entire Swedish record/music industry by looking into annual reports, estimating the artists' share of income from different income sources, and it produced a good overview over the industry in Sweden and how it had changed since music was digitalized and shared extensively through the World Wide Web.

This resulted in part three of the thesis, the annual report part. The authors adopted a similar approach as the Swedish paper and modeled the research after the successful contribution this paper gave to the Swedish music industry. Of course some alterations had to be made, since the Swedish and Norwegian industry is somewhat different. The annual report part of the paper is a massive collection of different industry income sources, categorized and calculated into a complete image of the figures and movements in income the last 11 years. This complete image was then broken down to record artists' income to see how much the artist receives from the different income sources and how they had developed and evolved the last ten years compared to the industry itself. The authors hope to have brought the Norwegian version of the research one step further by having quite accurate figures for artist income, in addition to having adjusted all figures for inflation the last 11 years.

The common misconception

As mentioned many articles have been written in the media on the development in the industry the last 10 years. Many of the articles have focused on the massive income drop for the artists and the industry. What will they make a living out of eventually since 'all' of the consumers steal their livelihood and intellectual property? Some new income sources have emerged the last few years: such as legal downloading services for a fee, or the before mentioned streaming services, such as WiMP and Spotify. Although these have come to increase in importance, they have mostly been dismissed as small income sources since they, as of today, are not even close to compensate for the losses the industry experience and have experienced. However, as one can read from the conclusion and the figures in the annual report section of the thesis, the industry is not declining, it is growing but not by much. The negative voices in the media, and industry are quite right to point out that massive amounts of

income have been lost since many people no longer fulfill their musical consumption needs through the typical physical record sales. However, the industry does not make much money from LPs, or cassettes anymore either. The authors believe that the evolution away from CDs to other types of music consumption is the same form of technological development as has happened before with LPs, cassettes etc. The difference is that the industry itself did not react quickly enough to stay in control over their intellectual property rights, simply through underestimating the massive impact the digitalization of information and the Internet would have. The industry probably did not understand until recently the massive potential it presented to them either, but it has left the old established actors in the market, in the form of major record labels, playing a lethal game of catch up with other actors who have grasped the potential and attacked the vacant market positions. This is like the scenarios described in the theoretical part of the thesis, where disruptive innovations (Christensen 1999) leaves the established actors in danger of being crushed by new emerging actors.

So what about the “poor” artists themselves? What has actually happened the last 11 years, and how bad is their situation? Again, as one can read in the conclusion of the thesis and the figures in the annual report part, they have actually prospered the last 11 years. Not only have they prospered; they have stolen a greater share of the total income in the industry from other actors, such as the record labels. This has been done by focusing more on live income, playing more concerts, increasing the live venue prices and by increasingly enhancing the collection part of the income. It is however hard for the authors to claim that all artists have increased their income the last 11 years. The authors recognize and emphasize the fact that the figures presented are for the entire group of artists, how these funds are divided between the artists is impossible to estimate.

After having done this research, the authors suspect that many of the most known Norwegian artists, traditionally the ones with the highest record sales, will have experienced a significant drop in income. Since many of these artists already played a lot of concerts and had a large collection income, the part of their income that would most likely be influenced negatively would then be the sales from physically distributed record sales. Many of the largest artists, the

ones who have the largest record sales, are then understandably often found as spokespersons against illegal file sharing and music piracy. Since they are such people of fame and influence their voices are often used to put focus on the issue.

The conclusion the authors draw from all of this is that the industry is not declining, becoming less attractive, or even standing still. For artists it is in fact becoming increasingly attractive, especially for the greater numbers of the artists. The fact that the highest earners are making less as physical sales decline is only the natural development from an old and outdated business model in the progress forward into a much more modern and technological music industry.

The New Economy in the Norwegian Music Industry

The massive media focus on the downward spiraling music industry has most likely benefitted the industry if one looks at the Governmental (state subsidizations and grants) part of the incomes. Grants and subsidizations have grown the last 11-year period in the midst of the outcry by the artists and the industry. This is perhaps in part due to the focus it has had in the media and in voters' minds. Today the contribution is a massive one, although it can be hard to estimate exactly where all of it ends up in the end. It is however without a doubt poured into the Norwegian music industry in some form or another. Some of it ends up in school concerts, some of it for paying orchestras, some of it pays for the operas, some of it finds its way into the pockets of the record labels, and some of it actually goes directly to the artists themselves.

The industry has perhaps not been very good at adapting to the new technological market that music now is distributed through, but on all of the other fields the authors think the industry has performed amazingly. The collections societies in the music economy show that through increased focus, better routines, stronger enforcement and new industry organizations, the income can indeed soar. In addition the artists have started performing an increasing amount of concerts, to the consumers apparent great joy since they continue to fill the concert venues. The concert prices are as well subject to some interesting developments. The authors talked to several key figures in the Norwegian live market and they spoke about massive increases in ticket prices from about 2005 and until today. For some reason the prices doubled, and almost tripled in some cases, over night for the same concert experiences. However, the consumers did not react or complain. These changes in the number

of concerts, as well as the concert prices, has lead the live revenue part of the music economy to move upwards from an already large part of the music economy. Particularly for the artists themselves, this income source is very important in today's music economy.

So although the industry did not handle the transformation of the music industry form an analog to a digital industry perfectly, it truly performed well on the other sources of income it had in order to compensate for the losses. The authors feel that the industry is becoming more aware of its position, potential and relative power in this digitalized information economy, and it will perhaps come out stronger than before the collapse of physical sales. For now, the industry has managed to stay in a status quo, revenue wise, throughout the turbulent first 11 years, but a shift in the relative importance of the different income sources has occurred. Perhaps it is as Eirik Solheim, a well known Norwegian technology blogger and NRK Beta employee, as well Cory Doctorow, a well known Canadian speaker and intellectual property rights liberalist point out; the music industry is best served focusing on becoming the best provider of their product, and not so much on protecting it.

The legal aspect

It is hard to look at an industry like the music industry and the changes it both has and is experiencing without wondering about the legal aspect. Illegal file sharing is exactly what it is called: illegal. A product, which has more widespread violations of intellectual property rights, is hard to imagine for the authors. Due to this fact, the authors made efforts to look into this aspect: several seminars were attended, meetings with representatives from the government were held, legal experts were consulted and frustrations were listened to by the violated part. What amazed the authors the most was the unwillingness to address the problem in a fashion that actually made a difference. Modifications have been made to laws in Norway, and this is acknowledged, but what does this actually matter in real life? Most people know someone that have downloaded, distributed and consumed music that was not paid for. This has become so common on a general level that action on a political and law enforcement level eventually became very difficult, perhaps even before they understood the problem. The author's conception of the changes the last 11 years and the violations of intellectual property rights will mainly be left to the industry itself

to solve. Some restrictions and warnings might eventually be implemented on an European level, but until a European consensus is reached, the authors have little faith in the work being done on this field in Norway with current revisions of the Copyright Act and the controversial “expert” panels discussing them.

