A DIRECT-TO-FAN APROACH FOR THE MUSIC BUSINESS

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Abstract

Title: A direct-to-fan approach for the music business
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The need for a professional structure often arises along the course of an independent artist's career. This structure can be implemented in three different ways: by signing with a major record label, establishing a professional team with small intermediaries, or having a Do-It-Yourself (DIY) approach. The Direct-to-Fan (D2F) business model, supported by access to global communication networks and the web tools available online, helps independent artists leverage technology and perform business functions, such as management, funding, distribution, and promotion.

This dissertation offers exploratory research on how disintermediation phenomena alter independent artists' business models and practices, particularly the implementation of the D2F business model. This research adopted a realism-based philosophical approach that assessed the challenges for long-term success using D2F and emerging trends such as subscription model-based platforms and community record labels.

Key words: direct-to-fan, do-it-yourself, major record label, web tools, recording industry, Portugal.

Sumário

Título: A abordagem Direto-ao-Fã para a indústria musical

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A necessidade de uma estrutura profissional muitas vezes surge ao longo do curso da carreira de um artista independente. Essa estrutura pode ser implementada de três maneiras diferentes: assinando com uma grande editora discográfica, estabelecendo uma equipa profissional com pequenos intermediários ou tendo uma abordagem Do-it-Yourself (DIY). O modelo de negócios Direto-ao-Fã (D2F), apoiado pelo acesso a redes de comunicação globais e ferramentas da web disponíveis online, ajuda artistas independentes a aproveitar a tecnologia e desempenhar funções de negócios, como gestão, financiamento, distribuição e promoção.
Esta dissertação oferece uma pesquisa exploratória sobre como os fenômenos de desintermediação alteram os modelos e práticas de negócios de artistas independentes, particularmente a implementação do modelo de negócios D2F. Esta pesquisa adotou uma abordagem filosófica baseada no realismo e avaliou os desafios para o sucesso a longo prazo com o uso do modelo D2F e tendências emergentes, como plataformas baseadas em modelos de subscrição e editoras discográficas comunitárias.

Palavras-chave: direto-ao-fã, do-it-yourself, editoras discográficas, ferramentas da web, indústria da música, Portugal

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Glossary:

SME – Sony Music entertainment

UMG – Universal Music Group

WMG – Warner Music Group

P2P – Peer-to-peer

DIY – Do-It-Yourself

D2F – Direct-to-Fan

D2C – Direct-to-consumer

1. Introduction

The music business has always followed a parallel path with technology. From Long Plays (LPs) to MPEG-1 Audio Layer-3 (MP3), the industry took advantage of new technologies as opportunities to reduce costs and reach more audiences. (Fairchild, 2016).

The transition from traditional physical formats to the digital consumption of music changed the industry in a substantial way. Although it began with the introduction of the compact disc in 1983, the critical advent that disrupted the world was in the mid-1990s with the invention of the internet (Eiriz & Leite, 2017). The digitalization and the dematerialization of music formats made illegal downloads and the appearance of new players with peer-to-peer file sharing systems, that did not respect the music rights, possible, much like Napster and LimeWire. The internet enabled increased access to music, however piracy made albums worth less and it crashed the industry numbers. It was in 2001, with Napster offline due to a lawsuit made by the major record labels, that Apple introduced the pay per song business model with iTunes and iPod. Nevertheless, the piracy was still a big part of the industry (Fairchild, 2016; Rethink Music Initiative, 2015). The revival of the industry happened in 2019, when the industry revenue reached the same values of 2003. This comeback was essentially due to music streaming service platforms such as Spotify, Apple Music, Tidal, Bandcamp, and others. The traditional ownership model became an access model where fans can pay a monthly subscription or choose a freemium version with advertisement. This model offers access to an unlimited number of songs that can be streamed on different devices (Rethink Music, 2015).

With the widespread use of streaming services, the music industry total revenue increased, however, music creators "continue to have problems earning fair and equitable financial returns on their efforts, even as more songs are played for more listeners than ever" (Rethink Music Initiative, 2015)

The number of independent musicians is also growing with technological developments. The increasing appearance of digital tools and the decrease of production costs, where it is unnecessary for numerous professionals to record and mix the song, help independent artists make extensive use of home studios. Therefore, independent music production has become a mainstream model of production (Hracs, 2012; Leyshon, 2009). These new digital platforms provide independent artists with access to essential resources vital for their "Do-It-Yourself" (DIY) business. They provide tools for financing, management, marketing, distribution, and communication with fans, which typically are functions of intermediaries like record labels, distributors, promoters, or retail stores. These changes imply that the major industry actors need to adopt new practices versus their traditional roles (Eiriz & Leite, 2017). The business models have suffered a significant change and major record labels, which have lost some control over production and distribution, focus now on other activities as well, such as artistic development, marketing, promotion and licensing services (Eiriz & Leite, 2017; Leonhard, 2008; Young & Collins, 2010). On one hand, major labels are changing their contracts and signing fewer and fewer artists to mitigate the risk (Leyshon et al., 2005). On the other hand, any aspiring artist can produce and distribute their songs with the tools available on the internet. Consequently, the music industry is becoming more decentralized (Dahl, 2009). Nonetheless, artists have several trade-offs and challenges. By doing the functions traditionally performed by intermediaries and pursuing a direct-to-fan (D2F) business model, they have an administrative work overload, and they often lack the expertise, or the contact network required for it. Besides, the production and distribution of music is more accessible and they now face a higher level of competition (Hracs, 2012). Digitalization enabled the DIY approach and the D2F business model, which are challenging the status quo of the traditional structure and value chain of the music industry (Bernardo & Martins, 2014).

The dissertation studies the direct-to-fan as the key business model for tomorrow's music industry due to disintermediation and digitalization. The analysis focused on two main questions: (i) What is the impact of the D2F business model in the music industry? (ii) What will the music industry look like in 10 years if D2F becomes the predominant business model?

The artists are cultural entrepreneurs and behave according to specific business models by choosing different business structures (Morris, 2014). This dissertation examines the viability of disintermediation and how the D2F business model affects the music industry value chain and its stakeholders.

