

## Master Thesis

# The impact of Crowdfunding on Musicians' business Findings from Denmark, Norway and Sweden

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## Abstract

This work explores the linkages between the current boom of crowdfunding and the music industry. By building on the theoretical contributions of value networks and disruptive innovations, this dissertation aims at analyzing the impact of reward-based crowdfunding on musicians' businesses in Denmark, Norway and Sweden.

With a simple and convenient service, crowdfunding has the potential to benefit especially those musicians that don't find the support of record labels and historically had to rely on their own savings for their business finance.

After an interview process involving musicians and crowdfunding platforms owners, it has been found that crowdfunding increases musicians' odds to rescue funds to invest in their music production activity.

Finally this work sheds lights on the challenges faced by crowdfunding platforms to become an established financial channel for creative entrepreneurs.

## Acknowledgements

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*To Giorgio Pastonesi, a never ending source of inspiration for me. He had a dream, and that was to design a system where every single memory of a man's life could be copied, stored and preserved for future generations to come. I wish I could tell him that in today's world this dream is as close to reality as he could have ever imagined*

## Introduction

### *Background for the Research*

In *Wikinomics*, Tapscott and Williams (2006) argue that the integration and advancement of Internet technologies in people's daily lives has profoundly changed the way knowledge, information and work are organized. The authors argue that a shift is under way towards "new models of production based on community, collaboration, and self-organization, rather than on hierarchy and control" (Tapscott and Williams, 2006: 12). It is within this overarching context of deep change that we assist to the growing emergence of one of these "new models": crowdfunding. The basic mechanisms of crowdfunding are easy to grasp. By decomposing the word in two parts (crowd and funding), crowdfunding can be defined as the practice of pooling a set of financial resources (i.e. funding) from a large group of people (i.e. the crowd). While this practice has been pursued since remote times, the author has focused on crowdfunding integrated with Internet technologies. In the modern version of crowdfunding, whoever possesses an Internet connection and sufficient credit on a bank account can channel money for any kind of project, whose idea is available on a platform online.

There has been a lot of buzz around crowdfunding, especially since it has become official subject of political discussion with the introduction of the JOBS Act, (Jumpstart Our Business Startups Act), promulgated by the Obama administration in April 2012. There seem to stand solid reasons justifying the growing importance of crowdfunding. Kickstarter, the largest crowdfunding platform up to the moment I am writing, has helped to raise 709 \$ millions from over 2.5 millions of people living in 177 countries on the planet (representing 90% of total countries) since 2009 (Kickstarter, 2012). Kickstarter represents only the spearhead of the booming crowdfunding phenomenon whose total pledged amount has reached \$ 2.7 billions at the end of 2012 within the whole industry. Massolution has estimated total volumes to nearly double in 2013 (Massolution, 2013). The same data reveal that from 2007 to 2012 the number of crowdfunding platforms has grown by more than 500%. Originating in the United States, the crowdfunding phenomenon has rapidly propagated to the rest of the world at an incredible fast pace and it is appearing even in far and remote places like Zambia.

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Scandinavia has not been exempt to this phenomenon. Denmark, Sweden and Norway will be the three countries, focus of this thesis.

While a simple idea governs its basic mechanism, crowdfunding is a modular concept that assumes 4 different main forms and can be applied to raise funds for virtually every kind of project and activity, ranging from design work to technology intensive products. The context of crowdfunding is rich in examples, ranging from the loan to the owner of a small fish-vending business in the Philippines (Kiva.org, 2013) to the production of the first “piano-banana” prototype (Kickstarter, 2012).

Among the sectors served by crowdfunding as a whole, the creative industries clearly represent an important reality. This fact is reflected by the data publicly reported on Kickstarter, whereby, at current dates, the categories labelled as “Music”, “Art”, “Video & Film”, “Publishing” and “Theatre” constitute the top 5 categories in terms of number of successfully funded projects (being 34,739, equivalent to 76.8% of total projects funded on Kickstarter). For its focus on financing art work, Kickstarter has even been labelled as the modern NEA (National Endowments for the Arts) by the *New York Times*. Overall these facts point out to a tight integration characterizing the creative industries and crowdfunding, which is unsurprising when considering that creative entrepreneurs have been amongst the very early adopters of modern crowdfunding. In fact, the first crowdfunding portal, founded in 2000 with the name of ArtistShare, was born to support the early work of musicians. As one can understand, the bond between creative industries and crowdfunding finds old roots.

### ***Problem Definition and Research Question***

The bond between creative industries and crowdfunding represents the starting point of my dissertation. Within the important field of creative industries, I have restricted the scope of my research on the music industry and its linkages with crowdfunding. Before starting the work, many questions aroused my interest on the topic: What is the role of crowdfunding within the music industry? What is its weight? How can crowdfunding change the music industry as a whole?

With these questions in mind, my interest then took a sharp direction towards that specific stakeholder group in the music industry that, amongst all, has pioneered

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(and benefitted from) the use of crowdfunding, musicians. In fact, since early stages, musicians have played a primary role in crowdfunding. As one understands by considering the analysis of crowdfunding in the work, musicians have been directly involved as one side of the crowdfunding game. My research attention focuses on the role played by crowdfunding in fostering entrepreneurship amongst musicians. Especially I have been particularly thrived by exploring the paths raised by the following questions:

Does crowdfunding enhance musicians businesses? Does crowdfunding make it easier for musicians to find the necessary financial resources to expand their production activity? What is the weight that musicians attribute to crowdfunding when it comes to map a business strategy? How strategically relevant is crowdfunding for musicians? Is crowdfunding emerging as a relevant financing tool alternative for musicians?

I have sought to answer these questions by conducting my research in three Nordic countries (Denmark, Norway, Sweden) where crowdfunding portals have met and served the needs of musicians. Hence, after having clearly outlined the scope of my research also on a geographical point of view, I formulated the following research question:

***What is the impact of crowdfunding on musicians' business in the three Nordic countries being Denmark, Norway, Sweden?***

By formulating the research question above, in first place I sought to understand how crowdfunding can produce value to musicians and help them to enhance their business. In a second stage, the research question of this work has encouraged me explore the extent to which crowdfunding can establish itself as a relevant and sustainable financial channel for musicians. Finally, I sought to investigate whether or not crowdfunding implies different impact depending on the type of musician who resorts to it.

### ***Contribution of the thesis***

Starting from the end of the 90's, the changes brought by the Internet have inexorably shaped a new scenario within the music industry. For long –and still nowadays– it has not been clear how musicians could have adapted to such a new environment. In particular, musicians have found hard time to identify specific business models that could properly work and fit the new scenario (Stone, 2009). Within a turbulent industry such as the music world, crowdfunding is increasingly emerging as a solid ground for musicians and composers.

Through my work, my primary goal has been to shed lights on the positive effects that crowdfunding can generate on musicians and their music production activity. By analyzing the impact crowdfunding has on musicians of different kind, I hope to contribute by providing a clearer understanding on how crowdfunding can be strategically used by musicians to promote their work.

As musicians constitute the main target audience for this work, I am particularly focused on their point of view. By looking at the crowdfunding phenomenon from their eyes, I seek to discover new paths that musicians can test in order to develop business models that better fit with the new industrial settings. In a second stage, I aim at exploring the innovative character of crowdfunding as a form of financing music. I am particularly concerned to shed lights on whether crowdfunding can become a sustainable form for financing. In this sense, I sought to contribute by applying Christensen's theory of disruption innovation to the crowdfunding phenomenon analyzed as a creative financing tool to obtain funds for music production.

### ***Limitations of the thesis***

Readers of this work should be aware of its limitations.

The first limitation is given by the small sample size used in the interviews. The data used for this study are mined from a set of three crowdfunding platforms and ten musicians. The crowdfunding and music reality offers a much richer picture that this study can not possibly capture. Hence, results gotten from this research can not be easily generalized in order to explain the patterns and consequences entailed by crowdfunding on the population of musicians at large.

The second limitation stems from the high degree of diversity which characterizes the interviewees sample composition. Because interviewees highly vary under

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many aspects (ranging from the type of music produced to the artist level of popularity), crowdfunding entails different scenarios depending on the type of musician considered. Hence, it is important to be careful in handling the results gotten from the research and claiming its validity across every type of musician.

The third final limitation stems from the level of subjectivity characterizing the work. In fact, the author has posed great emphasis on studying the beliefs and behaviours of individuals, that are highly embedded in the context where the analysis has been conducted. Hence, given the subjectivity of the work and the author's focus on the point of view of the participants within this study, it is not easy to replicate the work's results to other, different context and dimensions.

### ***Personal Motivation for writing the thesis***

I have been highly fascinated by the impact that technology can have on a given industrial context. Depending on the use it is conceived for it, technology can have a sustaining or destructive effect. I have found the music industry as an exemplary case of this. In fact, the spread of peer-to-peer technologies posed massive challenges for those actors who had thrived by employing closed systems based on proprietary rights. Rather than fighting back innovation and defending old models that don't seem to fit anymore with the new reality, the exploration of new paths and business models is leading to some interesting ways to create and capture value in the music world. Crowdfunding may represent one of these new interesting ways forward, especially for the purpose of enhancing musicians' business and activity. Within the music industry, crowdfunding makes it easier for unexploited talent to emerge in ways none could have ever predicted. In fact, crowdfunding has the potential to foster a stronger relationship between musicians and fans. Contributing to a better understanding of this topic and the ways crowdfunding can enhance musicians activity is what motivated me the most to bring this work alive. Finally, I grounded the analysis of this work within the context of Denmark, Norway and Sweden. The reason I did this stems from the possibility to establish a direct contact with interviewees –something that has been feasible by attending my master year in Oslo.

## Music Industry Overview

Within this section I provide a description of the context that affects the work and activity of musicians. In first place I give a definition of the music industry. In a second stage, I illustrate the changes undergone by the industry in the last decade. Finally I provide a focus on the music industrial contexts of Denmark, Norway and Sweden.

### *Definition of Music Industry*

Defining the music industry is a hard task, especially due to distorting misconceptions that have old roots (Williamson & Cloonan, 2007). They argue that this occurred for several reasons. One is explained by the vested interests of associations, such as RIAA (i.e. Recording Industry Association of America) that sought to exercise a stronger bargaining power (Williamson & Cloonan, 2007) against governmental bodies. A second one is provided by media. A third even by academics (Williamson & Cloonan, 2007). In 1986 Laing warned of a “cultural imperialism” surrounding the definition of music industry (Laing, 1986). There are historical reasons for this: Adorno emphasized the “mass production” aspect of the industry, driven by the activities of recording companies at the beginning of the century (Adorno, 1990). From here, the implicit assumption that the music industry coincides with the recording industry. Laing (1986) warns that it has been simplistic to think of the recording industry and the music industry as the same concept. Therefore it is necessary to redesign a more holistic definition of the music industry (Laing, 1986).

According with Williamson and Cloonan (2007), such a distortion of the definition of music industry has become even more evident after the sales decline of record labels. Williamson also suggests that the music industry is structured in a set of competing realities, that may collaborate under specific circumstances, but that are also subject to strong competition amongst each other. That explains why Williamson and Cloonan (2007) have called these stakeholders of the music industry as “hostile brothers”.

Hence, for all these reasons, in the analysis of the music industry, I identify the definition provided by Bjerkøe and Sørbo (2010) as a very useful definition for the purpose of my work. By music industry it is meant the “[the industry consisting] of record sales (both physically and digitally), the remunerations

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collected and distributed by the different collecting societies, the live music market (concerts, festivals, etc), and state subsidizations and grants” (Bjerkøe and Sørbo, 2010:1-2). Thus, this thesis will not take onto consideration that important piece of the music industry composed by “musical ensembles, orchestras, operas, choirs, conductors, music teachers”. (Bjerkøe and Sørbo,2010:2).

### ***Brief Historical Overview of the Music Industry***

The music industry has been strongly affected by profound technological change involving the medium to deliver music, starting from the phonograph invention of Thomas Edison in 1877 until the adoption of Compact Cassette™, a format to play music that was ideated in the research labs of Philips, in the Netherlands, in 1979. Of particular importance for the purpose of this thesis is the period of time that goes from the end of the 1990s to present days. In 1998 CDs were by far the most adopted technologic medium in the music industry.

The digitalization of music characterizing the beginning of the millennium has been critical as it forcefully shifted the industry equilibrium (Kusek & Gerd, 2005). P2P (peer-to-peer) free file sharing of songs, as done through portals such as Napster, is one of the most renowned factors to have caused a strong decline in music physical sales (CDs) and, hence, a drain of profits for the record industry (Kusek & Gerd, 2005). This fact has mobilized record companies and large parts of the media to condemn P2P as a piracy practice and to act through legal channels. They relied on the practice of enforcing property rights in a context where music has been increasingly considered as public property and commodity. Nevertheless, record companies’ intermediary role in the music industry has also largely declined with the rise of download services music files such as iTunes by Apple. The introduction of iTunes in the market is particularly important as it legalized the spread of digital downloads by unbundling music albums and allowing users to pay for the download of every single music file.

Although record companies have experienced a sharp decline, it has been claimed that the music industry as a whole has benefitted after the introduction of the new technologies previously discussed. In fact, according to Kusek and Gerd(2005), “more music has been consumed over the past 5 years [from 2000 to 2005] than ever before even in the face of declining CD sales” (Kusek & Gerd, 2005:2). In *The Future of Music*, Kusek and Gerd (2005) go on claiming that a reason for this period of music flourishing is that given the technological advances in the last

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decade, nowadays many artists and recording engineers are now able to record high-quality albums from homemade studios, by using sophisticated equipment that was once too expensive to purchase (Kusek and Gerd, 2005). In other words, the technological progress has lowered the barriers to entry in the music industry.

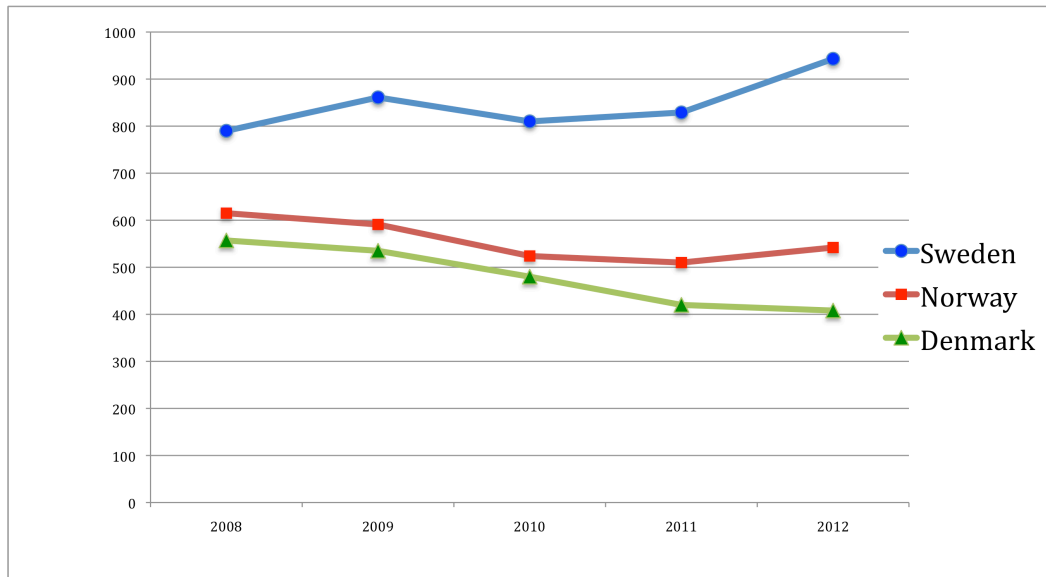
Graham (2006) argues that what has really changed after the Internet penetration in the music industry is to be found in the way value is distributed among the involved actors in the music industry. In particular, Internet technologies and applications have made artists and fans alike less dependent on the recording industry to create and distribute music. Increasingly, musicians have come to assume more control on their work to a point that often they can be “free from public relations, corporate conflict who can hinder unorthodox work” (Barabas, 2012:40).