What lies ahead?

Today digital sales account for almost 34% of all record sales, if one looks at IFPI Norway’s last figures (IFPI July 2010). This is up from 15% on average in the entire 2009. Clearly digital sales will soon surpass physical sales, and who knows how large these sales will be eventually. A closer look into the digital sales figures shows that digitally downloaded sales have started to decline, while streaming sales are exploding upwards. In the authors’ view, and to some extent the key stakeholders interviewed as well, the new digital record sales will eventually become greater than the physical sales ever were. This is perhaps a bold statement in today’s discussion climate, but the authors stand by it nonetheless.

For the live segment, which has grown rapidly the last 11 years, the authors think most of the growth and potential is already exploited. Stabilization in this income segment in the near future would not surprise the authors at all. Of course a small music economy like Norway’s will always be influenced by fluctuations through highly popular artists visiting one year and not another, but in sum the income particularly towards Norwegian artist is most likely nearing its peak. Particularly since ticket prices are most likely nearing a point where demand will eventually decrease and the rapid rise in ticket prices will have to slow down to a more normal rate. A interesting aspect here is the realization the record labels have had towards the increasingly important live income part of the music economy. Today the record labels are at an increasing rate signing new artists to so-called 360-degree contracts. These are contracts that not only ensure the record labels earn a larger share of the record sales of the artist, but it also gives them ticket revenue at concerts, royalty on intellectual property rights in the future and so on. This stakeholder has definitely had to rethink its business model in the wake of the digitalization and changes the last few years.

Collected income through industry organizations will most likely have a similar development as the live segment. Much work has been done the last 10 years to increase this segments efficiency and maybe a big part of the potential is now

already maximized. The authors believe that, to a large extent, most of the Norwegian public, apart from the industry itself, is unaware of the importance and size of this part of the industry. The amounts collected here account for large portions of the total income and are a highly structured and developed industry on its own.

Government grants and subsidizations are as mentioned also a large part of the music economy in Norway. The authors are perhaps more pessimistic in their outlook towards this part of total income. Large amounts are already allocated from the Government towards the industry, and perhaps the amounts will continue to rise. This would however surprise the authors, especially when the actual situation of the industry becomes clearer and more positive in the coming years. Most likely the government have other issues, which need funding more than the Norwegian music industry, in the time to come. For a large portion of the music industry however, these grants are clearly critical for continued existence and it will be up to the government to determine how to best divide the funds in the future. The authors however hope that less money is allocated to parts of the Norwegian music industry who can function without subsidization, and perhaps more be directed to other sectors without commercial income possibilities.

Conclusion

In this thesis the authors had one main research problem:

How has digitalization and the consequent downloading of music changed the economic situation for the Norwegian music industry and for the Norwegian record artists the last 10 years?

In order to evaluate the economic situation for the artists and how it has developed the last 10 years the authors constructed and measured how the industry itself has perceived the changes, also a significant amount of research was conducted into annual reports and industry figures to verify these perceptions and uncover the truth.

The authors have through this research determined that the artists in the Norwegian recording industry have four main sources of income: live revenue, state subsidization and grants, collection distributed to artists and sales of music physically and digitally.

In initial research work with the thesis many theories about a reduction of 50% in the artists income due to massively declining record sales were discussed, as well as the importance of other income sources. However, through the course of working with the thesis a significantly different picture of the artist income situation began to present itself. Record sales turned out to be an income source that contributes in a very small degree to the total income of most artists. Also the negative development in the record sale part of the income has been compensated by positive developments in all other areas of income.

The results from the interviews conducted indicate that most all inquired think the total income has declined the last 10 years. The different stakeholders were however mostly concerned by the record sales part of the industry and might have been influenced by the question formulation. Some did however point out, rightly so, that record sales are only just a part of the industry and artist income. In addition most of the stakeholders were negative towards the outlook of the Norwegian music industry in the years to come. Many claimed they would not recommend anyone to become an artist in these days, with the outlook what it is.

The results of the findings in the annual report section did however differ at times significantly to the findings in the interview section.

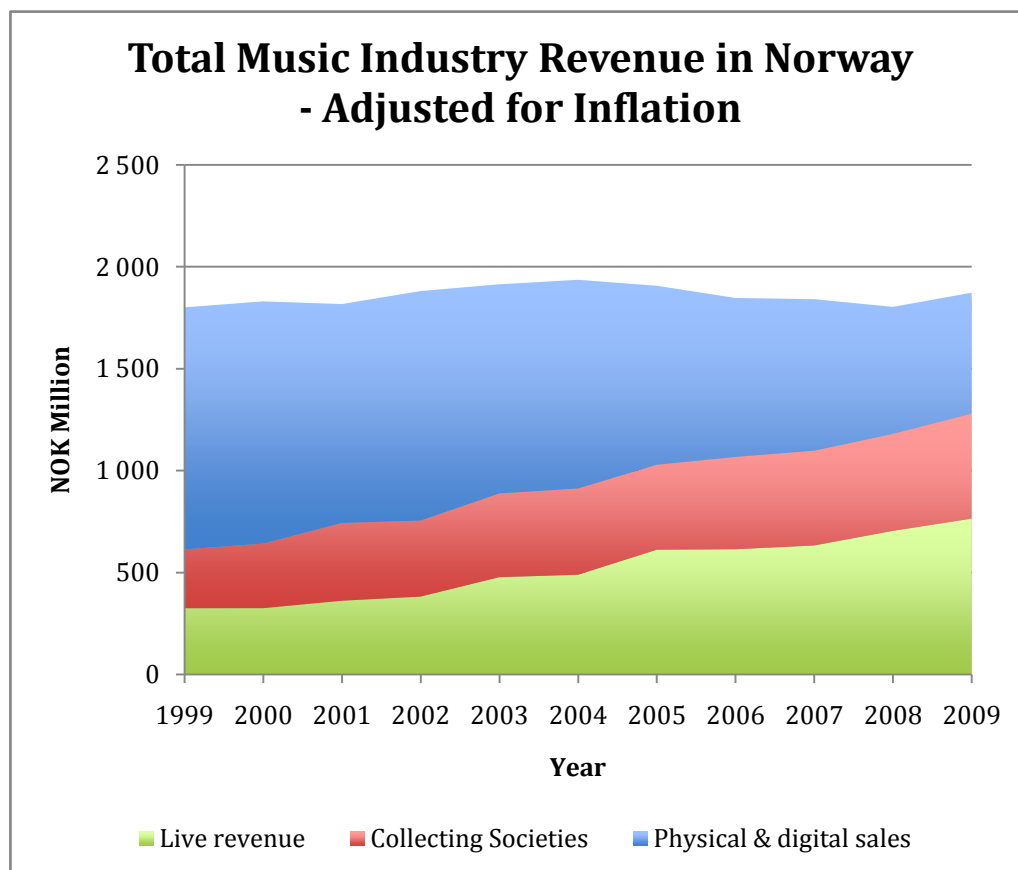


Figure 13: Total music industry revenue in Norway – Adjusted for inflation

Results from the annual report section support the view from the interview section in concern to the decline in physical and digital sales, as is clear in figure 13. However the total industry income has clearly developed positively. The income sources have just changed in importance and size the last 11 years. In addition these figures do not take into account the money the industry receives from the government in grants and subsidization. The authors know these figures to be substantial and indeed significant, however hard to calculate correctly. The amount has also increased steadily the last 11 years and in sum is probably a considerable part today of the Norwegian music industry. However, the income sources are not the only thing that has changed significantly the last 10 years, also the recipients of the income has changed to some degree. Artists, having a larger share of live income than record income, have gotten an increase of income that far surpasses their relative losses in the sinking record sales. The record companies on the other hand find themselves in the opposite position.