2. Literature review

2.1. The recording industry

2.1.2. The history

"The Music industry is where art meets commerce" - John Kellogg, former Chair of the Music Business/Management department at the Berklee College of Music in Boston.

The four major actors in this market are: (i) Artists, who write, compose, and perform music; (ii) Record companies, also called labels, that sign the artists and are responsible for the promotion, the mass production of the albums and the distribution to retailers; (iii) The production companies and facilities that produce music and copies of records; (iv) The retailers that sell the music records to the end consumer. Retailers include not only the physical stores but also online stores such as Apple iTunes or Spotify (Clemons et al., 2002; Thomes, 2013).

In the 1950s, 1960s, and 1970s, recorded music was a very heterogeneous industry in the size and number of record labels, which also varied in locations and power. During the 1980s and 1990s, the large and dominant labels purchased and merged with the smaller ones, changing the structure of the industry (Burnett, 1996). In 1999, the music industry was mainly controlled by five large majors: Bertelsmann AG, EMI Group, Sony, Seagram/Universal and Time-Warner (Hracs, 2012).

In the 1980s, with the invention of the compact disc (CD), music became a digital product. Until then, music was stored in vinyl and magnetic tapes. Innovation made it possible to store music through a sequence of zeros and ones that could be played on any personal computer. Still, the CD was a physical good, and the industry was very dependent on selling music as a tangible product (Alexander, 2002).

Until 1997 the music industry took advantage of technological advancements such as CDs, magnetic audiotape, and vinyl, which helped the industry create new markets and have a global reach. With every new way of storing music was also the opportunity to resell the same compositions repeatedly with higher profit margins (Leyshon, 2001). However, with the introduction of the MPEG-1 Audio Layer 3 format, or MP3 for short, music started to shift from a physical to a digital form (Bakker, 2005).

2.1.2. The recording industry in the new millennium

The MP3 format made music a product easy to reproduce, easy to transfer, easy to purchase and easy to store (Bockstedt et al., 2006). The disruptive feature of the MP3 format was its size, which required only one-tenth of storage space per minute of sound compared to the CD (Leyshon, 2001). Piracy was therefore more accessible and more challenging to trace, and it ultimately became the most significant threat for the music industry in the early 2000s (Chiou et al., 2005). The MP3 format opened the opportunity for other market agents to appear, such as the example of Napster. The firm was the first peer-to-peer music file-sharing network that enabled fans to download and share music for free using their personal computers (Giesler, 2006). Even after the firm was closed, the recording industry was profoundly changed. Other firms succeed Napster such as Gnutella and Kazaa, with more advanced and decentralized systems, and consequently peer-to-peer file sharing (P2P) became a significant threat to the industry (Leyshon et al., 2005). In addition, this was just the "tipping point" of a problem that had been growing in previous years. The music industry's problems did not emerge overnight, or even as a result of online digital file exchange, but instead built over time due to several more significant cultural influences that have altered the role of music in society. While these issues have been acknowledged for many years, it took an anomaly like the rise of P2P platforms and other free channels for acquiring music to see the need for institutional and organizational reform (Leyshon et al., 2005).

Until the introduction of this new format, contracts between artists and record labels were mainly based on royalties over record sales. Record labels were responsible for the production and sales of the albums, which were the predominant source of revenue for the artists. (Mortimer et al., 2012; Wagner et al., 2014). With record sales dropping during the first years of the twenty-first century, the contracts between artists and major labels changed to a multi-rights deal approach, also known as a 360º deal. Instead of receiving revenue from record sales alone, record labels extended the contract to a broader range of musical activities, such as concert tickets, merchandising, sponsorships, DVDs, and other recording formats. Conversely, record labels would receive a smaller percentage of record sales, promising to promote and develop new opportunities for artists. Essentially, the labels welcomed new responsibilities that a manager would previously perform. The music industry changed with the decline of record sales and the increase of live music economic importance. The concert promoters, Live Nation, were the first to introduce this 360º approach by making deals directly with artists (Marshall, 2012; Mortimer et al., 2012).

Other fundamental changes in the recording industry were the pay-per-song model introduced by Apple with iTunes and the rise of new players with streaming subscription models such as Spotify. Streaming platforms like Spotify gives consumers a more comprehensive access range of artists, with easy access and high quality without owning the actual file of the song (Richardson, 2014).

2.1.3. A new music industry

Since 2015, the music industry as grown at an average rate of 10% per year with an acceleration of c.12% in the last three years (IFPI, 2020). This growth is due to several reasons, such as the consumer preferences for access and experience over ownership, particularly for Gen Z and Millennials, the incentives for technological innovation, such as the growing number of streaming devices available such as smart speakers, smartphones, and tablets, and the government efforts to restraint piracy and to improve and create fair content monetization rates (Yang et al., 2020). Currently, we can separate the music industry into four segments: streaming, recorded music, music publishing and live music (Wikström, 2020).

Streaming is one of the critical drivers of the music industry, which accounted for 56% of the global recorded music market in 2019 with 11.9 Bn$ (Watson, 2020). 82% of 16–34-year-olds in the US used music streaming services in 2019 (Yang et al., 2020). Moreover, there were 341 million paid subscribers of music streaming services. This number is estimated to grow in the next 10 years to 1.2 billion by 2030E (Yang et al., 2020). Consequently, there is an increasing adoption of paid streaming services. Smartphone users that are consuming streamed music in developed countries is estimated to rise from only 18% in 2018 up to 42% by 2030E (Yang et al., 2020). Among the top music streaming platforms, Spotify, Apple Music, and Deezer, charge similar prices. The average price is $9.99 for the standard subscription (Pendlebury, 2021). For each paid user, the platform retains $3.30, the label receives $3.80, the publishers and the songwriters receive $0.60 each, and finally the artist has the remaining $1.70 (Yang et al., 2020).