Barabas (2012) asserts that the age of digitalization resulted in a considerable shift from a top-down approach established under record labels own terms towards a bottom-up approach dictated by artists and consumers alike, two figures that often get to coincide. Under this perspective, it is not surprising that more music is produced and listened. On this regards, it has been shown that “decreasing sampling costs not only lead more potential consumers to sample unknown music items, but also more consumers to buy music items that they have sampled” (and Bhattacharjeem, 2012:1529). The effects from this context is the rise of new business models and ways to extract value through music. The rise of online streaming services such as Soundcloud and Spotify represent a good example of this.

## *Focus on the Music Industry in Norway, Sweden and Denmark*

When analyzing the music industry in Norway, Sweden and Denmark, its trend reflects the general state of the industry occurred at a global level.

### Sales revenues in the Nordics

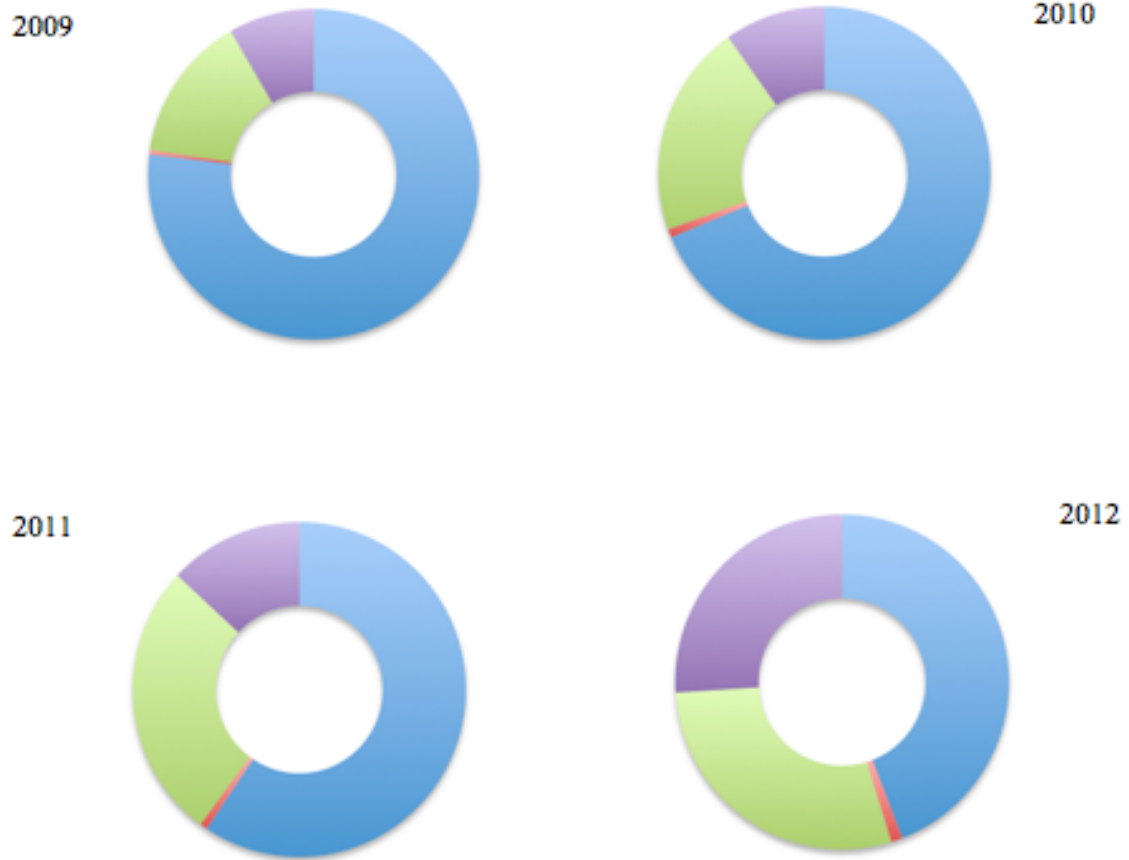


**FIGURE 1:** SALES IN MILLIONS OF DOLLARS FOR THE MUSIC INDUSTRY IN SWEDEN, NORWAY AND DENMARK. **SOURCE:** IFPI DENMARK, 2012.

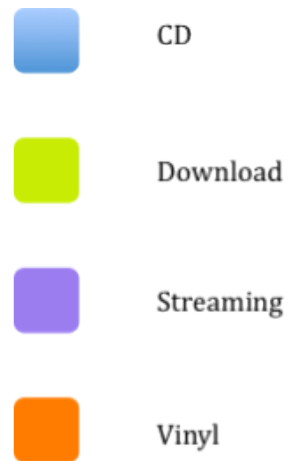
Starting from the beginning of 2000, music sales have sharply declined. Both the Norwegian and Danish market have shrunk in size, as it is possible to observe from the graph above (IFPI, Musik –Selskaber 2012, 2013). Amongst the three selected countries, only Sweden represents an exception, as it displays concrete signs of recovery, starting from 2010.

The main reason for the decline of the music industry as a whole derives from the massive plummet of CD's purchases, notwithstanding the more than proportional growth of digital sales.

By observing the categories of music sales in Figure 2, it is possible to verify the emergence of digital sales to the detriment of physical music. In fact, while streaming services (e.g. provided by Spotify or Soundcloud) and music file downloads (e.g. as provided by iTunes) have massively emerged, CD's and vinyl are becoming less and less important.



**FIGURE 2:** EVOLUTION OF SALES PER FORMAT FROM 2009 TO 2012



## *Musicians' Sources of Financing*

Because this work aims at studying the impact that crowdfunding has on musicians' businesses, it is important to provide a picture of the most important sources of financial resources that are at musicians' disposal.

As a result of an extensive research, musicians have access to a very limited range of financial channels for the purpose of pooling resources for the realization of a given investment (ranging from the recording of a music album to the purchase of equipment).

Contracting commercial loans from financial institutions like banks has been hardly feasible. The reasons are mainly to be found in the fact that it has been extremely hard for banks not only to predict but also to quantify demand (Wray, 2010).

As regards the seed capital industry, business angels and venture capital firms, have traditionally focused on different kinds of industries other than music, usually in ICT (Information and Communication Technology) and Biotech. For what regards venture capitals, at a global level only 1 out of 43 dollars flows into the music industry, and mostly in software-related startups rather than music bands (PricewaterhouseCoopers, 2013). Again, the reasons are to be found in the fact that returns on entertainment products are typically considered very erratic (Stone, 2009). The same applies for business angels investment preferences.

Reflecting a trend taking place at a global level, business angels in Sweden invest only 1% of their resources in the creative industries (entre for Strategy & Evaluation Services, 2012) Moreover, when this occur, the emphasis is generally on software-based start-ups, rather than on financing bands and musicians.

Record labels are among the very few suppliers of financial resources to musicians. By record label is meant a company managing the trade and commercialization of trademarks associated with music recording. While many differences exist in terms of size and market served, a good example of record labels is provided by the Warner Music Group. Record labels not only provide financial resources for artists to make the necessary investments for their business. In fact, normally they engage with musicians in contracts often known as "360°

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deals”, where record labels provide musicians also with marketing and advertising services, support for musicians’ touring and networking within the music industry. (IFPI, The future for record companies, 2007). In this way, record labels can free the artist from cumbersome managerial tasks.

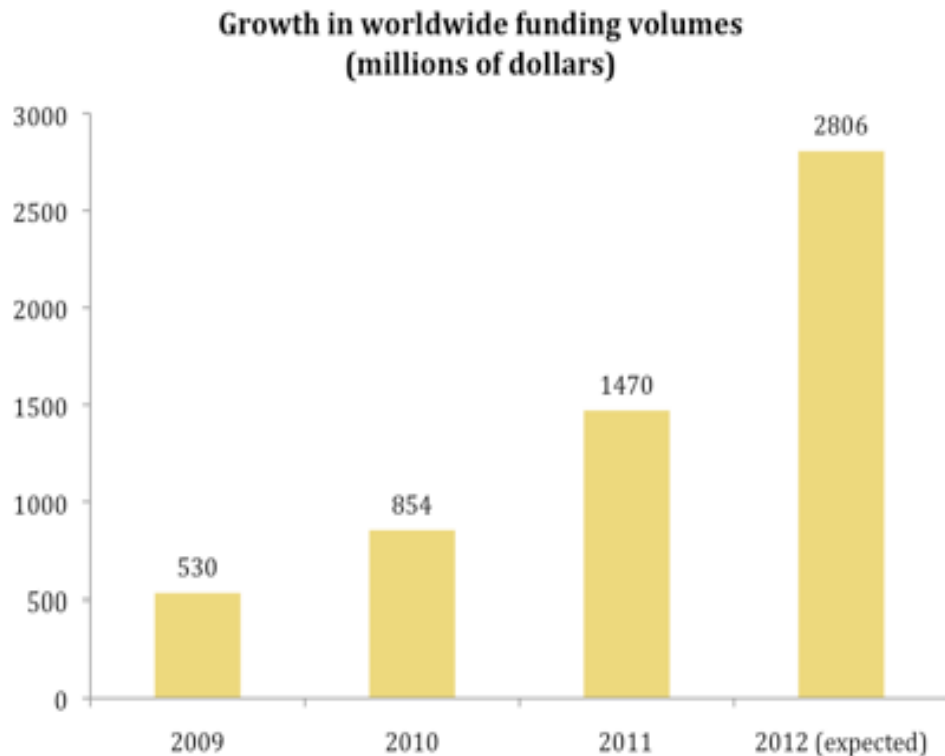
Nevertheless, it is crucial to state that in general only the high tiers of the market are served by record labels. That means that only artists with a high level of popularity can access to the expensive services offered by record label companies (Stone, 2009). Moreover with their wealth and power dramatically decreased in the last decade record labels had to become even more selective for picking musicians to launch (Economist, 2011).

In this context, it emerges a picture where only a tiny share of popular enough musicians’ have access to the financial support of a restricted group of record labels. Instead, for the purpose of making investments, most of musicians don’t get access to established financial channels and have to rely mainly on personal financial resources, as it is further explained later in the work.

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## Crowdfunding Overview

The crowdfunding phenomenon in its modern form can be traced back to Artist Share, a platform born out in 2000 with the objective of supporting musicians work through the help of enthusiast fans providing funds (Artistshare, 2013). Since then, crowdfunding has experienced a tremendous growth, as clearly disclosed in Figure 3.



**FIGURE 3:** GROWTH OF CROWDFUNDING FROM 2009 TO 2012. **SOURCE:** MASSOLUTION 2012 REPORT

### *Crowdfunding History*

It has to be observed that the act of collecting small amounts from a multitude of actors to pursue a project does not represent a novelty. The Church can be considered as an ancient precursor. Since its inception, the Church would collect small offers from its followers during (or after) the pray. Even the political world has been crowdfunding –at least in the western world. In the USA, by collecting small money amounts for their campaigns, Howe explains how crowdfunding constituted the “backbone of the American political system since politicians started kissing babies” (Howe, Crowdsourcing, 2008). The problem of crowdfunding prior its integration with the Internet is to be found in the difficulty

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of channelling financial resources from the crowd. In fact crowdfunding was feasible almost exclusively for large organizations such as the Church, that disposed of an extended and well coordinated physical network through which to channel funds. Nevertheless, as in many other areas, the Internet has been an important game changer and made it possible for new forms of financing, such as modern crowdfunding, to emerge.

### ***Antecedents of crowdfunding: Crowdsourcing***

Although the roots of crowdfunding as a fundraising tool date back to ancient times it is possible to frame the topic under a more recent theoretical background: crowdsourcing.

Simply stated, crowdsourcing can be defined as the act of “collecting contributions [i.e. the process of sourcing] from many individuals [i.e. the crowd] in order to achieve a goal” (Bradford, 2012: 27). One of the most cited examples that are used to grasp the fundamentals of crowdsourcing is Wikipedia, the largest collaboratively edited, multilingual, free Internet encyclopaedia in the world (Wikipedia, 2013). Wikipedia is based on the wiki, a software technology that fosters the collective effort of millions of users in creating, reviewing and eventually modifying encyclopaedic entries at any time.

Crowdsourcing as a term made its first appearance in 2006 with an article written by Howe in the Wired magazine and titled *The Rise of Crowdsourcing* (Howe, 2006). In the article, Howe’s main point is centred on the possibility to exploit underused talent, expertise and, more generally, content supplied by users through the Internet. To explain how such a result has been achieved, Kleeman and Voß (2008) refers to the development of the Web 2.0. By the neologism Web 2.0. is meant the combination stemming from an increase in the availability of broadband connections for a larger share of the population, coupled with the “emergence of applications made possible by numerous software innovations such as content management systems and ‘dynamic’ (as opposed to ‘static’) HTML programming languages” (Kleeman and Voß, 2008: 11). These innovations are often indicated with the label of social software, meaning that communication, interaction and collaboration among users all take place over the Internet. Thus, this combination between social software and an increased internet penetration has resulted in a constant rise of interactive and collaborative structures on the Internet. That is the

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cause for the growth of user-generated content. In such a context, users should not be considered as merely recipients of media content. On the contrary they now actively participate to the production of content in a vast array of activities (from blogging to uploading videos). It is in such a context that one understands the massive generation of content supplied by users, and hence the possibility to exploit underused talent in new creative ways (Howe, 2006).

Many firms and organizations are moving in the direction of “tapping into the crowd” and benefiting from the new scenario, where the customer is often co-creating value. Howe (2006) indicates the web stocking photo provider called IStockPhoto as an early pioneer of crowdsourcing. To see why, consider that IStockPhoto business model consists in leveraging on the efforts provided by a diverse community made of both professional and non-professional photographers who stock their pictures on the platform in exchange for small royalties, paid every time their pictures are used by other IStockPhoto customers. Howe argues that the abundance of unutilized talent derives from the “technological advances that invested many fields ranging from product design software to digital video cameras” and that consequently have broken down those “cost barriers that once separated amateurs from professionals” (Howe, 2006: 1) . Given such a scenario, “distributed labour networks are using the Internet to exploit the spare processing power of millions of human brains” (Howe, 2006: 1). In other words, platforms and networks such as IStockPhoto try to tap, or source, the “latent talent of the crowd” (Howe, 2006: 1).

While we have studied the dynamics favouring its development, how can crowdsourcing be defined, and what are its most important traits?

### ***Definition of crowdsourcing***

Kleeman and Voß (2008) provides a comprehensive definition of crowdsourcing through the following consideration: “Crowdsourcing takes place when a profit oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the Internet, with the intention of animating individuals to make a [voluntary] contribution to the firm's production process for free or for significantly less than that contribution is worth to the firm” (Kleeman and Voß, 2008: 6)

## **Features of crowdsourcing**

From the definition, several important elements characterizing crowdsourcing can be drawn.