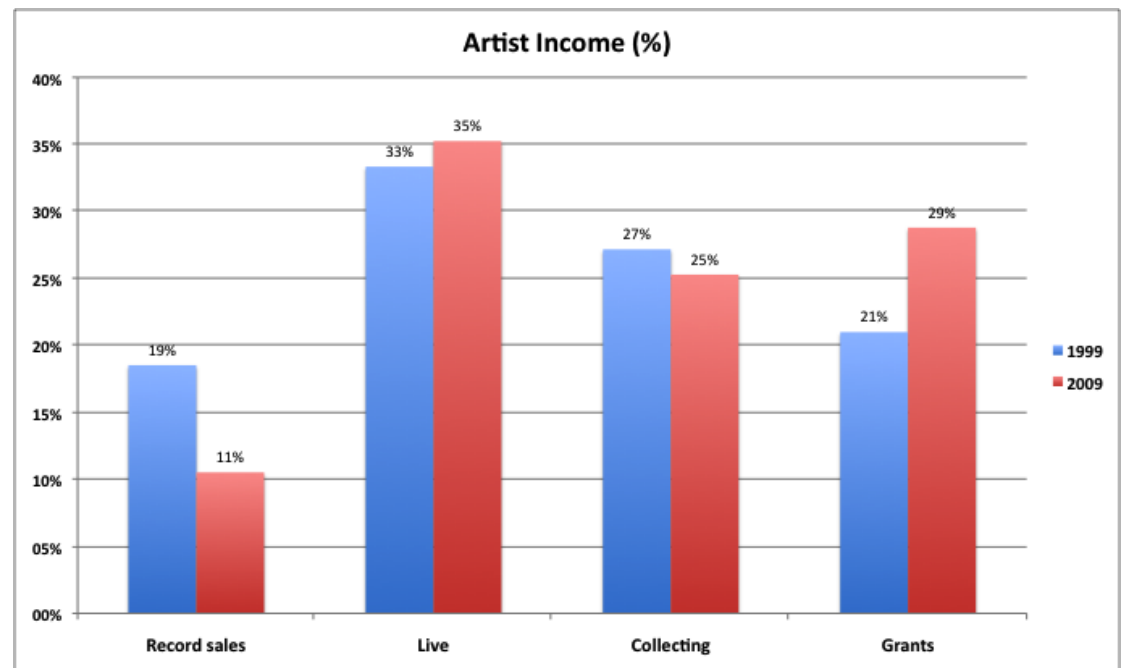
Sub problems:***1. What are the primary income sources for Norwegian record artists today?***

Figure 16: Artist income by percentage, 1999 vs 2009

The authors have through this research determined that the artists in the Norwegian recording industry have 4 main sources of income: live revenue, state subsidization and grants, collection distributed to artists, and sales of music physically and digitally.

It turned out the declining record sales, which dominate the media picture, only amounted to about 19% of the total artist income in 1999. Today after many years of decline it is 11% of the total income for artists. As such the media were right to point out that record sales are dropping and income will decline, however the total importance of this income source was never more than 20%. This is a reflection of the calculations that from a record sold from producer to retailer, only about 20% in average of the sales amount is returned to the record artists. Live revenue on the other hand has an artist share of about 50% from all income and hence all income increases here will have a larger effect both negatively and positively if the total amount in the industry changes.

2. Has the total music related income for record artists today decreased compared to 10 years ago?

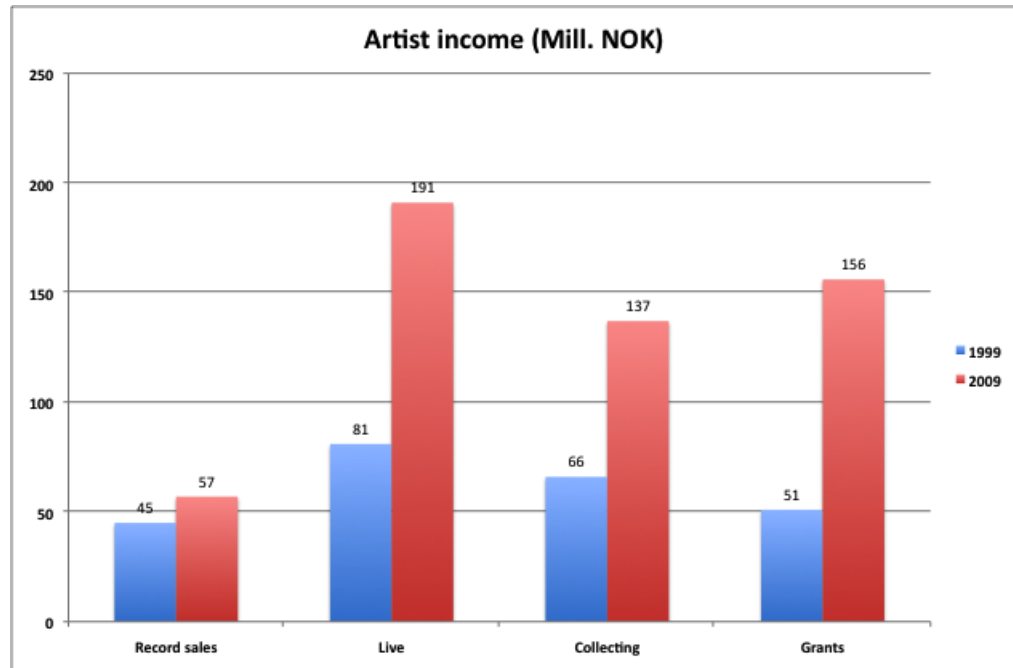


Figure 17: Artist income in Mill. NOK 1999 vs 2009

As figure 17 shows the actual total artist industry income in all four different income sources have increased the last 11 years. However so has also the number of artists, as discussed in the annual report section of the thesis. Many more artists now divide the total amount accumulated and in average the actual income has increased 74% adjusted for inflation in the period.