Record labels contribute to the discovery and development of recording artists. They are responsible for the marketing, promotion, distribution, sales, and licensing of music (Yang et al., 2020). The global revenue of the recording industry is growing since 2014, and it reached

21.5 billion U.S. dollars in 2019. The market has not seen these figures since 2003 (Watson, 2020). Despite the rise of DIY artists and alternative music companies, the major labels continued to grow their share in 2019 reaching 70bp share gains and UMG remained the market leader with 31.2% (Yang et al., 2020). Even so, music production and promotion are becoming easier with access to new technology, it is becoming more difficult to get noticed in the increasing number of self-releasing artists. Moreover, music licensing and live events, which were once a promotional aspect of the music industry, are becoming more relevant in terms of sources of revenue (Wikström, 2020).

Music Publishing is another important segment of the music industry. These companies deal with the promotion, placement, marketing, and administration of music. Their business model entails them owning or sharing the rights of the musical composition with the songwriters, and then receiving royalties for the use of those compositions. The royalties can be from synchronization, public performance, and mechanical royalties. Performance royalties represent 40% of the music publishing revenues (Yang et al., 2020). This includes public performances, broadcasts on radio and television, and performances on online streaming services. Mechanical royalties are paid to the owners of the composition with every CD album sold, downloaded digital music file, or views and plays in online streaming services like Spotify. They represent almost 30% of the music publishing revenues (Yang et al., 2020). Lastly, the synchronization royalties pay songwriters and publishers every time the song appears as background music in movies, tv-series, videogames, etc. They represent 20% of the revenue. Currently, copyrights have an essential role to play in the music industry. There is an increasing effort to control and track the usage and plays of the songs inside and outside the internet. The US Music Modernization Act, in 2018, and the European Union Copyright Directive, article 13, in 2019, are examples of that effort. (Yang et al., 2020)

Finally, live music has become an essential source of revenue for the industry. From 2000 to 2019, the weight of recorded music in the music industry revenue has declined from 66% to 48%, while live music revenue has been growing. In fact, in 2013 it surpassed recorded music for the first time, and it is continuously growing, having reached in 2019 a global market of 28.1 Bn$. Part of the revenue comes from sponsorship contracts with brands, that want to link their names to the positive experience created by concerts and festivals (Yang et al., 2020). In the US, the live music segment is positively affected by the "millennial experience economy", where 78% of millennials would rather spend money on an experience than buying something physical (Harrys Poll, 2014). Furthermore, 69% feel more connected to the community and the world while attending events (Harris Poll, 2014). Another key factor is the strong relation between music and social media, particularly among millennials. This relation magnifies the speed of the word-of-mouth effect and makes it easier for artists to be discovered outside their country of residence. In consequence, not only does it open more opportunities for touring, but also new monetization opportunities through sponsorship, merchandise, and ticket sales with a more direct link to fans, wherever they are (Yang et al., 2020). Live music has become such an important part of the industry that more than 50% of the income of the top 100 artists globally comes from touring. In fact, Taylor Swift, generated 91% of her income from touring in 2018, which made her the top earning artist in the world that year (Yang et al., 2020). Even though streaming royalties account for only 1,5% of an average musician's income, 51% of "concert-goers" fans say they buy tickets to shows of artists they discovered through streaming (Eventbrite, 2015; Digital Music News, June 27, 2018).

2.1.4. COVID-19 impact

The pandemic accelerated several shifts in the market that were already taking place in 2019 (Yang et al., 2020). One important shift is from physical sales towards paid streaming. Although in the end of 2020 the revenues from synchronization declined 9.4%, performance rights declined 10.1%, and physical sales declined 4.7%, paid streaming grew 18.5% and it was the key driver for a 19.9% growth in streaming revenues. At the end of the year 2020, the global revenue of the music industry grew 7.4% despite of the pandemic (IFPI, 2021). Furthermore, 79% of fans say they will return to live events within 4 months after the lift of the lockdown restrictions (Yang et al., 2020).

2.2. Business model concept

The concept of business models has a multitude of definitions and interpretations (Magretta, 2002). There are three interpretations for business models: (i) Business Models as attributes of real firms; (ii) Business Models as a cognitive/linguistic schema; (iii) Business Models as formal conceptual representations/descriptions (Massa et al., 2017). The first interpretation states that business models are an empirical phenomenon, based on real-world manifestations, measured by the correlations between successful companies with authentic attributes. This definition usually allows the identification of patterns, such as subscription, freemium, disintermediation, direct-to-consumer (D2C), among others (Chesbrough, 2010). The following interpretation differentiates itself by affirming that the managers rely on images of real systems shaped by their own cognitive frame rather than external and empirical examples of real activities or potential outcomes (Magretta, 2002). The last interpretation gives us a midway position regarding business models. In a formal, conceptual representation, it outlines the business reasoning needed for the company to earn a profit (Teece, 2010). While the first two interpretations allow for an implicit and often unspoken model of the firm, the latter is a formal description written down with detail (Massa et al., 2017).

2.3. Business models in the recording industry

2.3.1. Traditional model

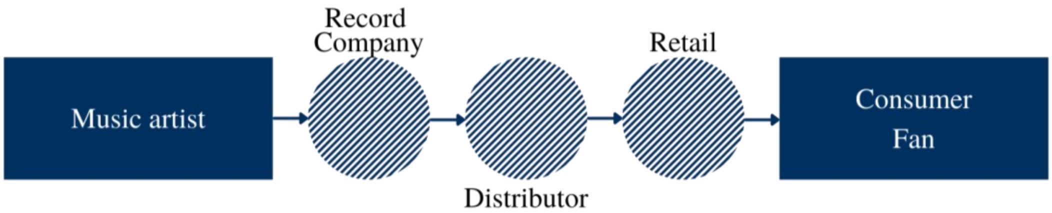

Figure 1: Recording industry value chain (Bernardo & Martins, 2014).

In a conventional model, the value chain has the artists, the intermediaries, and the end consumer. The intermediaries' services, such as the production, distribution, promotion, management and booking of concerts, are usually performed by Sony Music Entertainment (SME), Universal Music Group (UMG) or Warner Music Group (WMG). With a high degree of vertical and horizontal integration, these record labels are known as the major labels. (Tschmuck, 2003).