### **Open-source on the Internet**

The open-source feature constitutes one of the key pillars of crowdsourcing. The main rationale lies in the fact that who wants to exploit the underused talent of the crowd necessarily needs to disclose information on the task to be done, or the “production process” that is asked to be achieved. This explains why Kleeman and Voß (2008) talk of an “open call” that is conveyed on the Internet, the latter being key in providing flexible and fast means for communication and collaboration among users. One other reason for crowd-sourcing to be open sourced is that it allows for the right individuals to perform a given task based on their willingness and field expertise. In other words the open-source trait enhances self-selection of the people who can solve a specific problem because it is of their specific competence. Overall, disclosing the details of a problem openly and freely is a factor favouring scalability, which in turn implies access to a large pool of people (and thus expertise). Hence, the larger the pool of individuals called to solve a problem, the higher the odds to find a solution for that problem. As simply stated by one of the most prominent amongst open source evangelists, Eric Raymond, “Given enough eyeballs, all bugs are shallow” (Raymond, 1999: 7).

### **Diversity**

The rationale standing for diversity is that the more diverse is group-thinking, the higher the odds to resolve a problem. For Brabham (2008) the composition of a crowd determines its efficiency in solving problems. Hence the more diverse the crowd, the more efficient it is to find solutions. This can be explained by several reasons. Weinberger (2012) asserts that (also on the Internet) groups of individuals who are homogenous in values and beliefs are more likely to shield against new and different ideas. One result is that such groups are less productive and creative when benchmark with the output produced by heterogeneous groups.

### **Decentralization**

The idea that specific tasks should be realized by that individual who possesses the highest level of competence and knowledge on the field is a necessary property of crowdsourcing, but is not a new concept. In *The Use of Knowledge in*

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*Society*, the economist and philosopher Hayken (1945) wrote: “Practically every individual has some advantage over all the others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation.” In other words, Hayken (1945) suggests that a decentralization of knowledge leads to the exploitation of that unique piece of information possessed by a specific individuals. Nevertheless, throughout history, societies have tended instead to adopt a centralization approach to knowledge, that meant creating environment, such as universities or R&D centres, where individuals sharing similar purposes would gather to combine their knowledge. To indicate this type of knowledge organization, Eric Raymond (1997) identifies the heavily managed, centralized method of organizing knowledge as the “Cathedral” approach. The Cathedral includes only a specific set of actors in the process of building knowledge, and in doing so excludes the others. Here coordination is achieved through a hierarchical structure for processing knowledge and decision-making. Knowledge is organized with a top down approach. As opposed to the Cathedral model, Raymond illustrates a different model of organizing knowledge: the “Bazaar”. As the name suggests, the Bazaar assumes a flat open structure, where everything is coordinated from the bottom. Even though this model was envisioned by Raymond to illustrate the divergence characterizing the software development industry, its validity can be extended to how knowledge and information are processed in general. With respect to the past, in fact, nowadays internet technologies have empowered the possibility to exploit and combine far remote knowledge residing in individuals through the use of online networks. That led author David Weinberger (2012) to label this approach as “networked knowledge”.

### **Benefits from Crowdsourcing**

A relevant question now is: why is an increasingly larger amount of firms and organizations resorting to crowdsourcing?

The whole concept of crowdsourcing would not find much support if it also did not add a substantial impact on the bottom line of those organizations that make a remarkable use of it. Howe (2008) argues that one benefit of crowdsourcing is to have a direct effect on either lowering costs, increasing revenues or expanding the

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range of innovations. In Howe's view, the main reason is to be found in the cost of labour when the job is provided by the crowd, rather than by internalization within corporate boundaries. That is why Howe states: "The labour [from the crowd] isn't always free, but [often] it costs a lot less than paying traditional employees". Kleeman and Voß (2008) states that costs savings occur through what is known as "customer outsourcing", which is a form of pursuing crowdsourcing. It implies transferring internal work processes from the company to the user/consumers. Kleeman and Voß (2008) summarize the potential benefits stemming from crowdsourcing:

1. *Co-creation*: when the consumer acts as "co-designer", that is, he contributes directly to the product innovation, by designing the product himself.
2. *Product improvement*: This occurs when the customer adds or implements new features to a given product/service crowdsourced from the company. In this case the customer is called "beta tester", and important achievements can be reached under a product quality perspective.
3. *Time-to-market*: crowdsourcing can speed up the process that goes from product development towards the effective launch on the market.
4. *Market acceptance*: if a product has been created or modified by those individuals who intend to purchase it, then its acceptance is more likely to be faster and larger.
5. *Market newness*: the newness perception for a specific product or service increases when this was the result of a crowdsourcing process.

### ***From crowdsourcing to crowdfunding***

Crowdsourcing is not only an antecedent of crowdfunding but also a more general contextual framework for the latter. According with this view (2010) crowdfunding can be considered as part of the more general concept of crowdsourcing (Schwienbacher and Larralde, 2010). The similarity appears evident from the terminology used. The strong bond between crowdsourcing and crowdfunding can be easily understood, if it's considered the fundamental mechanism of crowdsourcing explained in the previous section. The main difference is to be found in the kind of contribution that the crowd seeks to produce. While for crowdsourcing is generally meant a contribution in terms of

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skills and/or expertise, crowdfunding focuses on the contribution of a crowd in terms of financial resources.

Bradford (2012) has identified two antecedents that stem from relatively recent times: microfinance and crowdsourcing. From the combination of these two phenomena derives what is known as crowdfunding. While the concept of crowdsourcing has been extensively reviewed, let's focus on the second component: microlending.

Microfinance, also known as microlending, involves "lending very small amounts of money, typically to poorer people" (Bradford, 2012). Its practice has earned the attention of financial economists after the success story of Muhammed Yunus and the Grameen Bank. The latter has been the first banking institution specialized in practicing and disbursing microfinance loans. According with Bradford (2012), one important trait of microlending stems from the fact that is "primarily defined by the recipient, [i.e.] very small entrepreneurial ventures" (Bradford, 2012: 27).

With respect to microlending, crowdfunding is "primarily defined by the contributor, [i.e.] small contributions [pooled] from a large number of people to achieve a common goal" (Bradford, 2012: 29). Hence, according with Bradford (2012) view, crowdfunding can be seen as a combination of crowdsourcing and microlending for the fact that it occurs through "small contributions from a large number of people to fund small entrepreneurial ventures" (Bradford, 2012: 29), where by small contributions is meant small disbursements of money amounts.

### **Crowdfunding Definition**

A deepened knowledge on crowdfunding represents an important milestone for this work.

To this aim, Lambert and Schwienbacher (2010) provide a comprehensive definition, by extending the definition of crowdsourcing that has been previously formulated by Kleeman and Voß (2008). They define crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes" (Lambert and Schwienbacher, 2010: 4).

In general when analyzing the word "crowd-funding" it is possible to make a distinction between the term "funding" and "crowd" component. The former highlights the main function pursued by crowd-funding, that consists in the

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“provision of financial resources” collected from a group of individuals and directed to the ones that make an “open call”. In basic terms, the idea is to raise money through relatively small contributions from a large number of people and pool them together for the realization of a goal, which is normally identified as the “project” of the crowdfunding campaign. In this context it is reasonable to distinguish amongst fund givers, usually defined as “funders” (often indicated as crowdfunders or backers), and fund recipients. As it will be explained in more details throughout this work, there exist different types of “receivers” and “givers” who are entitled to different weights of benefits, rights, duties and rewards. This depends on the type of crowdfunding model employed by the platforms.

The second component stems from the “crowd” term. By crowd is meant a large number of people gathered together, typically in a disorganized or unruly way from which financial resources are pooled.

### **Crowdfunding today: How it works**

As it has been previously explained, crowdfunding consists in the collection of financial resources pooled from a large set of actors in order to pursue the realization of a project. But how does the process of crowdfunding take place in practice? As mentioned, different types of crowdfunding exist. Nevertheless a general sequence of steps common for all the types of crowd funding can be shortly described.

The process of crowdfunding begins with the request of an individual who seeks funds on a crowdfunding platform. Within such a request, the fund seeker normally specifies: the amount of financial resources needed, a description of the project for which money are intended to be used for. This implies disclosing not only information on a product/service and a business plan that the fund seeker intends to realize, but also a reward (monetary or non-monetary) that is promised to the potential investors. A deadline for the time valuable to receive funds, and a minimum threshold for the needed financial amount, are also stated. By browsing through the pitch listings published by the crowdfunding platforms, investors the project they are most interested in. Afterwards, the crowdfunding platform facilitates the financial transactions and communication venues occurring between seek funders and investors.

## **Types of crowdfunding**

In the last decade, five models of crowdfunding can be distinguished according with what is promised to be returned to the investors in exchange for their monetary contribution (Bradford, 2012). Moreover, a distinction can also be made by measuring the degree of control power exercised by investors.

### **Donation-based model**

As the name suggests the contributions under this model are in facts donations: hence no return (whether monetary or non-monetary) is promised to investors. According with an empirical study conducted by Belleflamme et al. (2012), 22% of all crowdfunding activities have resorted to this model. This study also highlights that most of the activities funded under this crowdfunding model are initiatives belonging to not-for-profit enterprises. Globalgiving.com is the largest platform using this model. It is also a pure donation crowdfunding platform and its services are excluded to business entrepreneurs.

### **Reward and Pre-purchase model**

These two models are similar in concept as the only difference between them stems from the nature of the compensation that is returned to the investor. For neither of them is expected a monetary compensation to the investor, that means, it does not offer interest or part of the earnings flowing into the funded project. The reward model requires entrepreneurs to give the investor a small gift, that often corresponds to a small gadget (such as a key chain) or something more symbolic like the investor's name on the credits of a musical video. Often the size of the perk varies according with the size of the investment. For example Dan Provost and Tom Gerhardt, who crowdfunded a tripod mount for the iPhone, would offer to dine with whoever would give them over \$ 250 (Kickstarter, 2013). The pre-purchase model is similar to the reward model: it requires investors to be entitled to receive the product or service for which the entrepreneur asked to be crowdfunded. According with Belleflemme et al. (2012), this type of model has been the most common in the crowdfunding settings. Often the two models are merged, as it happens for Indiegogo and Kickstarter, the leading platforms in this context.

**Lending model**

Also known as peer-to-peer lending, this type of crowdfunding involves the use of loans. Investors provide funds only temporarily, expecting repayment afterwards. According with what is expected to be returned to investors, this type of crowdfunding can be further divided in two sub-groups: lending crowdfunding where investors are entitled to receive only their principal back; and crowdfunding where investors also receive an interest earning in addition to their principal. As regards the former, Kiva.org constitutes the leading platform. This not-for-profit crowdfunding site allows investors to browse on its platform poor-countries entrepreneurs who need loans for their businesses. Then investors can submit loans up to \$25. Kiva field partners then make sure to take control on the flow of money and information taking place between borrowers and lenders. As regards interest-granting peer-to-peer, the American platforms Prosper and Lending Club represent the largest realities on the field. Both the platforms channel borrower payments and take 1% of the total (principal and interest) before passing it to the lenders.

**Equity model**

A share of the profits of the business funded one third of all crowdfunding sites that offered investor rewards also offered stock. In the United States, legal barriers make equity crowdfunding difficult to pursue. Unless investors are sophisticated and accredited, no publicly accessible equity crowdfunding can operate under the current legislation.

### **Benefits of crowdfunding**

The benefits of resorting to crowdfunding obviously centre around the key topic of fundraising money for a business or a project. Nevertheless, other less explicit advantages can result from this process, partly as a consequence of the hype generated by the movement of crowdfunding, and partly because crowdfunding is entrenched in the overarching context of crowdsourcing.

#### **Access to fundraising**

As it was stated, the Internet has strongly empowered the practice of crowdfunding. To understand that, it is important to review some inherent properties of the Internet. One fundamental change brought by the Internet is that it has considerably lowered transaction costs. For example it has lowered the barriers to form organized networks, whether these are forums, communities or marketplaces. In this context, an entrepreneur can “in real time and with no incremental cost sell [directly] to literally millions of potential investors” (Bradford, 2012: 10). At the same time, a given individual can ask a multitude of users to financially contribute to the realization of a project. Accessibility to a vast pool of investors for fundraising a project is thus one of the principal motivations that makes crowdfunding a viable tool for those entrepreneurs seeking alternative financial resources to fund their activities. As Bradford (2012) put it, “Anyone who can convince the public he has a good business idea can become an entrepreneur, and anyone with a few dollars to spend can become an investor” (Bradford, 2012: 10).

#### **Market validation**

Teigland and Ingram (2013) shed lights on the fact that, increasingly, crowdfunding serves as a tool to test demand for a product or service that the entrepreneur decides to crowdfund. In other words crowdfunding can underline the public attention and acceptance a given product may get, thus working as a signal for market validation before that product or service is effectively launched on the market (Larralde, 2012). Moreover a study conducted by Teigland (2013) suggests how some crowdfunding platforms in Sweden seem to shift their emphasis from fundraising towards market validation services. Finally, especially when it is based on a pre-purchase model, crowdfunding can serve as a tool to pursue a price differentiation on the product.

**Feedback**

Strictly intertwined with the previous point, goes the benefit of getting access to quick feedback from funders on features of a product (Lambert and Scwienbacher, 2010). When crowdfunding a project, entrepreneurs have a strong interest in spreading the word as much as they can in order to enhance the possibilities of hitting their targets for fundraising. To this end, an intensive use of social media represent an important interactive method (blogs, Twitter, Facebook or LinkedIn). Within this process, though, amongst other things, entrepreneurs will also be likely to establish a more direct communication with the crowd. Hence the possibility to receive feedback on those product features the crowd does or does not like.

**User-generated Marketing**

Many consider that crowdfunding can serve as a marketing vehicle. In fact, crowdfunding a project enhances the possibility to build a community sustaining the realization of such a project. The emphasis on marketing can be particularly pronounced when crowdfunding is equity-based. In that case, the project funders assume a vested interest in promoting the product they have invested in. In such cases, backers have the potential to become a ‘built-in marketing team’ or brand evangelists, hence helping to promote a given project to all their friends and contacts (Scott Steinberg, 2012).

Lambert and Scwienbacher (2010) argue that, given its novelty, crowdfunding may generate buzz around a product for which an entrepreneur has decided to crowdfund.

**Features of Crowdfunders**

Researchers have studied the factors that drive people to tap financial resources into projects.

While gaining a deep knowledge in this regard is not the principal aim of this work, it is important to briefly outline what is known on this important topic.

In first place it is important to specify that the motivations of crowdfunders vary in accordance with the crowd funding schemes adopted. In fact, a psychology of giving theoretical framework makes more sense when considering the reasons for people to invest in projects under a donation-based (or also a reward-based) model. On the other hand, such framework would not seem to properly explain

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the reasons for those individuals to fund business projects on equity-crowdfunding platforms.

Literature on what motivates individuals to pursue investments in crowdfunding initiatives is scarce. Nevertheless it is possible to shed lights on the topic by transcending findings on motivational factors in crowd sourcing,

Kleeman (2008) distinguishes motivations between intrinsic and extrinsic ones.