From this it is possible conclude that the total income for Norwegian record artists has clearly not declined in the last 11-year period. On the contrary it has increased substantially, even when adjusted for the total number of artists. One must however take into account that the figures say nothing on how the amounts are divided between the artists. The insight gained from the interview section of the thesis however indicated to the authors that a lot of these funds are not evenly divided. Rather the Norwegian music industry can have a few well known artists who earn what can be considered a very good living, a large majority of artists who just barely manage to make a living out of playing their music, and finally a group of artists who have the record music industry as a minor part of their income.

Limitations

Unfortunately, the calculations in the annual report part do not include export income for Norwegian artists. By export income the authors mean income related to record sales, remunerations, and live performances in other countries than Norway. Some reports with such income figures have been made the last few years by Music Export Norway (MEN), and by by:Larm and Agderforskning. Export income in these reports range from about NOK 150 million to about NOK 300 million depending on which report is read. It is difficult to calculate these numbers, and they are presented as not fully complete. The authors have chosen not to include these numbers, but have kept in mind that the actual total music revenue in Norway and the total income for music artists in Norway is then most likely higher than the numbers presented.

It can be argued that the live revenues are lob-sided; that there are a few artists who generate a lot of revenue for this category. These are typical stadium filler artists, like Madonna, Bruce Springsteen, Kiss, Metallica, Rolling Stones, A-ha and the like. Unfortunately there are no accurate statistics that tells how big of a portion these artists generate and earn. The authors do however estimate that these foreign artists stand for about 50% of the total live revenue in Norway and the figures for Norwegian record artists are corrected for this.

As mentioned before, the calculations of total artist income for Norwegian music artists do not show how the money is distributed. This means that some may earn a lot, others may earn less. Unfortunately this is not possible to solve with calculations based on annual reports.

Another limitation to this study is that it does not necessarily include revenue from events held by corporations and businesses. This is a growing source of income for the artists, but there are no good statistics regarding this matter. If the event is reported to TONO, then the revenue and approximate artist income are included in these calculations.

State subsidizations and grants were not included in the total music industry revenue in Norway calculations. The authors are aware that over NOK 1 billion is transferred to the greater music industry in Norway from the government.

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FFLB

FFUK

FONO

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Gramo

IFPI

Mfo

NCB

Norwaco

Rockefeller

TONO

Øyafestivalen

Appendix

Appendix 1 – IFPI figures 2009

IFPI Norge

1977-2009

Salgstatistikk

Årsomsetning av musikk i Norge

Volym		Verdi, cdn, inkl. moms																																		
		1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 (1)	2008 (2)	2009	
CD	CD	0	0	0	0	0	0	0	92	318	1052	1684	1883	2088	2583	4893	6580	7748	10400	10683	10279	11540	13446	13154	13302	12159	13713	12445	13110	11397	92006	9757	8896	7839	7842	
LP	LP	3976	4215	4000	3788	3485	3114	2830	3268	3779	3276	2765	2386	2137	1856	1402	997	34	0	0	0	0	0	0	92	58	69	31	31	16	17	14	31	21	36	
MC	MC	3200	3500	3200	3200	3670	3486	3038	3136	4349	4196	4036	4071	4103	3996	3311	2480	1993	1317	671	444	286	232	0	0	0	0	0	2	28	125	148	138	57	46	118
OTHER	OTHER	6876	7176	7200	6938	7155	6600	5888	7197	8257	8626	8640	8236	8597	8461	9491	10262	12843	12002	12002	13001	12012	13788	13898	13405	12912	13759	12678	13176	11738	90363	94609	87818	7804	7998	
Singer		370	356	515	596	548	609	700	863	1358	1278	1044	817	688	615	646	765	1022	1200	1483	1571	3233	3590	1483	3017	864	1045	1058	818	514	254	197	67	1	1	
Musikkvideo/DVD																																				
Licensing/Streams*																																				
Totalt	Totalt	7246	8006	7716	7526	7686	7209	6603	8178	9415	9933	9636	9032	8944	9122	10354	10644	11409	11669	13317	13296	13897	15465	14897	14518	13145	14092	13842	14298	12545	17646	18338	96040	53166	50613	
Note: Verdi																																				
Med and for																																				

Appendix 2 – Concert remuneration fees

1. Konserter med billettinntekter pr. konsert:

Vederlag beregnes av brutto billettinntekter pr. konsert:

-inntil kr 16 200,-

Andel av billettinntekter inntil kr 16 200:	10%
---	-----

Minimumsbeløp (billettinntekter inntil kr 5 380):	Kr 538,-
---	----------

-Mellom kr 16 200,- og kr 48 700,-

Grunnbeløp:	Kr 1 620,-
-------------	------------

Andel av billettinntekter over kr 16 200:	8%
---	----

-Mellom kr 48 700,- og kr 162 200,-

Grunnbeløp:	Kr 4 220,-
-------------	------------

Andel av billettinntekter over kr 48 700:	4%
---	----

-Over kr 162 200,-

Grunnbeløp:	Kr 8 760,-
-------------	------------

Andel av billettinntekter over kr 162 200:	2%
--	----

2. Konserter uten billettinntekter pr. konsert:

-Inntil 100 tilhørere, pr. konsert:	Kr 538,-
-------------------------------------	----------

-Over 100 tilhørere:

Grunnbeløp:	Kr 538,-
-------------	----------

Utover 100 tilhørere, pr. tilhører:	Kr 2,-
-------------------------------------	--------

Kirkekonserter med kollekt betales etter pkt. 2.

Tono: Concert Tariff agreement – 2010

<http://www.tono.no/Konserter.34.cms>

(Visited 10. March 2010)

Preliminary thesis proposal



“The Norwegian music industry in the age of digitalization”

Hand-in date:
15.01.2010

Campus:
BI Oslo

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Summary

This preliminary thesis report is on research currently being conducted on the subject the Norwegian music industry in the age of digitalization, as mentioned in the title of the paper. This paper is however not a typical preliminary thesis since it is not a statement on work planned conducted, but rather a outline of the work already conducted and a description of remaining research and work not yet performed. Since the authors have been actively working on the thesis since September 2009 until now, much of the data collection required in the paper is already conducted. This paper will as such be highly influenced by this fact.

The authors begin the proposal by presenting the background for the research, a brief outline of the situation in the industry, with a special focus on the Norwegian part of the industry. The paper then shifts to the research issues, discussing the impact digitalization has had, and what questions and interesting aspects have arisen as a consequence of digitalization. After establishing the different issues, the authors explain and introduce the research statements. Here the authors present the objectives of the research process in the context of the core research questions. How massive has the income change been for Norwegian artists? Has the configuration of the income sources changed due to digitalization? Are there differences in income change based on level of fame, music genre or perhaps both?

When having concluded the research issues and the statement, the authors move on to the objectives needed to fulfill the stated hypotheses. These are listed as research objectives for the thesis. This brings us to the theories the authors attend to apply the research conducted, which are mainly strategic theories related to technological development, as well as some value chain evolution. Finally the design of the research will be presented and explained in some detail. Having already performed much of the research it will rather be a description of performed research then a statement of intended research. The research performed has been highly explorative, through both statistically quantitative researches by an extensive questionnaire as well as qualitative data collection through a substantial amount of in depth interviews. There is also a short discussion on possible limitations to the research as well as other possible problems between now and finished work.