The distributors are intermediaries in the traditional model. These companies' operations consist of a network of warehouses, logistics, shipping, and inventory. They are responsible for distributing the records to the retail stores and are typically controlled or partially owned by a major label (Passman, 2019). This integration gives the majors the power to maintain the entry barriers high in the industry, using distribution costs. However, there are still true independent labels, which are not owned by a major label, that have a structure and network of their own, and work with smaller, local, and independent distribution companies (Rayna & Striukova, 2009). The major labels have the competitive advantage of owning the rights of back-catalogue music (older but timeless music that still generates revenue). This traditional model is being threatened by the disintermediation in the distribution sector, owing to the general acceptance and reduced costs of the digital distribution of music, which only requires a single master copy instead of the manufacture, production, shipping, and shipping warehousing costs. (Fox, 2004). The manner and the speed with which the record labels adapted to the new trends influenced the market structure (Tschmuck, 2003).

Record labels not only provide music artists with music producers, lawyers, accountants, promoters, and managers, but also with the funds for the album production, tours, and merchandise (Hracs, 2012). The money is usually provided up front in exchange for ownership of the copyright of the music created. The record label only starts to pay royalties to the musicians and songwriters after the investment has been paid in full. In this scenario, the labels are the ones who bears more risk (Passman, 2019).

One of the most important functions of record labels is promotion. The label invests in marketing campaigns that include advertising, radio airplay, internet and TV presence and live performances (Passman, 2019). Additionally, the label sends physical copies of the album to critics and opinion makers in press, and books interviews to create reviews and coverage on the artists.

Managers and record labels have traditionally been kept separate. To avoid potential conflicts of interests, managers who do not belong to the label are hired to oversee and ensure that labels act in the best interest of the artist. However, with the introduction of 360º deals, as outlined above, labels try to capture complementary revenue streams, such as touring, merchandising, and licensing. In this approach, labels aggregate more management functions, and develop the artist as a brand. In return, labels take a percentage of the return that brand generates (Dahl, 2009).

In this model, the negotiating clout of record labels enables them to influence the creative production of the song, what artwork to use, and how to promote and distribute their work (Hracs, 2012). However, the internet has disrupted industries by making available more markets and by changing the distribution structure. These changes have also highlighted the need to think more strategically about addressing the fans' interests and capturing value from providing new products and services. Artists will not deliver or capture value from their music unless they have a well-developed business plan. This is especially true with digital distribution, where generating income streams can be complex due to customer expectations that basic services should be provided for free (Teece, 2010).

2.3.2. Direct-to-fan model

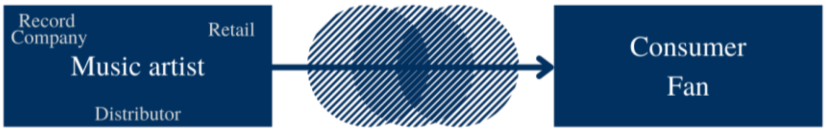

Figure 2 Direct model in the music industry value chain (Bernardo & Martins, 2014).

The digital era has disrupted traditional organizational management forms. The organizational structure has evolved in a flattening and decentralization trend that best achieves the development of dynamic business capabilities, such as perception integration, and innovation. It can detect market changes quickly and effectively combine internal and external resources (Wang et al., 2020).

The internet has also enabled the rise of the entrepreneur-artist, as artists have more accessible and economic ways to produce and distribute music independently. For distribution, music is sold through online stores and streaming services without the support of a major distribution company. Also, artists can promote their songs via digital platforms such as social media like Instagram or TikTok, or platforms that link artists with bloggers, radio stations, influencers, and curators like SubmitHub. Technology has thus opened new ways for artists to not waive power, and to navigate in this industry without the dependency of the major record label (Dolata, 2011; Eiriz & Leite, 2017). In the case of financial support, artists are able to leverage the power of crowds for fundraising. They can ask their fan base for support with a crowdfunding model, where a project can request funding through an online platform, usually in return for future compensation such as personalized gifts, merchandise, concert tickets, and other types of rewards. These platforms support many kinds of creative people, ranging from creative start-ups to visual artists (Martinez-Canas et al., 2012). Among the most well-known platforms in the world are Kickstarter, Indiegogo, and Patreon. These platforms charge between 5% and 15% fee over the total amount raised (Felinto, 2013). In Portugal, the most used platform is called PPL (ppl.pt) from the Portuguese company Orange Bird. Music artists can also use online tools for managerial functions. These applications, like Artist Growth, usually use a software-as-a-service with a subscription model that provides smart calendarization, revenue projections, merchandise inventory, social media management, among others (Bernardo & Martins, 2014). Finally, the music artists can build their fan base and their online community by using social media sites like Facebook, Twitter, YouTube, Instagram and TikTok (Bernardo & Martins, 2014).

The ultimate conception of a direct link between artists and fans is suggested by Music 2.0 (Leonhard, 2008). Individual musicians are encouraged to take a do-it-yourself (DIY) and direct-to-fan (D2F) business strategy to building a fan base and publishing their music through the variety of web tools and online platforms that continue to emerge online. Due to disintermediation, the artist takes charge of communication and distribution, discarding dependency on traditional intermediaries (Hracs, 2012; Young & Collins, 2010). The overall argument that has gained traction and divided viewpoints state that digital network media allows independent and DIY music artists to satisfy their business demands while also providing a deeper, stronger, and more meaningful relationship with their audience.

Several online market players have emerged for this decentralized model. Overall, these new players integrate various functions also provided by record labels, covering promotion, distribution, management, marketing, and financial support (Bernardo & Martins, 2014). Nonetheless, this strategy relies on each musical project's unique characteristics, such as organizational structure, business understanding, technology abilities, financial resources, and fan base. The hybrid approach appears more effective and efficient for independent musicians, with the most prevalent implementation resulting in increased creative freedom and profitability. It gives an edge to compete in the hypercompetitive music industry (Bernardo & Martins, 2014).

2.4. Real examples of real independent artists

The album 'In Rainbows', by the British rock band Radiohead (2007), is an example of a possible change to the dominant business models used in the industry. After the end of their contract with the record label EMI, the band decided to release the album as a digital download available on their website InRainbows.com. They also allowed consumers to choose their price with a "pay-what-you-want" model. With this strategy, Radiohead was able to sell directly to fans. This was the first relevant example that mainstreams artists could have their distribution and compensation with independent methods (Morrow, 2009; Young & Collins, 2010).