- *Intrinsic motivation*: By intrinsic motivation, “inherent tendency to seek out novelty and challenges, to extend and exercise one's capacities, to explore, and to learn [...] in the absence of specific rewards” (Harter, as cited by Ryan and Deci, 2000: 70). Although Kleeman (2008) used such notions to analyze the working consumer behavior in a crowdsourcing setting, it is reasonable to transcend some specific findings on crowdfunding. Thus, as regards intrinsic motivations to crowdfund projects, two factors seem relevant. One is given by what has been named as 'fun' and 'enjoyments'. With these terms, it can be meant the ability to play an active role in entrepreneurial processes (Harrison & Mason, 1992), although the definition has been originally devised for business angels and informal venture capitalists. Another factor consists in the sense of involvements that investors feel with the funded project, probably corresponding to control on decision making.
- *Extrinsic motivation*. As regards extrinsic motivation, Kleeman and Voß (2008) assert that the expectation to receive a financial return in exchange of the investment in the project may be the primary factor affecting decision-making. Although this is only a speculative attempt, extrinsic motivation may play a stronger role when it comes peer-to-peer and equity crowd funding.

Beside this categorization of extrinsic and intrinsic motivation, many other factors seem to influence the investment decision-making of crowdfunders. Amongst others, the size of the amount asked by the entrepreneurs and the communication strategy employed during the campaign may play relevant roles. In a study, Franke and Klausberger (2008) shed lights on the role of perceived fairness motivating people to crowdfund.

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Another important aspect to underline is that crowdfunding is part of the overarching context of crowdsourcing. In fact, beside providing financial resources, investors can also assume additional roles (Ordanini et al., 2011).

### ***Crowdfunding in Norway, Sweden and Denmark***

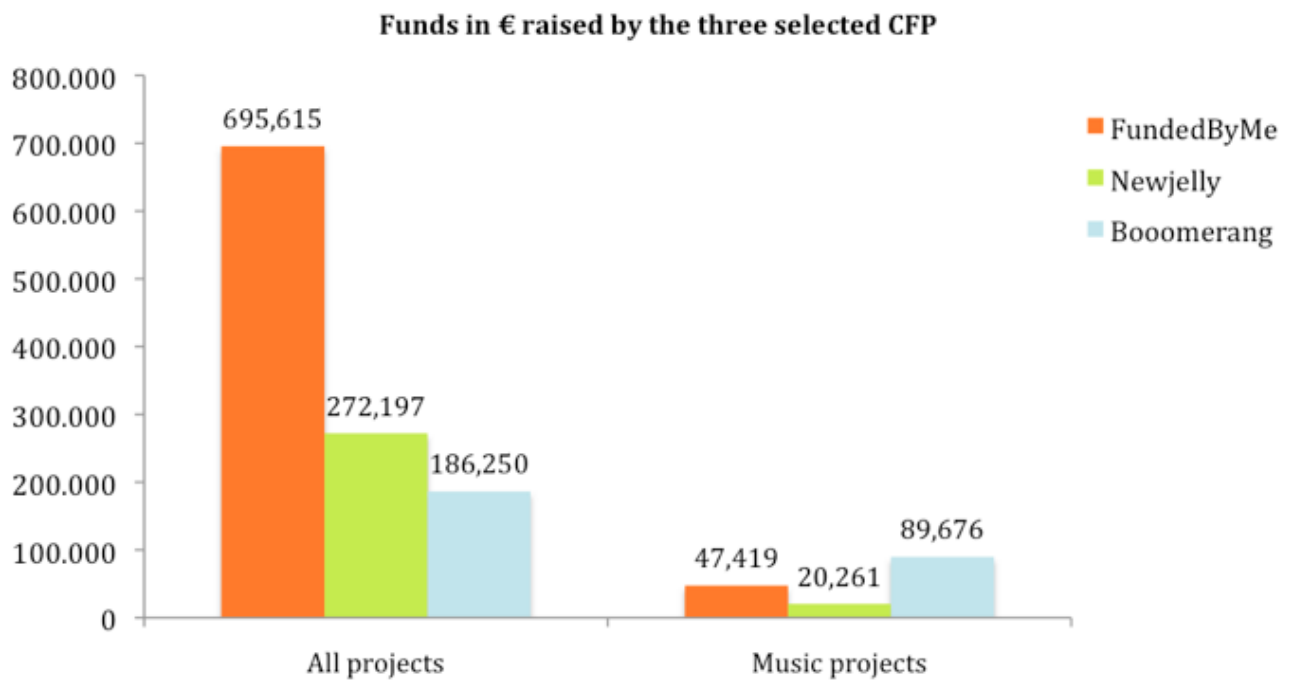
While the United States represent the largest market in terms of number of successful crowdfunded projects and collected amounts, crowdfunding is a diffused phenomenon also in Europe and in other parts of the world. The Scandinavian region has not been an exemption to the rise of crowdfunding. As crowdfunding portals are internet-based, Scandinavians had the possibility to start and fund projects since 2009 with the development of international endeavours such as Kickstarter.com. Nevertheless, in Denmark, Sweden and Norway, crowdfunding began to assume a local dimension only starting from 2011, with the birth of local crowdfunding platforms.

While crowdfunding has also become available for equity investments, the most diffused type of crowdfunding has largely been reward-based. In particular three crowdfunding portals have been recognized in the three countries object of this study: Newjelly.com in Norway, Boomerang.dk in Denmark and FundedByMe.com in Sweden. All the 3 crowdfunding portals function according with an “all-or-nothing” formula, that imply the return of a perk (or a product associated with the fund-seeker’s activity) promised to funders in exchange for their money. If the funds threshold for a given project is not reached within the pre-established deadline, the project will not be funded and all the monetary amounts that have been pledged up to that point are expected to be returned to investors.

In 3 years of operation, the platforms have collected an aggregated amount of € 1,152,812. Because none of the portals has specialized on a single category of projects, all of them spanned across a wide range of categories, varying from design artworks to tech-intensive products.

As far as music is concerned, the three platforms have helped to raise an aggregated amount of 156,00 €. Mostly local musicians resorted to crowdfunding. All of music projects aimed at the realization of an activity associated with musicians’ business: Examples range from an album recording to the production

and distribution of CD's and vinyl. For all of the projects considered, artists have promised investors the return of a perk or a product associated with their project. Among the three platforms considered, Boomerang collected the largest amount of funds for music projects. For each of the crowdfunding portals, Figure 4 shows the total raised amount for all the categories served by the portals, and the total monetary amounts for music projects.



**FIGURE 4:** COMPARISON BETWEEN FUNDEDBYME, NEWJELLY, BOOMERANG. **SOURCE:** FUNDEDBYME.COM; NEWJELLY.COM; BOOMERANG.DK

The three crowdfunding platforms considered above represent the main ground for my research focus. In fact, as already stated in the research question, I have directed my interest towards the understanding of crowdfunding influence over musicians' business.

The theoretical background in the next section will provide with the proper analytical ground in order to answer to the research question posed for this thesis.

## Theoretical Framework

In this section I describe the theoretical tools I have used throughout the work to support my analysis of crowdfunding as an emerging medium to finance creative start-ups and entrepreneurs. The theoretical framework described in this section can be divided in two main parts.

The first is based on the theory of Clayton Christensen on the dynamics of disruptive innovation. By building on this theoretical contribution, I aim at understanding the innovative nature of crowdfunding when it comes to provide financial resources to creative entrepreneurs.

The second pillar of the theoretical background revolves around value networks, and in particular on the theoretical contribution of Stabell and Fjeldstad (2009). I found this theory crucial to analyze the value configuration of crowdfunding platforms (often referred to as CFP). Studying value networks is important to understand how crowdfunding platforms create value for musicians.

### *Disruptive Innovation*

When the concept was introduced by Christensen in 1997, disruptive innovation (often known as disruptive technologies) indicated those “new technologies that came to surpass seemingly superior technologies in a [specific] market” (Markides, 2006). To achieve this result, it is important to review the underlying process of disruptive innovations.

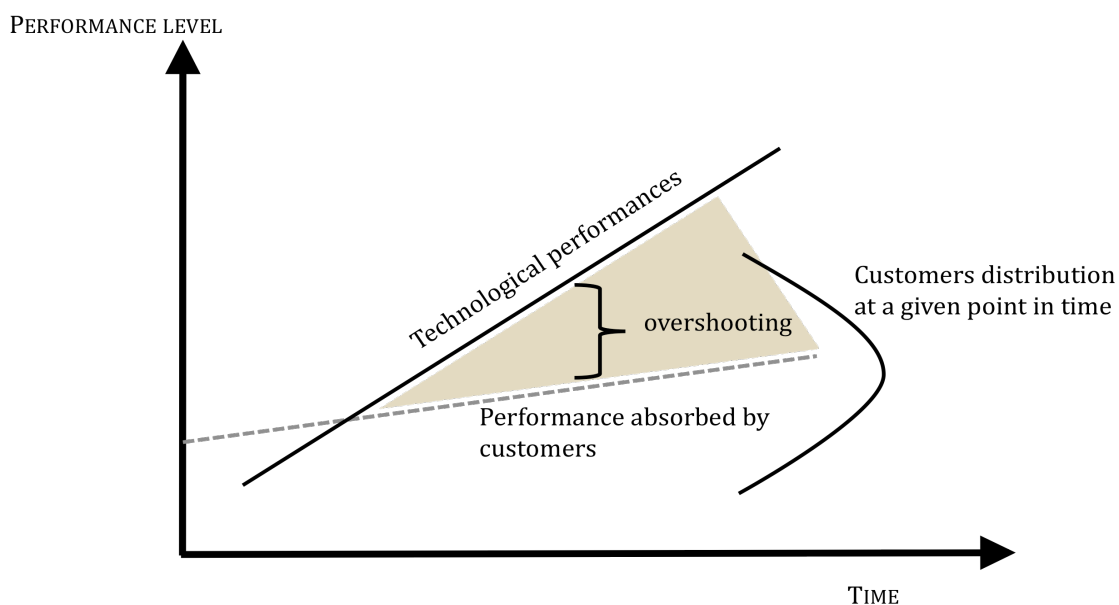


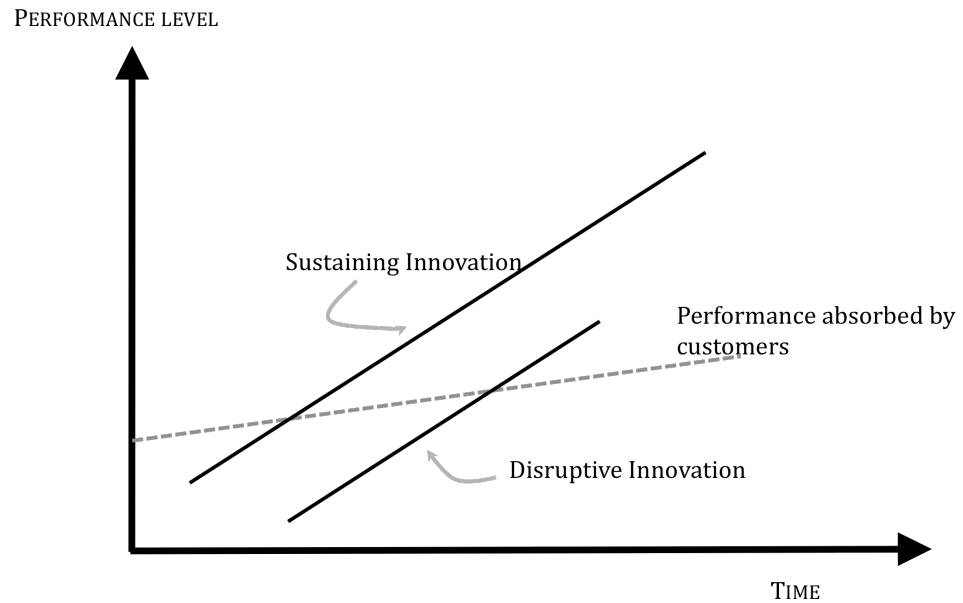
FIGURE 5: DISRUPTIVE INNOVATION MODEL. SOURCE: CHRISTENSEN AND RAYNOR (2003)

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To define disruptive innovation and how the disruption process is shaped, it is useful to recall the disruption innovation model described in three steps and illustrated in figure 5.

1. In first place, every market is characterized by a specific level of performance (plotted on the vertical axis in figure 5) that customers demand from a given product or service. The performance level differs among customer, according to what they need, or want, or can afford. Nevertheless, a median performance around which customers preferences are evenly distributed can be identified. In figure 5 it corresponds to the dotted line. Because it corresponds to the median value, the dotted line represents the performance level considered “good enough” by customers. The median rate slowly improves over time –with time representing the horizontal axis in figure 5. For example, in retail banking, in the long run depositors can increasingly expect to benefit from further services with the bank, such as an increasing availability for online services.
2. A second important step consists in the technological improvement of products. This occurs because companies constantly compete to provide additional features to their products. In other words, they keep on adding value to products. The technological improvement rate over time far exceeds what customers can absorb –i.e. median rate of performance required by customers. This generates an “overshooting” of technologies as soon as they exceed what the median customer requires (the overshooting is represented by the brown area in figure 5). An example is provided by portable CD players. In few years after their invention, CD players have evolved to a sophisticated state of development with applications much superior to what average customers were satisfied with.
3. The third step consists of the distinction between sustaining and disrupting innovations, which is illustrated in Figure 6. Sustaining innovations target high-end users of a given product/service at a given point in time. These users are the most demanding in a market, and usually the most profitable. One example is given by the technological firms served by venture capitalists (VC): such firms are normally the fastest growing ones. Hence business angels and VC companies allocate most of their professionals’ time and money. As previously stated, the term of competition of these firms to deliver higher value to high-end customers is to keep on providing

additional product features. While these kinds of innovations may differ in terms of who originated them (whether incumbents or new entrants), the result is always the same: targeting high-end customers with higher performance products. On the contrary, disruptive innovations consist in



**FIGURE 6:** SUSTAINING VERSUS DISRUPTIVE INNOVATIONS. **SOURCE:** CHRISTENSEN AND RAYNOR (2003)

products and services that don't present the performance level requested neither by high-end customers nor the market as a whole. In fact, disruptive innovations are appealing to low-end or less demanding customers. For them, the product is "good enough" in that it is simpler or more convenient or less expensive for an acceptable level of performance. In other words, they "redefine the technological trajectory within an industry" (Christensen, 2003:34). These products, normally introduced by new entrants who focus on lower profitable markets and niches, over time improve under a technological point of view and will increasingly be seen as more appealing by customers, to the eventual detriment of incumbents. The development of disruptive innovations is also favoured because incumbents are strongly entrenched in a business model, cost structure and resource allocation process that are built to serve the most profitable customers, i.e. high-end demanding customers. That also explains why incumbents normally find it hard to invest in disruptive technologies, that most of the times don't fit with the performance features required by the most profitable customers. This phenomenon characterizing the approach

of incumbents towards disruptive innovation has been identified by Christensen and Raynor (2003) with the term of “asymmetric motivation” and it is one of the most important topics at the heart of the innovator dilemma.

Once the concept of disruptive innovation has been defined, it is crucial to specify a distinction between low-end disruptive innovations, and new-market innovations. Similar in the effects they produce, low-end and new-market disruptions differ in the conditions under which they occur. Finding pure low-end or new-market disruptions is hard. Most often hybrid models possessing traits of both the types of disruptions occur.