Research background

The Norwegian music industry is an industry that has experienced a drop of about 50% in income and a drop of about the same in sales volume in only 10 years (Appendix 1). The steep decline began in the late 1990s and has continued ever since to the present date. This gives the authors a highly interesting development to research, a development which has happened over a relatively brief period of time. This leads directly to the research background of the paper: the industry seems to have reached its peak during the late 1990s and has since experienced a steep decline in both sale volumes and profitability. This radical change is widely accepted to be have been caused by the digitalization of music and the file sharing that followed. The fear the business has had repeatedly for infringements on their product due to change in sales medium was finally well founded when music moved from the Compact Cassette (CC) and on to the Compact Disc (CD). The CD arrived already in the mid 1980s, but was not the dominant medium until 1991 when it surpassed the CC as the most selling medium for music in Norway. However, this new medium meant that music was now digital and not analog. This fact made the music industry vulnerable to the new technological phenomenon that was the Internet.

The Internet eventually brought with it extensive file sharing and large losses in sales due to illegal music piracy. This gives us the setting for our thesis; an industry in major decline with large challenges, extensive decline in income and large international debate on reasons, solutions, as well as predictions for the future. In sum a very exciting thesis subject with major changes happening as the thesis is being written. A lack of scientific data concerning the well-known decrease in income has yet to be produced for the Norwegian music industry and the authors aspire to produce just such a thesis.

Research issues

The Norwegian music industry clearly contains, as one can see from the research background, a large amount of interesting research questions. Research is done in the field of strategy and the authors felt early on that it would be essential for the study to get a good grasp on the industry, its dynamics, important actors and recent developments. This is based on the idea that to include strategy successfully in any way to a topic, it is necessary to have an understanding of the

topic discussed or researched. As such, the authors have through several in debt interviews developed their research issues through mapping important stakeholders in the Norwegian music industry, interviewing them about their industry, the developments most recently experienced, outlook to the near future, as well as directly questioning the industry itself on which aspects would be interesting to research at the present time. The authors uncovered on the basis of this preliminary research that no real good scientific research had been conducted directly towards the Norwegian music industry on the affects the technological developments has inflicted on their income, as well as other aspects connected to these technological developments. Illegal downloading of music has been a problem for the industry since Napster was established in 1999. Ever since, everyone has been able to acquire music easily and illegally through the Internet. The music industry has collectively launched several anti-piracy campaigns through the years, including “Piracy Kills Music” and “Dele - ikke stjele”. The artists and the interest groups expressed during the preliminary interviews that the authorities have not done enough to prevent illegal downloading of music. Many mentioned specifically the lack of support from the government to shut down sites like thepiratebay.org from spreading copyrighted music. It seems that there is a general support from artists that the governing authorities should be more present and set stricter rules regarding the spreading of copyrighted music.

Income issue

The Norwegian music industry has gone from a peak of almost 16 million copies sold in 1998, to a total sale of about 9,1 million copies projected in 2008 including the digitally distributed copies. This means that the industry has had a drop of sales volume of more than 43% in roughly 10 years. In income the figures show that a total income of about NOK 2,1B in 1999 has been reduced to NOK 1,2B in 2008 (Appendix 1). The most recent figures from 2009 show that the total volume sold will be closer to 8 million copies. This clearly shows an industry in rapid decline related to income, so much so that it has caused massive discussions throughout the world to the future of the music industry and how it will exist in the future.

On the basis of documenting the actual income change across the wide range of artists there are many possible interesting research issues, and the authors have

chosen to have a main focus on the income change for the Norwegian record artists during the last 10 years. This will give a good foundation to research and expand further on other related issues as well, such as income composition.

Exploring income issue

When the changes in income are clearly stated and documented, one can begin to expand on the findings by adding other interesting variables to find the wider consequences and realities of the situation. The authors have decided to explore the differences in income change related to; composition of income, level of fame, music genre and the differences between established artists and new artists.

During the talks with the stakeholders many initial hypotheses were tested on the interview subjects, and on the basis of this, the authors decided to expand further on the mentioned variables and how they relate to the income of the artists and their change the last decade.

Research statement

Hypothesis 1: *The impact of digitalization and the consequent downloading of music has led to a significant change in income from record sales for Norwegian record artists during the last 10 years.*

This main hypothesis is, in the authors view, a really interesting and important hypothesis to test for two separate reasons. First of all it will hopefully give the industry a scientific documentation of the well-known record sale income change effects experienced in the last 10 years. This will, hopefully, be achieved through a survey with high confidence level as well as a low error margin. Secondly, the change in income will be documented in greater detail, including differences in change between different artist segments and such. It seems clear from the preliminary research that wide variations will be found in the results depending on several categorizations of artists. This results in the research producing a more correct and balanced overview of the actual changes experienced in the industry since the late 1990s.

Hypothesis 2: *The primary income from music for Norwegian record artists today is no longer from sales of physically distributed records.*

During the preliminary interviews with the different music interest groups and artists, it was found that artists today have to perform live to a much greater extent compared to only a few years ago. This was no longer just one of many incomes, but increasingly the one ensuring continued ability to make a living as an artist. This change in composition of income is the basis for this hypothesis.

Research done by Johannsson and Larsson (2009) showed the authors the potential need for more secondary data concerning income from royalties and live performances in the Norwegian music industry. TONO, GRAMO and similar organizations could provide this data. After looking at statistics and a few preliminary interviews with artists, the authors believe these “new” sources of income (downloading, streams, more frequent live performances), do not compensate for the decline in physical record sales and as such are not only important but also essential to most artists today.

Hypothesis 3: *The total income level from music for record artists today has decreased, compared to what it was 10 years ago.*

In contrast to hypothesis 1, this hypothesis focuses not only on the changes in income related to record sales, but also the total income changes. This includes income from digitally distributed music, royalty income, concerts and other live performances. This is examined for both the present, 10 years ago as well as future outlook in the opinion of the artists. This will give a better perspective to the first hypothesis, as well as explore the composition change in the income of the Norwegian record artists.

Hypothesis 4: *Artists feel the issue of a decrease in income is a legal one, and should as such be regulated more strictly by governing authorities.*

It became apparent early on in the preliminary interviews that most of the stakeholders involved felt that the legal aspect was a dominating one in the issue. Few, if any, felt that the governing authorities, which are able to influence such questions, had done any successful moves to help a music industry in massive decline. This was however looked on as both a national and international problem. The authors are still discussing whether or not this hypothesis should be included in the final thesis, due to the topic being somewhat from the core research issue.