In a more recent event, the Emmy-awarded band Arctic Monkeys also reached the top charts by bypassing traditional intermediaries. The band took advantage of social media's reach and heavy usage to promote and enable access to music for everyone. Their first single success was connected to the engagement the band had with their fans through Myspace (Young & Collins, 2010).

The Portuguese music scene has several examples of independent artists. There is a growing number of new artists starting independently, and some established artists with major label contracts are also taking a more direct approach with fans. Examples of these established artists are the alternative pop band The Gift and the fado singer Ana Moura. In 2021, the independent band The Gift launched a web and mobile app that offers their fans exclusive content by paying a subscription fee (Pacheco, 2021). The fado singer Ana Moura recently shifted from the traditional model to the direct model. The artist ended almost all contracts with intermediaries in pursuit of an independent career. She is one of the first artists in the world to use NFTs (Non-Fungible Tokens) with blockchain technology in her business. As she wrote on her social media feed, "the public can take a much more active role in artists' careers, having a direct and immediate effect on their paths" (Lopes, 2021).

3. Methodology

3.1 Research design

This dissertation has two main objectives. Firstly, it aims to know the types of business models being used by the artists and to understand their level of satisfaction on its performance. Secondly, it focuses on the direct-to-fan business models. This implicates how much artists and other market agents know about these models, the web tools available, and if artists would trust and chose to implement only direct business models in the future.

This dissertation used qualitative research for its primary data combined with data from secondary sources. Qualitative research provides various advantages, including a vision of homogenous exploration, the ability to raise additional questions through broad and open-ended inquiry, and comprehend value, belief, and assumption behaviors (Choy, 2014). Semi-structured interviews were conducted for the qualitative research, which yielded insights into the types of business models relevant in the industry. The interviews aimed to collect and compare how market agents adapt during the industry's current changes and the artists' experience and underlying motivations.

Instead of using a positivist paradigm, which implicitly or explicitly believes that reality can be analyzed by direct observation, posited to be value-free, the qualitative research for this dissertation deployed a realist paradigm. According to research, the positivist assumptions of business school research are sometimes improper for social scientific phenomena like marketing and management studies (Hubbard & Vetter, 1996). According to the realist paradigm, findings are informed by the literature and existing knowledge on business models and the music industry. Since there were no theories to generate theoretical propositions to be experimentally tested, this thesis may also be considered to follow a constructivist paradigm in which the findings are attributed to the participants questioned (Sobh & Perry, 2006). As a result, we recognize that the study presented here is more exploratory and descriptive than conclusive, implying that further study is needed with broader and more representative populations of musicians and other market agents.

The dissertation's geographic scope is Portugal.

3.2 Data collection

3.2.1 Primary data collection

Seven semi-structured interviews were performed, aimed at understanding artists' perspectives, their experiences with different business models, their underlying motivations, their feedback about the results, and current and potential future decisions. The sample target consisted of music industry professional artists who work with the traditional business model and/or the direct business model and independent labels. These were all music professionals in Portugal who use different business. They are artists, performers, songwriters, and also managers, producers, and promoters. Table I summarizes the interviewees' professional details and table II their responses and opinions to each relevant topic discussed (see Appendix).

John Philip Gonçalves is the keyboardist and bassist of the Portuguese alternative pop band The Gift. The band was formed in 1994, and it has 27 years of experience with the direct-to-fan business model. Since their creation, they have had an independent approach by not signing with a record label and having direct business models to link them with their fans. He also represents the professional Association of Musicians Independent Artists and Publishers in the board of Audiogest, the Portuguese Association for the Management and Distribution of Rights.

Jorge Dias is a manager, agent and founder of gig.ROCKS!, a Portuguese music label specialized in supporting artists with booking, touring, and production in a 360º centralized model.

Manuel Lourenço is an independent artist using the stage name Primeira Dama that started in 2016. Parallel to the creation of the project, he founded an independent record label Xita Records. This record label is based on community and DIY values.

Caio is a recent young folk musician from Lisbon. He started his musical career in 2016 and signed a deal in 2021 with the major record label Universal Music Group. He has experience with both types of business models.

Guilherme Correia is the frontman since 2016 of two dream-pop rock bands called Ditch Days and Hause Plants. This artist works with a business structure with several intermediaries.

João Simões belongs to the band Grand Sun. Also from Lisbon, the recent rock band started their project in 2016 and they have had an independent approach in almost every aspect of their operations.

Luís Judícibus started his band in 2015 called Them Flying Monkeys. In 2017 the band signed a deal with the most significant major record label in revenue in Portugal, Sony Music Entertainment (SME).

3.2.2 Secondary data collection

As observed in the literature review, descriptive analysis of secondary data concerning business models, disintermediation of the value chain, industry revenues, and money flow has been used for secondary data collection.

4. Results and discussion

4.1. D2F impact in the music industry

One of the objectives was to measure the impact of the D2F model in the music industry. The focus was on agents' first-hand experience with disintermediation and the level of trust in the D2F model over a long-term career. Additionally, we sought to know how they are adapting and choosing different business structures. Based on the findings, it is safe to say that, regardless of one's position within the industry, everyone agrees that the industry has profoundly changed in the past twenty years, especially in the distribution channels and the way fans consume their content (IFPI, 2021).

Figure 3 Global recording industry revenues until 2020 (Bn$) (IFPI, 2021).

According to the independent artist John Gonçalves, who also represents independent artists and labels (AMAEI) in the board of the Portuguese Association for the Management and Distribution of Rights (Audiogest), one of the current challenges for the major record labels is the trust and level of compromise the artists are willing to give in the 360 deals (John 2021). Gonçalves does not believe that "the major record labels have the excessive creative control that artists think they have" (2021).