### **Low-end disruptive innovations**

Low-end disruptive innovations consist of products and services that target the low-end part of a given market. These products are not as sophisticated and efficient as the products addressed to customers in the high-end of the same market. Their strength normally resides in the simplicity and low cost and they appeal to low-end customers as “good enough” products. The introduction of these products in the lower end of the market is often favoured by incumbents in higher tiers. Such a fact occurs because an increase in competition coming from the lower tiers of the market leads incumbents to increasingly focus on customers in the high-end of the market –who are the most profitable customers to serve. By moving upmarket, incumbents leave the least profitable customers to new entrants.

With technological progress, the products once introduced to serve the needs of customers in the low-ends of the market become more and more efficient and more sophisticated. In such a way, they start to become increasingly appealing also to higher demanding customers in the market. It is within this process that low-end products turn disruptive to incumbents who are often unable to react to such innovations, as previously described with the concept of asymmetric motivation.

### **New-market Disruptions**

Instead of targeting lower-end customers, new-market innovations target what Christensen and Raynor (2003) identify as “non-consumption”. By this term is meant a context where the fulfilment of a need of a specific class of customers is not met by any existing technology or product (Christensen and Raynor, 2003). This often occurs because customers lack the financial resources or competences to purchase or consume a product. When targeting non-consumption, new-market disruptions introduce new contexts for consumption and competition, as graphically illustrated in Figure 7 and incumbents may perceive no direct danger from it.

The picture gets problematic for incumbents once new-market innovations develop to a point where they become appealing, basing on their convenience or simplicity, also to customers served by incumbents.

Exploring the disruptive potential of crowdfunding as a vehicle to fund musicians has been important to produce concrete answers to the research question.

To this end, I have used the Three-Litmus Test, a theoretical contribution that Christensen and Raynor (2003) have developed to assess the disruptive potential of a given innovation.

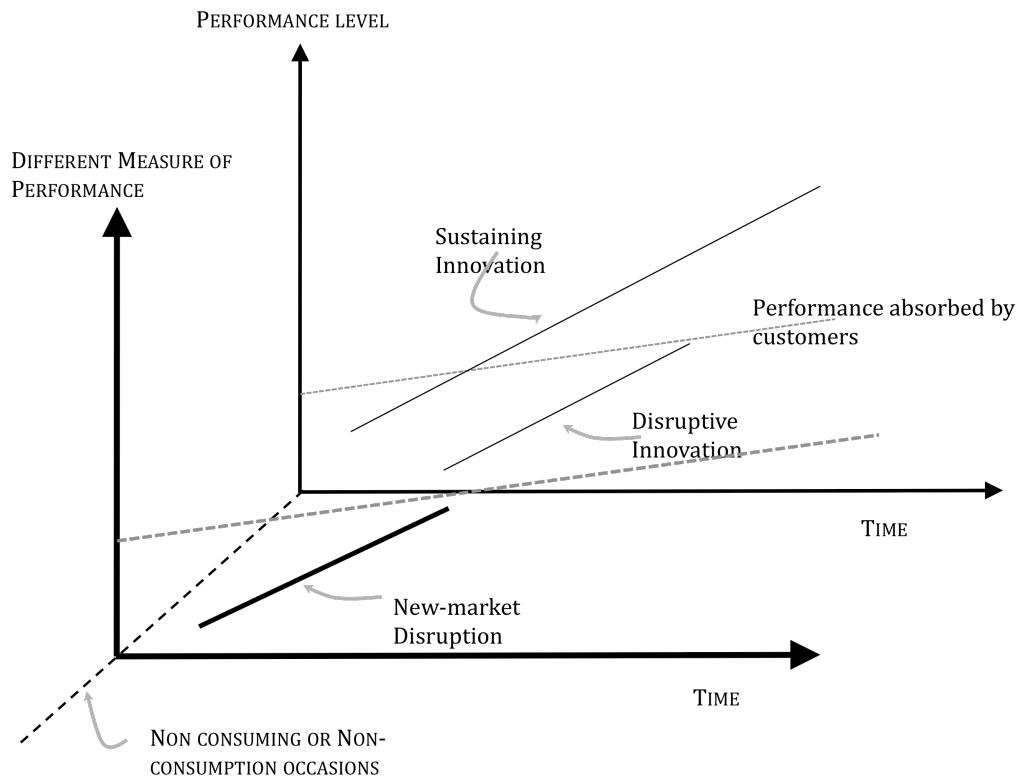


FIGURE 7: NEW-MARKET DISRUPTION. SOURCE: CHRISTENSEN AND RAYNOR (2003)

### Three-Litmus Test

To better comprehend the disruptive aspects of crowdfunding, a further analytical framework provided by Christensen and Raynor (2003) has been employed in this work. The Three-Litmus test, a set of questions that is useful to consider when analyzing the disruptive character of specific innovations, such as crowdfunding.

The next two questions are posed to assess to what extent an innovation is a new-market disruption:

1. “Is there a large population of people who historically have not had the money, equipment, or skill to do this thing for themselves, and as a result have gone without it altogether or have needed to pay someone with more expertise to do it for them?” (Christensen and Raynor, 2003: 49)

2. “To use the product or service, do customers need to go to a not convenient, centralized location?” (Christensen and Raynor, 2003: 49)

Two questions can also be considered to understand whether or not an innovation can be defined as low-end. These are the following:

1. “Are there customers at the low end of the market who would be happy to purchase a product with less (but good enough) performance if they could get it at a lower price?” (Christensen and Raynor, 2003: 50)
2. “Can we create a business model that enables us to earn attractive profits at the discount prices required to win the business of these over-served customers at the low end?” (Christensen and Raynor, 2003: 50)

A final question should be considered for the possibility to define a given product as disruptive.

“Is the innovation at stake disruptive to all of the significant incumbents in the industry?” (Christensen and Raynor, 2003:50).

## *Value Network Theory*

The theoretical contribution made by Stabell and Fjeldstad (1998) on value networks represents the second pillar of this section. With their contribution, Stabell and Fjeldstad (1998) provided three categories of value configuration models: value chains, value shops and value networks. The third of these value configuration models, value networks, have been essential to ground my analysis and to understand how crowd funding platforms create value for musicians.

### **Features of value network firms**

To identify how the process of value creation occurs within the context of crowdfunding, it is important to analyze in first place, the features that characterize value networks, according with what identified by Stabell and Fjeldstad (1998):

1. *Customers*. All firms' members are customers. Because value is created through the linkages and interaction of different classes of members, all of them are firm's customers.
2. *Linking*. Linking with customers can be direct, or indirect.
3. *Simultaneity of mediation activities*. Stabell and Fjeldstad (1998) state that the key mediation activities undertaken by the firm are performed "simultaneously at multiple levels" and that a "concurrent and layered set of activities is required to service efficiently a random need for mediation services between a large number of customers" (Stabell and Fjeldstad 1998:428). In other words, value network do not function in a linear pattern of incrementally building activities as it occurs with value chains. On the contrary, activities are undertaken concurrently, and the linkage of different members can occur at a random point in time, not in a sequential manner. That also means that, for the network to produce value, the activities undertaken for a class of customers can be performed concurrently to the activities pursued by other groups of customers. For example, consider what happens in crowdfunding platforms: Before transferring funds to fund-seekers, the latter should in first place upload virtual content explaining what motivates him/her to make an open call to the crowd. Afterwards funders can apply to transfer funds. In the meanwhile, further communication activities may take place between the

members' categories. During this process, crowdfunding platforms simultaneously undertake actions to attract and retain in their network potential funders on one side, and fund-seekers on the other. Such actions must take place concurrently so to provide mediation services between customers.

4. *Standardization of interfaces.* When setting up an infrastructure, standardizing interfaces facilitates the mediating role of the firm. The higher the standardization, the more definite will be the scope of the activities that can be undertaken by the firm's customers. For example, generally crowdfunding platforms pursue a standard initial screening process to users that land on their website, in order to qualify on whether they are fund-seekers or investors, the two distinct categories within which members can operate. In conclusion, a standardization of actions and processes is necessary to enhance monitoring and matching within the value network.

### **Activities**

Stabell and Fjeldstad (1998) identify two distinct sets of activities undertaken by a value network firm: primary and support activities.

#### **Primary Activities**

Firms that are configured as value networks normally present the following primary activities that coincide with the working of the network itself.

They can be further divided as follows:

1. *Network promotion and contract management.* These are activities that consist in attracting actors to join the network, selecting the proper ones, teaching them how to use the network and how to benefit from it. A greater level of commitment between mediator and customers implies a more extensive contract (or contracting processes). Consider the crowdfunding industry: in general, a contract for a music band asking a few thousands of euro on a reward-based crowdfunding platforms is far less complex (and costly) than the one necessary for a software developer start-up seeking several millions of euro on an equity-based crowdfunding platform.
2. *Service provisioning.* These are activities that consist in "establishing, maintaining, and terminating links between customers and billing for value

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received” (Stabell and Fjeldstad, 1998). Establishing links can take place at a synchronous or an asynchronous level, or both. In crowdfunding service provisioning activities include the transfer and billing of funds from one side of the customers to the other, and the filing of contracts within national security agencies.

3. *Network Infrastructure operation activities.* These are activities that consist in maintaining and running a physical and information infrastructure. For crowdfunding platforms the most important infrastructure revolves around the website configuration with the software and servers storing information, all bundled with the service payments (normally supplied by external actors).

Stabell and Fjeldstad (1998) argue that “the three primary categories overlap in order to underline the concurrent interactivity relationship” (Stabell and Fjeldstad, 1998: 430). They constitute the basis for participants to exchange transactions, hence creating value. In the figure representing general crowdfunding platforms, they are graphically depicted as overlapping. Moreover, as opposed to what happens in value chains, no specific direction for activities to occur has been set up. That is so, partly because of the simultaneity of actions occurring, and partly because there’s not one single customer class where to direct activities but more than one. A key factor for primary activities to occur relies in the mediating technologies, that enhance interaction among customers (Thompson, 1967)

### **Support Activities**

For value network to further develop and compete, several support activities are undertaken:

1. *Network infrastructure development activities.* These are activities aimed at “designing, developing, implementing” and, hence, improving the network infrastructure. For example, for crowdfunding platforms, these activities are performed by the constant effort of software developers and designers to improve website features (such as interfaces) or accelerate speed for transactions to occur among the parties.
2. *Service development activities.* These activities are aimed at modifying and adjusting customers’ contract terms.
3. *General administration activities.* These consist in procurement, human resource management, information management system and financing.

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**Driver of costs and value**

Fjelstadt and Stabell (1998) identify several factors that influence value creation in value networks:

- *Scale.* A value networked firm is subject to what Katz and Shapiro (1985) identify as positive network demand side externalities. That implies that the value perceived by each customer increases with the number of total customers. This is extremely evident in social networks. Ceteris paribus, a customer may find attractive to join, if a substantial amount of peers is already participating actively on that platform. Therefore an additional customers increases the overall value of the service.
- *Composition.* Composition is crucial for the networks' process of value creation, if the composition of customer is balanced. If the share of a specific set of customers is disproportionate with respect to another different (but complementary) set of platforms' customers, then value creation is harder to pursue.
- *Capacity utilization.* That corresponds to the level of output produced against the total quantity that can be potentially produced if all productive resources were employed. In other words, it implies the volume of transactions that a value network can handle. Value networks firms must be very careful in expanding the network beyond what they can afford. In fact, if higher utilization rates guarantee a decrease of unit costs, it may also imply a decrease in service (Bryman & Bell, 2007) quality.
- *Learning.* By learning is meant the potential positive externalities affecting different activities. This can be observed in banking as suggested by Fjeldstad: credit qualifications can improve (or worsen) monitoring activities and vice versa (well executed monitoring can produce more detailed information for future credit qualifications).
- *Vertical Scope.* Often to perform mediating activities in value networks, coproducing with other firms may be required. Here vertical scope refers to the degree of control that firms employ activities of co-production for the service to function.
- *Horizontal Scope.* Costs and values can vary also according with the size of customer segments served by the value network. The higher is the range of customers served, the higher is the horizontal scope within a value network.

## Methodology

### *Research Strategy*

Bell and Bryman (2007) underline the importance of research strategy in what they identify as a “general orientation to the conduct of a business research” (Bell and Bryman, 2007: 52). The authors also provide a distinction between two main research strategies that researchers can utilize –that are, qualitative and quantitative strategies. While it is hard to draw a line, the research strategy adopted throughout this work is of a qualitative kind. According with McMillan (1996), assuming a **qualitative strategy** will tend to “emphasize a phenomenological view in which reality inheres in the perceptions of individuals” (McMillan and Weyers, 1996: 40). This reflects many features of this work. First, this work analyzes the points of view of a certain category of actors who have been studied. Second, it brings the focus to a micro component, in order to understand “small scale aspects of social reality” (Bell and Bryman, 2007: 431). Third, the data mined by the author will be rich, detailed and gotten through an unstructured approach, which fosters researchers to discover and deepen emerging issues, as the work progresses.

### *Research Design*

A research design is key when conducting a research. It represents the general “framework or blueprint for conducting a research project” (Malhotra, 2007: 64). Defining its character is fundamental and has a strong impact on the development of a project. In particular, “it specifies the details of the procedures necessary for obtaining the information needed to structure or solve research problems” (Malhotra, 2007: 64). Bell and Bryman (2007) provide a similar definition: they identify the research design as the general “framework for the collection and analysis of data” (Bell and Bryman, 2007: 443).

The research design should be defined basing on the objectives the researcher has posed for his (or her) investigation. According with Malhotra (2007), a research design can be of three kinds: exploratory, descriptive or causal. Once defined, the research design is critical as it provides guidance for the kind of information needed, the techniques to collect and measure data and the characteristics of the sampling process.

The explorative research design is suggested when a researcher aims at shedding lights on “phenomena that are inherently difficult to measure” (Malhotra, 2007: 69). An explorative design suits well with the research objective set for this thesis. In fact, the impact that crowdfunding has on musicians’ business and activities is indeed a phenomenon difficult to measure. Moreover the exploratory research design is suggested to “obtain some background information where absolutely nothing is known about the problem area” (Malhotra, 2007: 72) and also where “the researcher does not have enough understanding to proceed with the research project” (Malhotra, 2007: 72). This feature also fits the case of this dissertation: although an increasingly higher amount of research constantly grows on crowdfunding, still little is known on the impact that the latter generates on musicians’ business.

When an exploratory design is set for a research, pursuing “structured questionnaires, large samples and probability sampling plans is rarely involved” (Malhotra, 2007: 72). Hence, as it will be described in more details in the rest of this section, I have resorted to employ small samples that enhance insight and understanding into a phenomenon of my interest. Furthermore, when setting an explorative research design, the methods employed by the researcher should be flexible and versatile because “the focus of the research may shift constantly as new insights are discovered” (Malhotra, 2007:72).

### ***Data Collection***

The data used throughout this work is both of a primary and a secondary kind. Primary data has been collected exclusively through the use of semi-structured interview. Secondary data has been taken from a wide variety of documents, such as public documents.