Hypothesis 5: *Certain genres of music will have experienced less of a decrease in record sales compared to other genres, which were more sensitive to the change in technology in the music industry.*

After speaking with artists and several interest groups, they gave the impression that certain genres of music will have experienced less of a decrease in record sales compared to other genres. This can to a certain extent be verified by looking at sales numbers for different genres, but some of the problem lies in the fact that sales from certain outlets are not in IFPI's numbers. These include gas stations, convenience stores and other non-music outlets. The fact that not all music sales are included in the main statistics from IFPI, makes it harder to conclude on anything based on these. This issue will be explored further through the results of the surveys.

Hypothesis 6: *Artists will be moved not only out of the music industry, but also out of creative professions altogether due to the change in income.*

A highly interesting subject, which is already looked at by a survey done by Telemarksforskning Bø (Heian et al. 2008). But still to some extent unexplored, is the fact that many Norwegian artists might be pushed out of creative professions altogether now due to the large decline in total income from music.

Research objectives

In order to answer all of the hypotheses before mentioned there has been done extensive preliminary research, as mentioned before. This combined with the remaining work still not conducted in the research progress will be the foundation for answering the research questions outlined and are here referred to as the research objectives for the thesis.

These include:

- About 30 in depth interviews with key stakeholders including;
 - Artists
 - Record executives
 - Record label interest organizations

- Industry organizations
- Artist organizations
- Media
- New entrants to the industry (Spotify, Wimp)
- Governing authorities
- Test questionnaire
- Final questionnaire

Most in depth interviews have already been conducted and only a handful remains. However, the authors do not want to exclude the possibility that some other interesting interview subjects might appear while the work progresses. These interviews have given the foundation for the thesis and the questionnaire that has been developed. It gave invaluable insight to how the industry as well functions and gave the authors a solid foundation for proceeding with the further research objectives.

A test questionnaire that was sent to over 100 suitable test subjects was then made. This gave invaluable feedback on the quality of the questionnaire and how it might be modified for the final questionnaire. To be able to reach the suitable audience for the questionnaire, agreements were made with two separate artist organizations, Musikernes fellesorganisasjon (MFO) and GramArt. This gave access to respectively 1700 and 4000 respondents in the two organizations, and the first round with MFO has already been conducted. The final round of questionnaires will be launched mid-January and will be towards the main bulk of respondents for the thesis. In sum this should give the foundation needed for answering the research questions and fulfilling the research statement.

This section, the research part, is now reaching its conclusion and the authors are now entering the analysis part of the thesis, which brings the reader to the next part of the paper, theoretical framework.

Theoretical framework

In order to analyse and frame the research the authors have identified several different strategic theories. The intention of the authors has always been to frame the thesis in theories related to strategy in the context of technology and

technological development. This has not proven difficult although the authors concede that the theoretical part, as well as the analysis is the part of the thesis that is the least explored and progressed so far in the thesis. This is however a intentional strategy from the authors, as the need to secure data for the thesis is looked on to be the most demanding part. Having all but concluded, the attention will be focused solely on fitting the theoretical frameworks presented in this section to the thesis, as well as analysing incoming data from the questionnaires. A brief presentation of suitable theories, as well as explanations to why they would apply to this thesis, follows below.

Disruptive innovations

Business literature use the terms disruptive technology or disruptive innovations to illustrate innovations that ameliorate services and products in ways that are unexpected by the market. This is most commonly done by designing the product or service for another set of customers, or by being lower priced than competitors. Bower and Christensen (1995) found that a technology could be disruptive in two different ways: low-end disruption and new-market disruption.

A low-end disruption starts at the low end of the indigenous value network, and is made possible because of the incumbents' propensity to overshoot what the customers need and want. The disruptors then target the customers the established firm looks at as the least attractive, by using a low-cost business model. Because the disruptors use low-cost business models, they are able to charge much less than the incumbents for their products. These low-end customers are very often not missed by the incumbents, since they are often looked as too expensive to serve. The incumbents will instead flee the attack and move their focus on customers that are one step up in the value network. The disruptor will continue its innovation, and work its way up in the value network in the same manner as described earlier. This continues until the incumbent's only serves the high-end demanding customers. In due course, the disruptor will drive the incumbent entirely out of the market.

File sharing in its earlier days can be looked at as a low-end disruption. It required some skill to use, and effectively removed the most price-sensitive customers from the value network of the incumbents, the existing record labels and

distributors of music. As the technology increased in ease of use, more and more people started using file sharing as a substitute to buying music (Liebowitz 2008), forcing the incumbents further up in the value network.

The other type of disruption, new-market disruptions, creates a whole new market with customers owning and using the product or service. These disruptions have the distinctive feature of often being considerably easier to use and a lot cheaper to own than existing solutions. Streaming music services like Spotify and Wimp are good examples of new market disruptions in these days.

Lampel, Bhalla and Jha (2008) found that there have been six major disruptions in the music industry (Appendix 2). This can be useful for explaining the changes observed in the research and putting them into a strategic context.

Long tail distribution theory

The long tail distribution theory, popularized by Chris Anderson (2006), explained that instead of only selling large quantities of a few items, it would be very beneficial to sell small quantities of a large number of unique items. The total sales of these unique "non-hit" items are referred to as the Long Tail. Much of the success of Internet stores like Amazon and iTunes, can probably be attributed to the use of this theory. These stores have an extreme width of products available, which is not possible in a physical store that enables them to sell to many niche markets.

This could be used in the thesis as arguments for why now possibly actors in the business with very small audiences might experience that their income actually increases, or at least an increase in sales volume. As the new sales channels in use today show much lower income per song/album then previous channels have generated. Further since a part of the thesis is to look at the rearrangement of income composition this could be very interesting to observe. Perhaps the live performance income increases for less known artists now reaching a wider audience then previously.

Research on illegal file sharing

Much research has been done with a focus on the music industry, especially after the introduction of Napster. Since then much of the empirical research has

revolved around illegal downloading of music and what consequences this has had for music sales (Blackburn 2004; Liebowitz 2008; Oberholzer-Gee and Strumpf 2004; Zentner 2005). Blackburn (2004) studied total CD sales in the US and compared them to download statistics from the most popular file sharing networks. The conclusion he reached was that file sharing has a significant negative effect on total CD sales, but a positive effect for unknown artists. Since the negative effect is so large for the popular artists, who accounted for most of the total sales, and the positive effect were only present for relatively unknown artists, who only accounted for a smaller part of the sales, the total effect of file sharing was severely negative. Both of the studies from Peitz and Waelbroeck (2004) and Zentner (2005) showed that file sharing has created a significant reduction in sales of music. In fact, all of the studies that the authors have reviewed on this topic except one (Oberholzer-Gee and Strumpf 2007) have shown that illegal downloading has had a negative effect on total music sales. The study by Oberholzer and Strumpf was later explored and retested by Liebowitz (2008) who came to the opposite conclusion on their research.

Information Rules

Although not a theory as such, but a book by Shapiro and Varian (1999), it contains many interesting aspects with some thoughts on the trade off between ultimate profitability and the protection of intellectual property: "We think the natural tendency is for producers to worry too much about *protecting* their intellectual property. The important thing is to *maximize the value* of your intellectual property, not to protect it for the sake of protection. If you lose a little of your property when you sell it or rent it, that's just a cost of doing business, along with depreciation, inventory losses, and obsolescence."