One example is from Manuel Lourenço, a musician named Primeira Dama and founder of the independent label Xita Records, who is unwilling to compromise his creativity and the management of his projects by signing a 360º deal with a major record label (2021). Moreover, he firmly stated that their role in the industry has diminished to that of being a distributor intermediary (Lourenço, 2021). However, Gonçalves agreed that labels usually control the timeline of the song's releases, decide which songs will enter the album, and which ones will be the singles, which can be a difficult compromise for some artists (2021). Thus, the perceived image of the major record labels ranges from the notion of them being crucial intermediaries for artists to find success (Correia, 2021; Gonçalves, 2021) to companies that commodify artists and seek to control artists' creativity while only caring about revenues and the bottom line (Lourenço, 2021; Ludícibos, 2021; Santos, 2021; Simões, 2021).

4.2. The 360º independent and the hybrid model

The concept of D2F is directly linked to independent artists. An independent artist or band, referred to as "indie", produces music independently from commercial record labels or their subsidiaries. This production may include an autonomous, DIY approach to recording, distribution, and publishing (Lourenço, 2021). The changes in the relationships between the market agents have resulted in many business structures viable possibilities. Gonçalves from the fully independent band The Gift stated that in one side of the spectrum of the disintermediation of the value chain, a band can perform almost all the activities required, such as management, booking, production, publishing, and distribution (2021). Like the 360º record label deal, the musical group can share the functions between its members and have a "360º independent model" (John, 2021). Thus, the band keeps complete control over the creation and management process and does not have the commissions and royalty fees from the record deals. Another option suggested by Jorge Dias, the founder of the independent record label gig.ROCKS!, is that artists can also have a hybrid business structure where they choose the intermediaries to perform the tasks, they believe to be too overwhelming (2021). The research showed that the hybrid business structure is the most common in the independent sector (Correia, 2021; Judícibus, 2021; Simões, 2021).

Moreover, Luís Judícibus, the front man of the band Them Flying Monkeys, noted that the fans do not experience any difference whether the band has its own independent label, or if it is signed to a major recorded company (2021). Judícibus also added that "streaming service platforms like Spotify helped in this process since the fan does not usually see the business details of the song" (2021).

4.3. Web tools and the new intermediaries

There are several web tools available to assist artists that perform the functions of intermediaries. The most relevant platforms for the distribution of music are the streaming service platforms. Young artist and composer João Santos, by the stage name of CAIO, recognized that although these platforms work for digital distribution of music, their prominent role is promotional (2021). Most musicians do not receive significant revenue from these platforms. Gonçalves stated that it is "a bad investment that you must do" to promote artistic work to enable other revenue streams (2021). Music streaming platforms pay for each view/play, changing how the music is made and monetized. This situation creates an economy in which only superstars can make a consistent and significant amount of money. Plus, music genres that have more promotional investment are the ones that bring the most return, which needs to be music that consumers want to hear repeatedly until the next single or album release (Gonçalves, 2021). Dias argued that using only this factor to measure the perceived value of the song for the consumer is not enough (2021). There are genres or types of music that have a significant value for consumers, but they do not want to play them on repeat. For instance, dance and rap music are favored by social platforms like TikTok or Instagram that are filled with short dance videos (Dias, 2021).

Other web tools for music distribution suggested by João Simões, a member of the band Grand Sun, are platforms like Bandcamp and Big Cartel, and Shopify (2021). Independent artists frequently use these platforms to sell merchandising and digital and physical copies to fans. It is a strategy to place the products for a national and international audience with low commission fees (Simões, 2021).

Jorge Dias pointed out that artists and independent labels rely heavily on social media platforms such as Facebook, Instagram, and Twitter, to promote their work and manifest their aesthetic image (2021). These platforms offer a channel of direct communication with their fans and with their intermediaries, and it is possible to sell merchandising and copies of their work through the store tab. As the psychological experience of likes, comments, and other social interactions, Lourenço added that the consumer buying experience is perceived as direct interaction with the artist (2021). Artists also have the opportunity to receive live feedback from fans, ask direct questions or make polls. Thus, it is possible to further collect data on the fan base and improve marketing strategies through direct engagement with fans (Gonçallves, 2021). Also, within the promotion of the artist and their work, other platforms, such as SubmitHub, help promote to bloggers, magazines, and curators of streaming playlists, in exchange for a fee (Simões, 2021). However, several artists argued that these platforms are not entirely a substitute for music promoters (Correia, 2021; Judícibus, 2021; Santos, 2021; Simões, 2021). They provide a standard service that does not include local channels, such as radios and tv stations. Music promoters and publishers still have a strong network of contacts that supports the national marketing strategy (Santos, 2021).

The internet has also changed the way musicians fund their projects. João Simões from the band Grand Sun stated that artists can resource crowdfunding platforms to finance their projects (2021). This method of funding goes directly to the end consumer for financial support in exchange for prizes and exclusive content. Musicians have to find creative ways to reinvent their work in order to offer these rewards. Occasionally, the artist has to create content beyond music, such as short videos, podcasts, and documentaries (Simões, 2021). Lourenço added that another way of financing is through state funds that support independent artists selected according to the potential of the demonstrated work (2021).

4.4. Potential challenges for D2F

D2F has been linked to alternative music genres, so it is not easy to separate them. Jorge Dias recognized this connection, noting that it makes the gap between independent artists and pop and mainstream music consumers more substantial and can challenge the independent project's success in the mainstream market (2021). Another challenge in implementing this model was acknowledged by João Santos and John Gonçalves, who argued that a complete DIY business structure requires the band to have several members be in perfect synchronization. The "360º independent band" concept from Gonçalves needs each member to be interested and motivated to specialize in different tasks, which takes much effort and can influence the group's creativity and workload (Gonçalves, 2021; Santos, 2021). As for the hybrid business structure, where the artist works with small intermediaries, communication is key for success. Simões agreed that it can be challenging to coordinate communication, which often makes artists outsource this task to a business manager (2021).

Furthermore, the main D2C channels for marketing and promotion are usually shared with non-independent artists as the major record labels are trying to adapt to this new way of communication. This competition for the fans attention was recognized by Guilherme Correia, an artist from the bands Ditch Days and Hause Plants, who noted that it is an opportunity for the major record labels to maintain their relevancy as they pay to highlight their signed artists in the increasingly competitive market (2021). Finally, a phenomenon recognized by Simões as a “big downside to the independent sector" was its volatility and vulnerability (2021). One example is how at the start of the COVID-19 pandemic in 2020 and during the first trimester of 2021, major record labels were shown to still have bargaining power over the concert and festival promoters and producers regarding the booking of concerts (Simões, 2021).