### ***Semi-structured interview***

The research question has been set on loose terms so to allow a margin for exploring relevant topics that emerged in the development of the work. This emphasis on generality, coupled with the focus on deriving participants’ own perspectives, led me to choose interviewing as the most opportune method to use in this work. That explains why I adopted a semi-structured interview method. While I had depicted specific areas where to concentrate my research efforts, I

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also felt to let ample space for interviewees to freely talk on subjects where I did not possess a deep knowledge.

On one hand, the interview process was conducted in a flexible format. In fact, I didn't use a fixed sequential pattern of questions in the interviews. Some questions have been asked in occasions where interesting topics would emerge. On contrast, most of the questions presented a similar wording.

Supported by what advised by Bell and Bryman (2007), I also conducted a set of preliminary interviews for the purpose of improving the quality of questions, and for the purpose of extending or reducing the scope of the topics under investigation.

### **Criteria for evaluating qualitative research**

Guba and Lincoln (1994) identify trustworthiness and authenticity as the main criteria in order to measure the reliability and validity of a qualitative study. I have guaranteed authenticity by fairly illustrating all member's study different view points. As regards trustworthiness, it can be de-composed among the following elements:

#### **Credibility**

With this, researchers should guarantee that a social reality as studied through a qualitative analysis can be investigated from multiple perspectives. For this purpose, I utilized multiple methods: beside making use of interviews, I also accessed and consulted documents from online sources provided by third parties.

#### **Transferability**

Transferability corresponds to the degree of extending the study findings across different realities. I aimed at guaranteeing transferability of results, by seeking to provide rich accounts of the culture of music industry and the rising crowdfunding movement. In other words, my goal here has been to provide what Guba and Lincoln (1994) indicate with the term "thick description", that corresponds to an intense and rich analysis of a particular context.

Dependability consists in the possibility to validate findings by ensuring substantial records of the research process. I maximized dependability by reporting some transcripts of the interviews and other sources in an accessible manner.

**Confirmability**

Confirmability implies a lack of personal bias of the researchers towards the work findings. I ensured that, by separating the analysis I have been conducting from potential personal values and theoretical inclinations that could bias the work.

***Documents as sources of data***

As Bryman and Bell (2007) have suggested, business researchers are entitled to use a wide variety of data “[that] have not been produced at [their] request”, and that hence can be considered as secondary data.

In my work, I have extensively used a set of industrial reports released by collective societies (such as IPFI) and a wide variety of research firms (such as Massolution and Crowdfunding.org).

**Criteria for quality of documents as sources of data**

When searching for documents I accounted for three criteria that Scott and Garner (2013) identifies as crucial when drawing good quality data from secondary sources.

- Authenticity: I made sure that the data I collected was genuine and of unquestionable origin.
- Credibility. I guaranteed that the data I drew was free from mistakes, or distortions or potential bias of the author.
- Meaning. I assured that the data I drew were clear, comprehensible and understandable.

## Interviews

Within this section I first provide a brief description of the interview process, by focusing on the methods employed.

Secondly, I describe the stakeholder groups that have been involved in the interviews rounds.

Thirdly, I explain the rationale surrounding the questions used in the interviews rounds.

Finally I provide a review of the results got from the interviews.

### *The interview process*

The use of interviewing proved to be a proper research method for gaining meaningful insights on the impact of crowdfunding on musicians business.

The interview process has been structured in two main parts.

The first part consists of the identification and selection of the most appropriate candidates for the interviews. The second part is aimed at formulating the key questions to ask during the interview rounds.

With respect to the first part of the interview process, I first had to gain a more deepened knowledge on two main subject areas: the music industry and the crowdfunding movement in Norway, Sweden and Denmark. At a later stage, it has been essential to restrict the attention to musicians, who provide the main linkage between the music industry and crowdfunding.

One issue emerged at the beginning of the work: which category of musicians could be the most appropriate for my research? A starting point to answer this question has come from an article published by Ingeborg Volan on Socialmedianordic.com titled “*Crowdfunding enters Scandinavian cultural scene*” (Volan, 2011). Not only it revealed to be useful as a basis to shape a more precise representation of the crowdfunding reality in the three selected countries, but it also gave me the opportunity to reach the author of the article –Ingeborg Volan, a strategic media and public relations specialist in Norway. Meeting the author has been fruitful for several reasons. First, I managed to gain a clearer map of the largest crowdfunding platforms in the Scandinavian region. Second, I achieved a more accurate understanding of the current challenges shaping the industry. Third,

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from this meeting it also became clear that the most appropriate categories of interviewees for my interviewees should have come from two main sources. The first source consisted in that specific category of musicians who had successfully used crowdfunding as a tool to rescue financial resources for their businesses. Basing on their experience, this type of actors would have provided me with the proper insights to shed light on the impact of crowdfunding on the music business. The second source consisted of crowdfunding platforms owners (selected from the three Nordic countries). In fact, they provided me with a good source of information to understand how crowdfunding portals set strategies to positively impact the work of creative entrepreneurs, such as musicians.

With respect to the second part of the interview process –formulating the right questions to ask– instead, my strategy has been two-fold: on one hand, I extensively researched on the music industry, the changes that have impacted its trajectory at a global level and then also on the selected countries studied throughout this work. For this purpose, it has been useful to collect secondary data from industrial associations (in particular IFPI –International Federation of the Phonographic Industry) that helped me to form a bigger picture on the music industry evolution. This gave me a macro-overview on the music industry. On the other hand it was important to get meaningful insights at a micro-level. Thus, I conducted 3 preliminary interviews with selected musicians who crowdfunded in Norway, Denmark and Sweden. The preliminary interviews were conducted in an informal way. The author explained the research objectives behind the thesis work and sought to understand, together with the interviewees, what issues would have resulted as the most relevant in the interview rounds. Through these talks, I gained a more comprehensive understanding on the challenges faced by musicians, their daily activities and the factors that led them to consider crowdfunding as a valuable option.

Beside musicians, I interviewed a manager from Koda.dk who preferred to stay anonymous. Koda is a collective rights management society in Denmark, whose main goals are to ensure that artists can enforce property rights on the music they produce. The interview with Koda's manager proved to be extremely important in order to gain deeper knowledge on artists' business and most important needs.

As regards crowdfunding, it has also been important to get a more deepened overview on crowdfunding. For this purpose, I managed to interview Lasse

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Mäkelä, founder of an Helsinki-based equity-crowdfunding platform with an operative branch in Denmark. Although Invesdor, Mäkelä's platform, has not served musicians, this interview has been important to some long term considerations on crowdfunding and gain a bigger picture on the issue.

### ***Interviewees Description***

Given the novelty around the context where crowdfunding is linked with the music industry, I aimed at gathering as many points of view as possible in the interview process. Overall I have been conducting interviewees with 11 individuals, characterized by different backgrounds and belonging to different categories of actors both in the music and the crowdfunding industry. The linkages between these two industries has been the main focus of this study. Here I will briefly describe the categories of interviewees that I selected for the interview rounds.

#### **Musicians**

Musicians are the ones that generate the product: music. In my study, this group has been key. They are the ones directly involved in the creation of linkages between the music industry and the crowdfunding context. For this it has been crucial to question them on their day-to-day activity; the goals they have set for their activity; the costs they have to stand and their revenue sources. Moreover, in order to consider the high variety characterizing the music industry, it has been very important to widen the range of interviewees and embrace the variety characterizing the industry. That explains my choice to diversify my interviewees base from small single unknown composers to medium-large popular bands, such as the Sømændene in Denmark. It has to be noted that I decided to focus exclusively on artists and musicians who have resorted to crowdfunding activities at least in one of the three selected Nordic countries and that managed to be successful. Within this selected group, musicians highly differed in terms of type of music produced and popularity.

For the selection of the proper candidates to interview, I have considered two main parameters:

- Candidates must have gone through a crowdfunding campaign in at least one of the crowdfunding platforms from either Norway, Sweden or Denmark.

- Candidates must have crowdfunded a project associated with their activity of music production.

Overall, I have contacted a total of 30 musicians that complied with the parameters I had set for the interview rounds in the research.

Among 30 musicians, 10 have been selected from the Norwegian crowdfunding platform (Newjelly.com), 10 from the Danish crowdfunding platform (Boomerang.dk), 10 from the Swedish crowdfunding platform (FundedByMe.com). Due to time constraints and difficult schedules to comply with, only 11 of the 30 musicians have given their consent and availability for an interview.

### **Crowdfunding Platform Owners**

Beside musicians, I considered it important to gain insights also from the side that in the process of crowdfunding provides the service, hence crowdfunding platforms operators. In Norway, Sweden and Denmark, I have identified a total of three crowdfunding platforms that supported crowdfunding campaigns for music projects.

1. NewJelly.com from Norway
2. Boomerang.dk from Denmark
3. FundedByMe.com from Sweden

I selected the sample for crowdfunding platforms owners, by trying to reach either the enterprise founders or employees at managerial levels. Reaching out managers or founders of NewJelly.com has been impossible: notwithstanding the numerous attempts, no reply has come from this source. Interviewing potential candidates from FundedByMe proved to be unfeasible due to incompatibilities for a possible meeting with managers or the founders.

Eventually, it has been possible to reach and interview Michael Eis, owner and founder of the major crowdfunding platform in Denmark, Boomerang.dk.

### Selected sample of interviewees among musicians

Table 1 illustrates a description of the 11 candidates that were interviewed.

Candidate Label	Type of musician	Amount raised (€)	Platform	Investment Type	Number of members	Year of the CF campaign
Artist #1	Band	175.000 dkr =23.473 €	Boomerang.dk	Recording album	8	2011
Artist #2	Solo Artist	15. 000 dkr =2012 €	Boomerang.dk	Recording song	1	2013
Artist #3	Solo Artist	26165 dkr =3510 €	Boomerang.dk	Manufacturing CD's	1	2013
Artist #4	Solo Artist	5545 dkr =745 €	Boomerang.dk	Purchase equipment	1	2013
Artist #5	Solo Artist	17976 skr =2090 €	FundedByMe	Purchase equipment	1	2012
Artist #6	Solo Artist	15000 dkr =2012 €	Boomerang.dk	Recording Album	1	2012
Artist #7	Band	10300 dkr =1381 €	Boomerang.dk	Touring	5	2012
Artist #8	Solo Artist	8550 nkr 1090 €	Newjelly	Recording Album	1	2012
Artist #9	Band	19054 skr =2215 €	FundedByMe	Recording Album	5	2011
Artist #10	Band	13100 skr =1523 €	FundedByMe	Touring	6	2013
Artist #11	Solo Artist	55300 dkr =7417 €	Boomerang.dk	Recording album	1	2012

**TABLE 1:** INTERVIEWEES DESCRIPTION TABLE. **SOURCE:** AUTHOR'S INTERVIEWS PROCESS

The table reports artists' names according with the order they were interviewed.

For each band contacted, I interviewed only one member.

Amounts raised through crowdfunding campaigns have been reported both in the countries national currencies (Swedish kronas=skr, Danish kronas=dkr and Norwegian kronas=nkr) and in common unit (€ euro). The conversion from national currencies to euro (€) has been done at July 28<sup>th</sup> 2013.

In the fifth column of the table, the label "Investment Type" refers to the kind of investment for which the musician had pursued a crowdfunding campaign.

## *Anonymity*

Several musicians among the interview participants have claimed to prefer to remain anonymous, hence the author has decided to extend the anonymity to all of the interviewees. Both of crowdfunding platform founders (Mäkelä in the preliminary interviews, Eis for the interview rounds) and Ingeborg Volan have expressed their consent to be cited in the work. All of the other interviewees in the preliminary talks have requested anonymity for their declarations.

## *Areas of exploration –Questions.*

It is important to recall that the method I used consisted of a set of semi-structured interviews. This is the reason why I did not follow a specific order or ranking for the questions during the interviews. While I had defined some key points to explore, I often allowed a wide margin for interviewees to talk freely and deepen specific issues without causing them to interrupt. At times, I also switched my focus on emerging topics unexpectedly brought up by the interviewees. Hence, under such circumstances, several questions took shape from the interviews. It is also important to specify that the language used in each conversation varied according with the type of interviewee. Hence questions have been posed at formal or informal tones, according with the different circumstances. All interviews have been conducted in English.

Overall, I have focused on five key areas related with the research question of this thesis. Not all of these areas were clear before the interviews round. Some took shape during the preliminary interviews. Others emerged from the process of interviewing itself.

The key areas are briefly described below:

1. **Artists' business.** Within this area, I aimed at exploring how artists conduct their business. On one hand, I investigated on their background, the motivations that drove them to the musical activity they pursue; the goals they have posed as musicians; the kind of relationship they seek to establish with their audience. On the other hand, I made questions to shed lights on their day-to-day activities. I also enquired their business on a more technical basis. I went to investigate the nature of their expenses, and the revenues sources they have been employing in order to recoup from their expenses as musicians.

2. **Financial channels.** Within this topical area, I aimed at investigating how artists seek to rescue financial resources. In particular I have asked questions to artists by emphasizing how they have perceived the need to get funds prior to perform a specific activity. I also formulated questions so to explore whether the musicians I interviewed had the possibility to contract financial services from institutions such as banks.
3. **Crowdfunding as a fundraising technique for musicians compared to other fundraising techniques.** Here my quest has been two-fold: in first place I formulated my questions in order to get to know as much details as possible on the artists' own experiences with crowdfunding. For this purpose, I posed the question tones on a narrative theme. I aimed at catching the details of the process, since the first time interviewees came to know crowdfunding to the point they have applied for a campaign on the platform. I looked for the reasons that led artists to consider crowdfunding as a potential fundraising alternative. Here my goal was to put an emphasis on exploring artists' perceptions on crowdfunding as opposed to the techniques they previously used. I also enquired on one hand on the benefits and the kind of features associated with crowdfunding that artists found most attractive, and on the other on the drawbacks they may have encountered related with this technique. Within this areas, I also investigated on the reasons that platforms managers perceive as being crucial to bring value to artists.
4. **Sustainability of crowdfunding.** Here my strategy has been two-fold. On one hand, I sought to understand from platform managers themselves the strategies to make crowdfunding an important (if not the most important) source for artists' financial needs. On the other I explored the circumstances that musicians perceive are critical in order to consider crowdfunding as a relevant and sustainable source for rescuing financial resources for their activity.

## *Answers*

Overall, I have interviewed 11 artists, and the average interview lasted 1 hour and 10 minutes. A lot of information collected with the interviews revealed not to be useful for the work, and had to be wiped out. The information in this work has been structured under two main forms: quotations or in the form of a general discussion.

The answers will be provided for each topical area, according with the order of the previous paragraph. Each declaration is attributed to the artist who made it, indicated with the interviewee label reported in table 1 (first column).

## **Artists' business**

Inquiring artists on their experiences as artists has been useful to grasp the wide variety characterizing the music environment even in areas of limited scope, such as the music industry in the Nordic countries.

All of the interviewees have resorted to local platforms (not international ones), a fact that reflects artists' intentions to address a local audience.