This statement links directly to what we are looking at, and specifically the outlook of the artists on their future income. Perhaps a non-profitable struggle, since the introduction of file sharing, has lead to a negative development when a new massive opportunity actually has presented it self. One of the in depth interviews with a managing director of a major record label reflects this. Out of over 20 interview subjects he was the only one that had a positive outlook on the next 5 years. In the authors view it will be very interesting too look at the results of the questionnaire in light of the perspectives Shapiro and Varian present in

their book from 1999.

Value chain evolution theory

Christensen, Anthony and Roth (2004) have found that industries often evolve from being interdependent, where vertical integration is key for leading firms, to being modular, where specialist firms are responsible for critical pieces of the value chain. Interdependent architectures are used when one wants to improve the product, whereas modular architectures are used when speed, flexibility or convenience is important. The record companies have changed the last 10-15 years from being totally integrated, owning CD-plants, recording studios, distribution networks and so forth. The integrated companies were able to earn a disproportionate share of the industry profits. Today, the record companies mainly focus on finding talent and promoting it, whereas the rest of the activities are done by specialists who can do the jobs faster and at any time needed. Profits in the music industry today are not found in the integrated companies, but at these specialists.

The non-empirical fashion of the study perhaps makes this less applicable but with other second hand data our research results might still be interesting to view in the light of this theory.

Other theories

The authors have found several other theories and explanations, than the above mentioned, that can be interesting for the final thesis. These include subjects:

- Accessibility – possibility for increased sales with new technology
- Selection mechanisms – more consumer power in choice of music
- Change theory – internal resistance to change in the industry
- Lock-in strategy – Can customers get locked-in to new solutions, such as Spotify or Wimp?
- Resources, processes, and values theory (RPV), might explain why the record companies have had such a hard time grappling the challenges that came with the Internet and file sharing.

Research design

The authors find it most purposeful to use both primary and secondary data for

this paper. Although the use of secondary data alone could have given some insight towards confirming or rejecting the proposed hypotheses, including primary data in this case greatly increases the value of the paper. The secondary data available simply does not provide enough information needed to evaluate the hypotheses properly. Data sources are included below.

Primary data

Both qualitative and quantitative primary data have been collected for this paper. Primary data can be collected in at least three ways, through experiments, observations and communication (Ghaur, Pervez and Grønhaug, Kjell 2005). The authors believe that experiments and observations are not the optimal way to collect primary data for this research. Instead the focus has been on communication, more specifically, on in-depth interviews and questionnaires.

Qualitative data

According to Reichardt and Cook (1979) qualitative methods have a focus on understanding from the respondent's point of view. The orientation is explorative, and one gets a subjective 'insider view' and a closeness to the data. Qualitative data are also process oriented and have a holistic perspective.

The authors have identified six different groups of stakeholders in the music industry: artists, record labels, interest groups, public authorities, consumers and new entrants. Media is also looked at, because of their strong influential power over the other stakeholders, but not included as a stakeholder.

Interviews

Semi-structured interviews have been conducted with representatives from almost all of the identified stakeholders in the industry. This interview type, often referred to as qualitative research interviews (King 2004) is recommended when there is some need of flexibility in the interviews process (Saunders, Thornhill, and Lewis 2009). A small interview guide was created, and used during the interviews, making sure that all relevant topics were addressed each time.

Interviews have been conducted with a broad range of artists, ranging from ones

that have sold millions, to others who have sold only a few hundred copies of their music. Further interviews will be conducted with some of the artists that have responded on the surveys sent out by the authors. CEOs of both large and smaller record labels have also been interviewed, with a few more coming this spring. The leaders of GramArt, Musikernes fellesorganisasjon (MFO) and FONO have all helped the authors with information about the music industry, as well as participating in interviews. The public authorities, represented by Espen Arneberg Børset (Senior Advisor) and Lise Kurseth (Advisor) from the Ministry of Culture, will be interviewed later this spring. Lise Kurseth was responsible for the research done by Telemarksforskning Bø (2008) mentioned earlier and Espen A. Børset has been involved in the revision of the law governing the issue, “Åndsverksloven”. Some new entrants to the industry are included as well, they will most likely be represented by someone from Aspiro, the makers of Wimp, which is a Norwegian based competitor to the Swedish music service Spotify.

The authors have currently not intended to codify the large amount of data collected so far from the in depth interviews. Although this might become useful as work with the thesis proceeds and as such all data collected is done so that it can easily be codified into quantifiable data for the thesis later on.

Quantitative data

The analysis and reviewing of the data collected will not be a major part of this preliminary thesis, but it will be a very important part of the final thesis.

The quantitative data in this study is, and will be, based on a questionnaire sent out to relevant members of MFO and all of the members of GramArt. MFO have more than 7000 members, where the members range from performing musicians, artists to schoolteachers, musicians, singers and dancers at theatres and operas, administrative staff in music and cultural positions in the local governments and so forth. Care was therefore taken by the vice-chairman of MFO, Hans Ole Rian, to include as relevant members as possible in the sample for the survey, i.e. performing musicians, artists, producers and songwriters.

The questionnaire was based on information collected through interviews by the authors and previously mentioned types of secondary data. The authors used an

online survey tool delivered by Questback Norge. Before the questionnaire was sent out, it was examined by a Questback professional and corrected to be more accurate and increase reliability. A cover letter was written and sent with the link to the questionnaire, by MFO, explaining the purpose and intent of the study. The questionnaire was also introduced with the purpose and why the respondent should complete the survey. Dillman (2007) showed that these messages affect the response rate. The survey was then sent out to a test sample of 130 members of MFO, of which 60 responded, giving a response rate of about 46%. The questionnaire was then again reviewed and improved, together with a Questback professional, to be even more precise. The final survey was then sent out to 1700 of MFO's members, where 267 responded, giving a response rate of 15%, before ineligible responses are deleted. A more accurate response rate will be provided in the final analysis. The final questionnaire is included in the preliminary thesis (Appendix 3).