4.5. Emerging trends

Other forms of revenue have emerged in recent years. There has been adoption from independent labels and musicians of subscription or freemium models. One example is the launch of the mobile and web application REV from the Portuguese band The Gift, which offers exclusive content from lifestyle to tour documentaries and backstage videos in exchange for a monthly fee (Gonçalves, 2021). This way, musicians can profit more from their most loyal fans and increase earnings beyond the currently low-paid digital revenue streams. Gonçalves argued that although The Gift is fortunate to have a well-established fan base, young musicians can also implement this strategy by applying the direct artist-fan dynamics that platforms like Patreon.com offer (2021). Musicians can explore different content such as live streams, podcasts, backstage videos, but most importantly, they can make available concert tickets, albums, and video clips releases in advance to create more value.

Jorge Dias affirmed that another example is the subscription model from gig.ROCKS! record label (2021). Independent labels have the opportunity to bundle content from artists they represent and offer a subscription for fans. Hence, labels can implement other distribution strategies, but they can also have another way to collect information from an artist’s fan base and narrow the target audience (Dias, 2021). This can help middle-tier artists by enabling them to have a constant source of revenues from a small but loyal fan base (Dias, 2021; Simões, 2021). "The purpose is to stop only focusing on superstars and start to focus on superfans" (Gonçalves, 2021).

Major record labels do not yet have the freedom and the structure to implement these strategies for the artists they represent (Gonçalves, 2021).

The independent record label Xita Records is an example of an emergent trend in the industry. This new phenomenon was recognized by Manuel Lourenço, who noted that in order to have a D2F business model, artists do not have to do everything DIY (2021). Lourenço argued that one solution for the often-overwhelming additional work is joining several artists together, and each assisting the others with specialty skills (2021).

4.6. Long term success

For long term success with D2F, Manuel Lourenço and John Gonçalves suggested that the musical project use its artists with skills, expertise, and availability to learn the DIY method or join community record labels (2021). Additionally, it is crucial to take advantage of web tools available for digital distribution, merchandising sales and promotion, especially during the initial stage of the career. To differentiate themselves from artists supported by major labels, independent artists can explore D2C channels that only work when they have complete control over the composition (Lourenço, 2021). As John Gonçalves noted, platforms that use subscription models help artists receive support more creatively and are closer to fans (2021). For a hybrid model, where the artist outsources certain functions, Correia suggested that there should also be specialized intermediaries entirely focused on specific performance tasks and who give special attention to the speed, flexibility, and quality of intercommunication skills (2021).

Manuel Lourenço suggested that the major recording companies have lost their power positions (2021). They now simply play an important role in distribution and promotion between the team of several other intermediaries in an artist's business structure. The contracts mainly shifted from ownership of song copyrights to the partnership and commission fee-based contracts (Judícibus, 2021; Lourenço, 2021). John Gonçalves also noted that there seems to be an increase in the number of middle-tier artists due to the current opportunities to capture value from small but loyal audiences (2021). Finally, the literature reviewed shows that the web tools and platforms available are becoming the new intermediaries in the market. This re-intermediation is a transitional phase in a paradigm change recurrent cycle (Chircu & Kauffman, 1999; Tschmuck, 2012).

5. Limitations and future work

Four limitations were acknowledged in this dissertation. First, although the research was able to capture the perspective of seven musical projects (The Gift, CAIO, Grand Sun, Primeira Dama, Them Flying Monkeys, Ditch Days, and Hause Plants), two independent record labels (gig.ROCKS! and Xita Records) and two associations directly related to the music industry (AMAEI and Audiogest), within the seven semi-structured interviews, these individuals have only medium or low involvement with major record labels. The contracts were mainly for distribution, which means a lack of perspective of the traditional model and of artists with total dependence on a music label. We also did not speak to people in the music industry outside of Portugal to gain an international comparative perspective on our research questions. Second, the sample size is relatively small, as each of the seven interviewees is influenced by their context and experience, which still aggregates the eleven market agents into only seven perspectives. The third limitation that was recognized was the scope of the research. Even though the music market is more global than ever before, the idiosyncratic scope of the Portuguese industry still influences the experience and opinions of the market agents involved here and makes this research not representative of the global industry. The final limitation concerns the impact of the COVID-19 pandemic on both primary and secondary data.

Future research should address how the major record labels are currently adapting to power shifts and evolving secular trends in the industry. Also, research should be conducted concerning the new intermediaries such as Spotify, Bandcamp, and Patreon, and their business models, which would give further perspective. Another important variable to consider is the influence of genre, which has bearing on this subject and could be studied in future work. Finally, a relevant research direction to pursue would be to research the same topic in a larger specific market.

6. Conclusion

The present dissertation tries to analyze the current impact of the D2F business model in the music industry and assess the underlying motivations of artists and other market agents. The research demonstrated that D2F is a possible and real solution working in parallel to the current decentralization and flattening of the market.

It was found that D2F is a viable possibility for long-term success. However, it is heavily influenced by the business structure, the number of members involved in a musical enterprise, their motivations, and skills. A mature and fully DIY artist/band needs to develop a 360º business structure around projects. The "360º independent artist" exists when the musician develops an independent business structure for management, funding, distribution, and promotion.

Nevertheless, despite the increasing number of web tools available that assist the artists and perform services similar to traditional intermediaries, musicians do not agree that they can substitute them altogether. Web tools represent a cheap alternative for young artists at the beginning of their musical careers. The empirical analysis shows that artists have no interest in performing the functions of traditional intermediaries since their primary motivation is to make and play music. Their choice to use web tools is due to financial constraints or the fear of losing creative and management control.

This research also uncovered disagreement between musicians about the current role of major record music labels and their control over projects. Although major record labels are essential for distribution and promotion, especially for an international career, their primary role is shifting to distribution deals only. In order to maintain creative and management control, artists are creating a tailored business structure, outsourcing few specific tasks that are still very complex to perform DIY.