Nevertheless, some substantial differences have emerged from the interview rounds:

- **Number of entourage members.** As previously stated I have been selecting both large bands and single composers. This is another important factor of differentiation amongst musicians. Artist #10 has claimed the following: *“For us, the fact that we are six in the band has a great advantage. Each of us specializes in a specific activity. Guitarists are in charge on finding and renting a studio, others must take care of instruments' maintenance. Our drummer manages the accounting, I do take care of booking for tours”*. In general it has been observed that, all else equal, having an organized team behind can help to speed up the work. That is why Artist #10 goes on claiming: *“The fact that we specialize for what we can do is of great help because we can organize [things] much faster and better”*. On the other hand, coordination costs can be higher in a band, which is something the artist #5, who plays solo, has observed: *“I can't really say that being part of a band is always better. There can be much disagreement on where to go playing, and even on what to play. Because I manage everything on my own, I don't*

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*face these challenges and I really prefer this way, although at the end it can be very subjective”.*

- **Artists' Goals.** Another great difference stems from the goals that each artist has set for their career as musician. Some musicians revealed that they did not explicitly set a strategy to grow their music business. The reason is well reflected in what Artist #8 had to say at regard: *“I don’t really have a strategy for increasing my music activity. I mean, it’s just for fun. It’s a hobby. That is why I did not really plan anything on it”.* Artist #2 has expressed the following: *“I don’t know what’s happening in a year from now. I just have to go on, and think forward on how can I make money”.* Others instead had a clearer vision on the topic. According with Artist #7: *“We have agreed to dedicate all of our time from the next year, and live from our full activity as musicians”.* In general, I have observed that among all the artists I have interviewed, none can earn from their musical activity the necessary resources to cover their daily living expenses. For this reason, most of them have to pursue different jobs who are not linked with their music activity.
- **Type of Music.** In general the kind of music played by each artists is an important factor for differentiation. Depending on the kind of music played, musicians’ businesses are characterized by different cost structures and revenues sources. Getting a number for the amounts of expenses and revenues associated with their activity as musicians proved not to be a feasible task. Some musicians admitted not to apply any accounting. Artist #4 said: *“Because for me it’s nothing more than a hobby, I don’t really keep an accounting book.”* The rest of the artists did not agree to disclose similar information as they considered it of a sensitive nature. On the contrary, they agreed on releasing information on the nature of expenses. Although these don’t apply to all the interviewees in the same weight or ranking, business expenses and revenues of musicians’ businesses seem to be dictated by the factors illustrated in table 2.

Types of Expenses	Types of Revenues
Recording album or songs	Concerts
Renting for a studio	Sales of CDs or/and Vinyls
Touring expenses for concerts	Streaming services (e.g. Spotify)
Producing CDs and/or Vinyls	Digital downloads
Booking expenses	Copyrights fees (from radio, TVs)

**TABLE 2:** MUSICIANS' REVENUES AND EXPENSES. **SOURCE:** AUTHOR'S INTERVIEW PROCESS

### Financial channels

As previously described, within this area I first sought to explore the financing tools that musicians have used to invest for the growth of their business. Of particular concern was to understand what financial resources they employed in order to pursue an objective that needed resources for its realization. An example of this, the production of an album normally foresees an upfront investment needed to cover recording and marketing expenses above all.

Most of the interviewees declared they did not have any access to external source of financing. On this regard, Artist #6 claimed the following: *“Accessing external sources is so hard if you are a musician. A loan from a bank? That is even harder, and no artist I know ever attempted to do so...because we already know that there would be no possibility”*. When asked with the possibility of receiving a bank loan, Artist #2 added: *“I didn’t even think of that, because, you know, [there] is the crisis. And even people with established funds have hard times on establishing loans”*. Artist #3 explained: *“Music business is inherently so risky. You can’t really quantify what the demand for a song will be. Hence even if you manage to get a loan, the interest rate would be very high. Maybe the situation is different if you are an established singer, but then it’s record labels can help you”*. Only Artist#1 admitted that record label could have been a possibility for the band where Artist#1 plays: *“We had the chance to resort to a record label that could have invested in our next album. We are quite popular and they know*

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*that there are people that would buy our songs. Nevertheless, at the end we did not want. It's not convenient. They are under pressure, and they are desperate to earn money from everything [they can], they tried to squeeze us on merchandising. So we went on our own".* The majority of interviewees sought to earn the necessary funds by employing their own savings and income sources from side jobs. Few asked friends and family to provide financial support. Many have also emphasized that they sought to fuel their activity as musician through an organic growth. Little by little, concert after concert, many artists have re-invested profits in their activity. Nevertheless, according with many observations, this revealed to be a slow process, as Artist #7 has suggested: ***"I had no financial resources besides my own private savings before I started using crowdfunding. All the money I spent was my own, so that is one of the reasons I have spent such a long time on the album"***.

### **Crowdfunding as a fundraising technique for musicians**

All of the interviewees had a similar story when it came to tell how they first heard of crowdfunding. Some were told by friends or by other musicians that already did it. Others randomly discovered it online. Few found it out on traditional media, such as newspaper. The reasons illustrated by the interviewees in explaining what has attracted them to use crowdfunding focused primarily on the possibility to get financial resources without giving away control or paying high interest rate. This can be summarized by what stated by Artist #3: ***"I was amazed by the innovative character of the method, so simple and straightforward. Plus I was attracted by the possibility to create a bond with those people that like my music and enjoying at listening to it"***. Artist #4 declared: ***"When I saw that this actually worked on [international crowdfunding platform like] Kickstarter or Sellaband, that is the moment I got convinced to try it myself"***.

Michael Eis of Boomerang declared that musicians have pioneered the use of crowdfunding for a simple reason: during the last decade creative entrepreneurs have had a desperate need to reverse traditional business models that did not work profitably any longer in the new competitive environment.

From the conversations it emerged that most of the artists developed a stronger awareness of what crowdfunding has implied only once they themselves fully experienced it. According with what they have declared in the interviews, their

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expectations went far beyond what they have initially sought. One aspect that emerged in some conversations is about the small amount of time compared with the monetary sum as perceived by some interviewees. According to what Artist #7 claimed ***“I could not have possibly got this amount of money in such a short period of time before using crowdfunding. That was amazing. I think I also could have made [the offer] higher also...”***. Nevertheless, this is also an ambiguous feature related with crowdfunding as Artist #1 did not agree: ***“I think during the 3 months we could have possibly collected more money if we had turned to sponsors or a record label instead of using crowdfunding”***. What instead has been confirmed in all the interviews is the fact that crowdfunding is not just about getting financial resources. Artist #2 refers to the possibility, that beside providing a fundraising service, crowdfunding is also a way to pursue free marketing: ***“I had an opportunity to spread the word about my project, and now [more] people know that I am making a record”***. Others were also convinced that the crowdfunding campaign had a direct impact to enhance more opportunities related with their activity as musicians. In first place there is a concrete, immediate result that the crowdfunding campaigns imply: that consists in the sale of music, either in physical (CDs and vinyl) or digital form (downloads). Beside sales, crowdfunding initiatives had a positive effect in widening the audience for musicians. As Artist #2 declared: ***“The campaign created quite a lot of buzz. The local TV and one radio got a serious interest on it about it. And some of my songs were even broadcast at a national level in Denmark.”*** Moreover, the sole fact of having pursued a crowdfunding campaign seem to have generated a buzz around a phenomenon considered a novelty. This has been brilliantly explained by Artist #10. ***“Crowd-funding is not that popular yet (at least not in Denmark), so a lot of people were interested in what we did. That gave us some ‘free advertisement’ while getting some money to finance our project at the same time”***. Again, as regards enlarging the audience scope, some controversies were encountered as highlighted by Artist #1: ***“For us, the crowdfunding campaign might have had a positive effect, but I would not say it was relevant, as our band was already popular”***. Again more is to be explored on this theme.

An important effect that all of the interviewees said to have experienced consisted in the creation of a stronger bond with the fans base, as it is possible to interpret from what claimed by Artist #7: ***“In the band we all felt the need for a stronger***

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*commitment to make the album we had pledged for. We owed it to the people that made this project possible to happen”.*

Moreover, it seems that artists can seed the roots for a community starting from a crowdfunding campaign. There is then the possibility, as stated by Boomerang founder, to create *“a subculture surrounding the bands that are crowdfunded. It’s not only about money”*. This is something that has clearly emerged from a bold statement made by Artist #11 who claimed that the crowdfunding campaign has implied something deeper than just promoting music or rescuing funds. *“I did my crowdfunding project to involve my customers and to create a business where people feel that they a part of the business, my life and my “singing family”. To me crowdfunding has not been about the money, but about the feeling of “co-creating”. All the people that helped me are now emotionally involved in my project and that was my goal”*.

### **Sustainability of crowdfunding**

According with boomerang.dk founder and owner, Michael Eis, crowdfunding can become a major source of financing musicians’ business but not in a traditional sense as one may think. The first reason is that there’s no intermediary that stand between the entrepreneur and the consumers. The second is that is the crowd to judge whether or not your projects deserve the needed funds. As Michael Eis clearly states it: *“As a musician, you can get immediate validation for your projects and immediate funding [by the crowd]. Also you can get not only money but also the future ambassadors for your music or product”*.

When asked whether or not they have planned to crowdfund again, all of the artists have answered that they will. But some concerns have emerged. Almost all of the musicians expressed uncertainty on the extent they can get crowd-funded again, that is how many more campaigns they can do. The main concern can be expressed from what stated by Artist #2: *“I don’t know when it will be too much. I am afraid if I do other times, people will get tired of it”*. Two artists believe that the crowdfunding rounds coming after the first one will not be as successful. According to what stated by Artist #1: *“During our crowdfunding campaign, several people closely connected to our lives have heavily publicized the campaign and paid for the largest rewards, but this worked as an encouragement for our first time. I do not think it will happen again the second time”*. Artist #7 declared that resorting to crowdfunding again can be feasible as

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long as some conditions are respected: *“I’ll do it only if there’s some value behind, for the people to get some product or some fun out of it. Plus, I feel it must be only for special cases. If we did it too often, I would feel it’s too much for people to support us financially”*.

## *Interview Results*

From the previous section, I have drawn important results that are key in order to make sense out of the mass of information collected through the interview rounds. The interview results represent the starting point for developing the analysis necessary to answer the main research question.

From the answers got in the interview process, four main results are summarized below.

1. Crowdfunding is an increasingly more convenient and viable choice for musicians to collect financial resources that they need for investing in their business.
2. Musicians degree of popularity is positively related with the success of crowdfunding campaigns.
3. Crowdfunding can be complemented with other fundraising techniques
4. The process of financial resources collection is coupled with concurrent non-monetary activities that benefit musicians' business.

Each one of the results will be further analyzed in what follows.

### **Crowdfunding Viability**

Crowdfunding is an increasingly viable alternative for the purpose of sourcing financial resources for musicians. Such a statement represents an important milestone finding for the purpose of answering the research questions I have envisaged for this thesis work. On one hand, it means that crowdfunding is increasingly viable amongst a set of fundraising methods that musicians can dispose of. On the other hand, this fact also reflects the limited choice of these fundraising techniques. As regards musicians' forms of financing, all of the interviewees have declared that, prior to crowdfunding, the most used methods for pooling financial resources had come through the informal means of employing personal savings.

An alternative consisted in collecting funds from individuals within their personal network, such as close friends and family. Few times, these funds from family and friends were only temporarily borrowed. Most of the times were not.

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Only one of the interviewees had claimed to have had the possibility to engage in a partnership with a record label, and this is the case of Artist #1.

In order to better frame how crowdfunding is becoming an increasingly viable and attractive choice among a set of different methods for rescuing funds, I have developed a model based on the data at my disposal. This model will provide a framework through which it will be possible to identify, classify and distinguish different fundraising techniques according with two main variables: scalability and control. Defining such variables will be paramount for the understanding of the model.

- **Scalability.** By using this term is meant the size of financial resources pooled through a given fundraising technique. At the same time, the term can be applied to the potential of a musician(s)' business to expand in terms of reached audience and output produced.
- **Control.** By this term is meant the level of influence exercised by a musician over his own business. Control may be referred for example to level of influence (or power) that a musician can exercise on the share of property rights linked with his music.

The model based on these variables is constructed in the next page.

As explained, I have built the model by distinguishing different fundraising techniques (or methods) used by the artists for the goal of growing their business.

In general, based on the information collected by the author with the interviews, two main sources of funds have been used, or could have potentially been used by music entrepreneurs:

- Personal financial resources. It has been observed that these can be further distinguished in two different sub-categories:
  - Personal savings. As for business entrepreneurs, musicians can employ their own savings, pooled after a working period as it is the case for many interviewees.
  - Funds from family and friends. These are money collected from people within the personal network of a musician.
- Funds provided by record label companies. One of the interviewees has revealed that there was the possibility to partner with a record label

company that could have provided the necessary financial resources to invest in the band.

According with the level of scalability and control, the two main sources of funds have been placed within the model in Figure 8.



**FIGURE 8:** FRAMEWORK OF FUNDRAISING TECHNIQUES IN THE MUSIC INDUSTRY.

**SOURCE:** MODEL DEVELOPED BY THE AUTHOR

Before explaining the reasons for each fundraising technique, it should be briefly noted that this framework should be taken as a general approach for classifying the methods adopted by musicians for the purpose of rescuing financial resources. Hence, the need to stress that the framework can not be valid for all the cases observed for a specific fundraising technique, and individual variance should be accounted. For example, there may be the case of a given artist to inherit a billionaire portfolio from his family. Hence this case would not be well represented by the model I have developed as the artist would be likely to dispose of a budget much superior to what even record companies can afford for their clients.

As it can be observed, **personal financial resources** show a low level of scalability but the possibility to leverage on high control with respect to the use that entrepreneurs seek to address. The reason for control to be high stems from the fact that, as one can easily grasp, musicians exercise a fundamental property

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right on a resource that is of private property. A low scalability level reflects the fact that, under normal conditions, simply drawing funds from personal savings or close relationships is unlikely to result in large amounts of financial resources to employ. It has to be noted that rescuing funds from familiars and friends present slightly higher levels for scalability. This is due to the fact that a larger amount of individuals usually imply a larger amount of resources at an aggregated level, although at a per capita level personal savings may be higher.

Whether attained by family and friends or by own savings, personal financial resources on average are outcompeted by contracts with **record label companies**, under a scalability point of view. Although their business models and profitability are subject to a sharp decline, all else equal, record labels guarantee musicians more financial resources, the access to a larger audience and within shorter times with respect to the case of employing personal financial resources, and the possibility to profit from royalties in case of a major album hit. While scalability is generally high, the level of control enjoyed by artists on their own businesses tends to be low, as record labels normally seek to control a major share of the musicians' profits in exchange for the benefits previously described. Moreover, as explained by Artist #1, seeking to engage with record labels implies a vast amount of time for developing contacts and a business network in a way that not all artists are willing to do.

With respect to the use of personal financial resources, it should also be kept in mind the fact that signing a contract with record labels is certainly a much tougher goal to achieve than pooling personal resources. All the respondents have flagged the fact that for starters a record label is extremely hard to reach: only those musicians with a proved tracked of sales and records might get contracted by record labels, as it could have been the case for one of the interviewees who eventually declined this possibility and rather used crowdfunding. Hence labels are hard to engage with for the majority of musicians.

I used this framework to compare the sources for rescuing funds at disposal of the respondents of my analysis. After having gone through the features of personal financial resources and contracts with record labels, I now turn to the case of crowdfunding, and see how it can be analyzed within the picture.