Calculation of minimum sample size

In order to generalize the findings of the survey to all of the music artists in Norway, a minimum threshold of samples has to be in place. Minimum sample size can be calculated, according to Saunders et al. (2009) with the following formula:

$$n = p\% \times q\% \times \left[\frac{z}{e\%} \right]^2$$

n is the minimum sample size required

$p\%$ is the proportion belonging to the specified category

$q\%$ is the proportion not belonging to the specified category

z is the z value corresponding to the level of confidence

$e\%$ is the margin of error required

They further explain that for populations that are less than 10 000, one can use the *adjusted minimum sample size* without affecting the accuracy.

$$n' = \frac{n}{1 + \left(\frac{n}{N} \right)}$$

n' is the adjusted minimum sample size

n is the minimum sample size

N is the total population

A preliminary analysis of the survey shows that about 51% of the respondents belong to the specified category. The total population of record artists in Norway is estimated to be about 10000 (this number will be corrected to a more accurate number in the final thesis). Based on these numbers, the following calculations are made:

95% confidence level	
5% error margin	
Minimum sample size	384
Adjusted minimum sample size	370

90% confidence level	
5% error margin	
Minimum sample size	272
Adjusted minimum sample size	265

As one can see from the table above, a 90% confidence level with 5% error margin is achieved in the survey sent out to MFO members. An agreement has been reached between GramArt and the authors to send out the questionnaire to all of GramArts' 4000 members within January. The authors hope, and believe, that a 99% confidence level with a 5% error margin can be achieved when merging the data from the two identical questionnaires that are sent out. Based on the previous assumptions (51% belonging to the specified category) the sample must be minimum 614. Since GramArt is an organisation for artists and performing musicians, it is fair to assume that the percentage belonging to the specified category will be significantly higher, making the minimum sample size smaller than 614.

Secondary data

Access to a survey done by Dagens Næringsliv (Hagen 2009) and GramArt has been given to the authors. The survey was sent out to 2700 members of GramArt, with answers from almost 700 of the artists. This survey looked at the attitudes of the artists with regards to illegal file sharing, the current legislation, and the

effectiveness of awareness campaigns ("Piracy Kills Music" and "Dele, Ikke Stjele"). Certain questions from this survey are particularly relevant for this research, and will be analyzed in detail.

Research done by Telemarksforskning Bø (Heian et al. 2008) has also proven to be of interest. This study looks at what various types of artists do for a living, besides being an artist, to support their profession as an artist. It looks at differences between artists with regards to sex, age, place of residence, education, types of artists and so forth. The research was done by request for the Ministry of Culture that will also be interview on the results and interpretations of these by the authors.

Research done by Johannsson (2009) is very relevant for this study. Johannsson looked at the change in income in the music industry in Sweden, and looked at revenues from live events, record sales, private copying levy and revenues from the usage of recorded music. He found that artist revenue has increased by 34,6% since 2000 as opposed to the popular belief that income has sunk about 50%.

Other sources of secondary data are websites pertaining to music and the music industry and file sharing. Information in and about the Norwegian copyright act (Åndsverkloven) has also been reviewed as well as an interview with the governing authorities currently working on revising the law concerning the thesis. Articles about music and illegal file sharing found in Norwegian newspapers, magazines and scientific journals have also proven to be valuable to the research.

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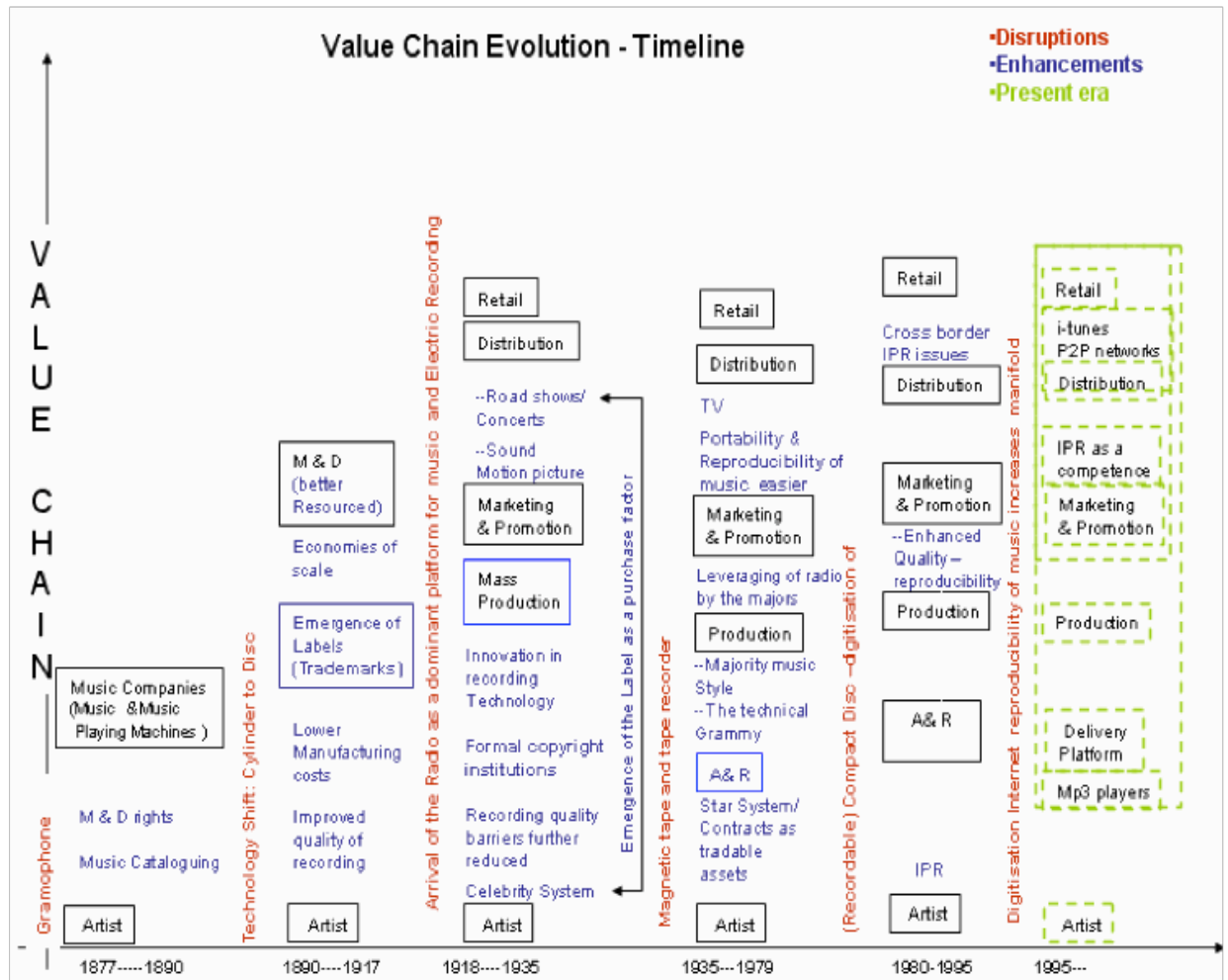
Appendix 1

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1858	1832	1923	1800	1886	1732	1753	1518	1318	1239	1053
23	16	7	4	5	3	2	2	2	2	4
1	0	0	0	0	0	5	21	18	21	8
1882	1848	1931	1804	1891	1735	1760	1542	1337	1261	1064
87	76	52	36	35	32	25	15	7	4	2
6	3	10	16	42	70	56	48	60	48	38
								49	81	105
1976	1927	1992	1856	1968	1838	1841	1604	1454	1394	1209
113%	98%	103%	93%	106%	93%	100%	87%	91%	96%	87%

Source: IFPI Statistics – <http://www.ifpi.no>

Appendix 2

Figure 1



Source: Lampel, Bhalla, and Jha 2008