Adopting a research method with descriptive and exploratory orientation made it possible to find new trends arising due to digitalization. The first was the rise of community record labels, where different artists come together and help each other leveraging their different various talents and specializations. Thus, a solo artist can follow a D2F business model without having to do everything DIY. The second trend was the emergence of the middle-tier artist with the appearance of new revenue strategies. These artists take advantage of the small but loyal fan base and make money through subscription and freemium models offering exclusive content using platforms like Patreon.com. In addition, independent labels are seizing the same opportunity by bundling content from their artists.

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8. Appendix

Table I – Interview details

Name	Position/Role	Years in the industry	Business model	Place of interview	Duration (in minutes)
John Gonçalves	- Independent artist (The Gift) - Board of Audiogest (representing AMAEI: independent artists and labels)	27	D2F	Lisbon	104
João Santos	- Artist (CAIO)	6	Traditional	Lisbon	45
João Simões	- Independent artist (Grand Sun)	6	D2F	Lisbon	32
Luís Judícibus	- Independent artist (Them Flying Monkeys)	7	D2F (former traditional)	Zoom call	34
Manuel Lourenço	- Independent artist (Primeira Dama) - Founder of an independent record label (Xita Records)	6	D2F	Zoom call	50
Jorge Dias	- Manager, agent and founder of an independent record label (gig.ROCKS!)	3	---	Zoom call	56
Guilherme Correia	- Independent Artist (Ditch Days) (Hause Plants) - Marketing assistant in one of the biggest events promoter companies in Portugal (Musica no Coração)	6	D2F	Zoom call	30

Table II – Interview findings A

Name	Business structure	Opinion about the traditional model	Opinion about the D2F model	Viability of the D2F model in the long-term
John Gonçalves	Manager: DIY Record Label: DIY Agent: DIY Promoter: DIY Distributor: DIY + outsourcing	It is a great way to succeed as an artist. Major record label deals are still significant for international promotion and distribution because they have a well-established physical network worldwide.	D2F is a viable option for a band with several members. It enables to keep all the creative control and keep "all the money". The "360 independent" concept is when the artist performs all the functions and does not depend on intermediaries, pursuing a DIY strategy. Strategies with freemium and subscription models are only possible with D2F. With the traditional model, the shared copyrights of the content make it much more complicated.	It is possible to have D2F in the long term. If the band chooses to do everything DIY, it requires much effort and learning from the members. The bands must have several members and distribute the functions according to the skills and interests, and the difficult task is to find the perfect balance of responsibilities. It is not easy to find the perfect balance of responsibilities.
João Santos	Manager: Outsource Record Label: WMG Agent: Outsource Promoter: WMG Distributor: WMG	It is preferable to have one entity responsible for all the functions. However, by experience, sometimes it is better to have several but specialized intermediaries that only focus on one task. Although he works with a major label for distribution, he is reluctant to sign a 360 deal because he feels it could influence his creativity and his essence as an artist. "Labels believe more in the numbers and Excel results than in the artist."	The musician keeps the creative and management control. However, a solo artist cannot pursue this model without outsourcing some functions. When using independent intermediaries, the relationships are more personal and often based on trust and friendship.	For a one-man band, it is necessary to have intermediaries. These relationships are personal, which is a better environment for the artist. A good intermediary must have (i) an excellent and focused specialty (ii) a high level of communication skills (iii) a good relationship with the artist and with the other intermediaries.
João Simões	Manager: Outsource Record Label: DIY Agent: Outsource Promoter: DIY + outsource Distributor: DIY	"The major labels are not the *boogie man* that most musicians believe they are". It is still a relevant business model to reach high levels of visibility. In Portugal, the main distribution channels are very restricted. The major labels have much influence, especially in the synchronization opportunities such as the national series, movies, and soap operas.	The band can have their timeline for the releases. It is possible to have a deeper connection with the intermediaries.	It is a good model for a band with no ambition for the mainstream and mass communication. It is a complicated strategy for projects with an ambition of an international career.

Table III – Interview findings B

Name	Business structure	Opinion about the traditional model	Opinion about the D2F model	Viability of the D2F model in the long-term
Luís Judícibus	Manager: Outsourcing Record Label: SME + Outsourcing Agent: Outsourcing Promoter: Outsourcing Distributor: SME + outsourcing	Based on experience by working with Sony Music, there is much value on deals and contact networks with the central communication and distribution channels. However, the relationship with the major label was very distant and impersonal. "The only direct contact is with the HR assistant and the secretary".	It is essential to reduce initial costs.	It is viable only with outsourcing. The artists only care about making and playing music.
Manuel Lourenço	Manager: DIY (Xita Records) Record Label: DIY (Xita Records) Agent: DIY (Xita Records) Promoter: DIY (Xita Records) Distributor: DIY (Xita Records)	The major labels do not have a place in the market anymore, only for distribution. Artists give away freedom and control for a small benefit. It is not worth it.	There is an opportunity to create record labels based on the friendship between artists and share different responsibilities. Xita Records is a "community label" where different musicians offer their skills to exchange for help on the functions they do not want to do.	D2F is possible without having to do everything DIY. If artists help each other and use web tools, the extra work is not overwhelming.
Jorge Dias	---	It is a relevant and essential model. However, it does not perform well in every genre of music. Major labels can only think big and about mass communication. Often, the rise of the artist is too fast and inorganic, which is dangerous and unsustainable. There is also value in the small but loyal markets.	It is the best business model for alternative projects. There is much uncut potential from the small and niche segments. Independent labels can help the artist engage with their target audience in a flexible way.	A D2F business model viable with outsourcing.
Guilherme Correia	Manager: DIY Record Label: DIY Agent: Outsourcing Promoter: Outsourcing Distributor: Outsourcing	It is the preferred model for the future. It is a necessary model for success. More projection and promotion usually mean more revenue. Additionally, with independent labels becoming big companies, the differences between the models are becoming blurred.	The technology and the web tools available reduce the initial costs. It is the perfect model for bands with niche target audiences.	It helps the middle-class artist to have more revenue.