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All the cases analyzed throughout this work involved the use of reward-based crowdfunding through 3 platforms in Norway, Sweden and Denmark. As experienced by respondents, crowdfunding presents higher levels of scalability with respect to personal financial resources. In fact, most of respondents declared that a part of the funds in the crowdfunding campaign came from individuals who were out of their personal networks. In any case, crowdfunding worked as a venue to collect funds also from individuals who, even when they are acquaintances of the artist, may be harder to reach through an offline campaign for collecting funds. Similarly, artists revealed that they would find hard time to ask money from these acquaintances directly, as they are not linked with these acquaintances through a bond which is “personal, intimate enough”. On the contrary, they perceived that through a crowdfunding campaign, the chances to get funded by these same acquaintances would increase.

Hence the amount of funds gotten through a crowdfunding campaign has exceeded what expected from the use of personal resources. Control levels are similar or slightly lower than through employing personal saving because, by crowdfunding, musicians have to account on the progress of the projects for which they have made an open call.

On the other hand, crowdfunding campaigns do not seem to supply the same level of performance in terms of scalability as instead record labels guarantee. In general, record labels seem to be more likely to provide artists with larger financial amounts, the possibility to record songs, a wider network of contacts for touring, the possibility to produce CDs/ Vinyl's, etc. Crowdfunding increases the chances for an artist to get visible, but can't provide a full set of services (ranging from recording to touring) as often provided by record labels through 360° contracts, meaning clients (i.e. musicians) are fully served, under as many aspects as possible (i.e. at 360 degree). Hence nowadays crowdfunding does not seem to guarantee the same level of scalability provided by record labels. Yet, the benefits of crowdfunding seem to be growing. On the other hand, reward-based crowdfunding does not imply a loss of control on property rights and profits, as it normally occurs when partnering with a record label. This is the reason that led one of the respondents to shed record labels in favour of crowdfunding.

Overall, there is no statistical evidence for saying that in absolute terms crowdfunding represents the best possible way to rescue funds.

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Nevertheless, comparing to drawing exclusively from personal savings and family and friends, crowdfunding seems to be a better option, because, given a similar level of control, it generally implies a higher scalability level.

When benchmarked to what record label can offer, it is not as straightforward to provide such a bold statement. While crowdfunding generally does not seem to provide the same chances to scale a business as record labels do, musicians may consider crowdfunding to get an acceptable level of funds and visibility at more favourable conditions, and with higher degrees of control.

What can be safely stated instead is that, while record labels represent a viable tool only for few privileged ones, crowdfunding is accessible to a much larger musicians base and especially to those entrepreneurs who lack the prerequisite and the proper profile to access to record labels. Hence, under such circumstances, crowdfunding represents the best possible alternative for a musician to consider.

### **Crowdfunding and Musicians' Popularity**

One result got from the interview involves the weight of audience and popularity of musicians in relation with the crowdfunding campaign. The larger are musicians' popularity and audience, the higher is the threshold that can be set for crowdfunding campaigns.

The logic behind this result seems quite straightforward. The larger the audience and musicians' popularity, the higher the chances to receive financial support by the fans base, which is a finding that has been observed also among the respondents within the current study. Popularity and audience levels have been measured by accounting for the indicators on social media (e.g. number of likes on Facebook page) and number of results displayed on search engines such as Google. Those bands and musicians displaying higher levels of popularity result in more successful crowdfunding campaigns, in terms of amount of collected funds. This is an idea reflected by respondents perceptions, as stated by Artist #3: ***“If my musical reputation was different –if I was famous– I would probably gain a lot more from crowdfunding than from funds.”***

Furthermore, another important insight involving a different aspect linked with size (audience and popularity of a musician) has been gained. The larger the audience and the musician popularity, the higher the chances to engage in a

contract with a record label, as one of the interviewees could have potentially done. The reason stems from the nature of cost structures of record labels. Given the high level of fixed costs (mainly from recording and marketing), record labels can recoup such expenses only through a considerable amount of sales, that can be guaranteed, all else equal, only by popular artists.

### **Complementarity of fundraising techniques**

As underlined by few respondents, using a specific fundraising technique does not imply the exclusion of the others. While no statement can't be done for what concerns record labels, all of the respondents have declared to have employed personal financial resources concurrently (and often simultaneously) with a crowdfunding campaign. In this sense, crowdfunding appears as an additional arrow to shoot from the quiver of musicians.

### **Frequency of crowdfunding campaigns**

If crowdfunding can be metaphorically considered as an additional arrow amongst the fundraising techniques at musicians' disposal, it should be noted that it is really a rare one. By that, it is meant that a crowdfunding campaign has been considered by respondents as a technique to employ in fewer times with respect to, say, employing personal financial resources. It has been perceived by respondents to be used only "for special occasions". Not only none of the respondents but also none of the artists in the 3 crowdfunding platforms taken onto consideration has resorted to crowdfunding more than once. However, all the respondents have argued that they have planned to crowdfund again, although many have expressed concerns on pursuing additional campaigns. The main concern has been described in a higher difficulty for obtaining similar levels of pooled funds after the first crowdfunding campaign. Such a concern stems from an hypothetical decrease of fans' interest towards the bands or musicians. When asked why they fear such a scenario to occur, respondents gave a diversified set of opinions. One of the most cited reason revolves around the fact that additional campaigns would lead their fans to think that musicians are attempting to take advantage of fans' pockets.

Overall, it's not clear to what extent such fears are justified. What appears clearer is that, for crowdfunding to become a more established channel to rescue funds, crowdfunding platforms will have to take proper actions in order to make sure that a repeated set of rounds is not only feasible but also convenient for musicians.

### Non-monetary benefits resulting from crowdfunding

Crowdfunding is not only about rescuing financial resources for the purpose of pursuing an objective. This is a statement that both musicians and crowdfunding platforms owners have repeatedly stressed during the course of the interview.

Along the possibility of pooling funds together from a fans-based crowd, other kind of benefits have been expressly reported by all of the respondents in the interview rounds.

From the second group of questions delineated in the Answers section, a set of three additional benefits stemming from crowdfunding is briefly summarized in Figure 9.



FIGURE 9: NON-MONETARY BENEFITS OF USING CROWDFUNDING FOR MUSICIANS.

SOURCE: MODEL DEVELOPED BY THE AUTHOR FROM THE INTERVIEW PROCESS

### Marketing

Marketing has often been cited as an important factor beside monetary collection of funds. In particular marketing assumes two different forms:

- *Advertising*. One form relates to the possibility of advertising the band or the musician name for free or for very low costs. This can occur through what some artists have defined as a “buzz” resulting from the sole fact of using crowdfunding. For example, a musician declared that her crowdfunding campaign attracted the interest of a local radio and a newspaper that finally interviewed her. Advertising normally takes place

with the fans base actively (and autonomously) involved in promoting the musician's crowdfunding campaign through social media and word of mouth. Finally, the crowdfunding platform itself provides the opportunity to link random visitors with the music and output of a musician, which is often "exposed" on the crowdfunding platform website in order to showcase the campaign.

- *Testing demand.* Pursuing a crowdfunding campaign has revealed to provide musicians with the means to measure themselves against the social acceptance and interest that people and fans demonstrate towards their work and projects. Although it does not seem to be the critical factor to pursue a campaign, some musicians saw the campaign as an occasion to validate their work and their efforts in producing creative music that people like.

### **Branding**

Another important advantage brought by crowdfunding has been labelled as **branding**. For this term, I have used Achenbaum (1993) definition. According to Achenbaum (1993), branding corresponds to the unique value that stems from the sum of consumer feelings and senses about the product's features, name and meaning itself (Achenbaum, 1993). Also the concept of Lovemarks ideated by Roberts (2005) contributes to a better understanding of branding intended in this section. Lovemarks are referred to brands that build on the relationships and personal linkages between an organization (or a person) and a set of individuals on a long-term basis (Roberts, 2005).

Under these definitions, it is possible to claim that crowdfunding enhances the chance for musicians to pursue branding activities. As a matter of fact, all the respondents have declared that the crowdfunding campaign has been a way, sometimes unintended, to strengthen a relationship with fans and possibly create a more intimate bond with them. This has been powerfully unveiled by Artist #11 declarations, for which crowdfunding has been a mean not merely for rescuing funds thanks to her fans, but an opportunity to "co-create" together with individuals that now have become part of "her singing family". This use of language underlines that the relationship with project backers of the musical project is not commercial but personal, almost an intimate bond, where individuals are emotionally involved.

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While not all the participants of the study went through an equivalent experience, The concept of Lovemarks developed by Roberts (2005) can be well applied within this context. In fact, basing on the experience described by Artist #11, a crowdfunding campaign can set the proper conditions to brand the image of a musician by developing a strong relationship between the backers of the crowdfunding project and the musician. In other words, it is possible to build a community between a musician and his or her fans, something that Boomerang's owner has identified as the rise of "subcultures" around a crowdfunded campaign.

### **Commitment**

Given the previous point, it is unsurprising that, by establishing a personal strong relationship with the backers of a project, a musician or a group of musicians may feel more strongly committed for the realization of a crowdfunded project. This is the case that was made by several interviewees. Musicians have claimed to be grateful for what their project funders have made possible to happen. In this sense, they perceive that they owe their backers the work they have intended to pursue with the campaign.

One other explanation for a higher level of commitment of musicians resulting from the crowdfunding campaign may stem from the fact that, once gotten the necessary funds, they are strongly encouraged by the crowdfunding platform to publicly report the state of development of their project. In this context, they are under a form of scrutiny by supporters. Hence, although supporters can't exercise any kind of enforcement, musicians may feel a social pressure to achieve the project they have pledged money in order to delight backers and crowdfunders.

## **Analysis of Interview Results**

In order to answer the research question formulated within this research, it has been necessary to interpret the raw data collected in the interview rounds and analyze it through the lens of the theoretical framework previously described. Hence, the interview results constitute the basis for the in-depth analysis that have guided the author to answer the research question.

The analysis within this section can be divided in two parts.

Within the first part I analyze, on the basis of the value network theory, how crowdfunding platforms create the proper settings where value is produced through the interactions and exchanges between musicians and funders.

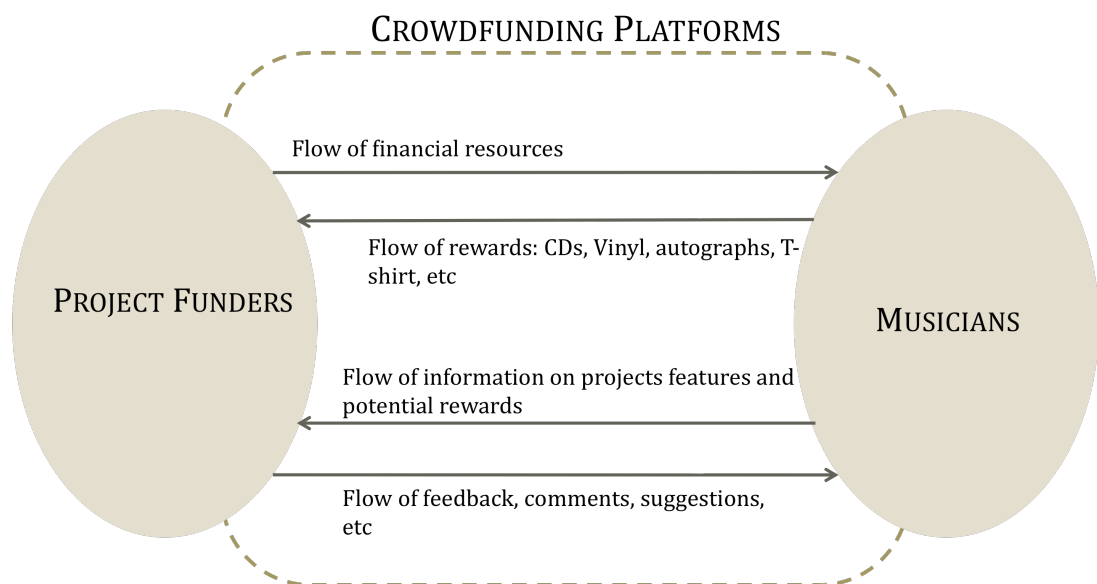
The second part focuses on examining reward-based crowdfunding as a new-market innovation for financing creative entrepreneurs within the music industry.

### ***Value-network theory***

This first part of the analysis focuses on examining how crowdfunding platforms work and create value, basing on value network theory. For this purpose, the theoretical contribution provided by Stabell and Fjeldstad (1998), and described in the previous theoretical section, has been fundamental. And hence, a value network does not coincide with the firm itself. Applied to this work, hence, the value network does not coincide with the crowdfunding platform. Differently, the value network is a concept required to “understand firm-level value creation logic” (Stabell and Fjeldstad, 1998: 413). In other words, the concept of value network coincides is of a particular type of value configuration model. Understanding how value networks –or better, the value configuration model of crowdfunding platforms– work, represent a key factor to access to the second part of the analysis, that focuses on studying the underlying reasons behind crowdfunding growth as a viable financing tool for musicians.

For such a purpose, it is paramount to understand how crowdfunding platforms create value. Being modelled as a value network, portals such as Boomerang.dk or FundedByMe.com create value by providing a networking service, which, specifically, they link two (or more) sides of customers who are and wish to be interdependent.

For crowdfunding platforms, value is generated through the interactions occurring between two sides, namely, musicians and their supporters. One of such interaction is made of the exchange of information (such as project features, how much money is needed to fulfil a given project, a description of rewards for the supporters) that flows, through an indirect link, from musicians towards platform visitors and, hence, potential project supporters. Another explicit interaction stems from the monetary flow taking place from one side to the other, that is, from project supporters towards musicians, and the subsequent digital (e.g. free music download) or material (e.g. an autographed vinyl) flow of rewards promised by musicians to supporters. There are also less obvious exchanges. For example, one can be identified in the information flow that musicians provide once the project has reached its financing goal: musicians in facts are asked to provide details on the state of development of the project for which they have pledged money. Supporters can also ask information, give comments and leave a feedback. These are further example of the interaction that can take place through a portal. A graphical representation of the interactions taking place between the two sides has been depicted in Figure 9.



**FIGURE 10:** CROWDFUNDING PLATFORM MEDIATION ROLE BETWEEN TWO CUSTOMER GROUPS.

SOURCE: MODEL DEVELOPED BY THE AUTHOR

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The interactions between the two sides taking place in the platform occur to satisfy different needs and wishes: on one hand, the need of musicians to rescue financial resources; on the other, the desire of fans to support a band they like, receive a perk in exchange of their financial support and establish a more direct bond with musicians. It is important to specify that crowdfunding platforms do not create these needs or wishes. For example, cash-strained musicians would need up-front investments for the recording of an album prior to crowdfunding emergence in the last decade. The novelty brought by crowdfunding portals stems from the possibility to link together complementary needs, and create value from this process of linkage, which is a characteristic in accordance with the theoretical contribution of Stabell and Fjeldstad (1998). This point is crucial in the analysis because crowdfunding portals provide the proper infrastructure for linkages and interaction between musicians and supporters to take place. This key conclusion is the underlying reason that paves the ground for crowdfunding to become a viable form of financing for musicians, which represents the main area of study, as examined in the next sub-section.

### **Features of crowdfunding platforms configured as value networks**

#### **Customers**

Platforms customers are represented by both customer categories served by the platform. This is explained by the fact that, because value is created by linking different actors that possess complementary needs, both musicians and supporters are considered customers of the platform.

#### **Simultaneity of mediating actions**

Because portals derive value by mediating interactions between musicians and funders, there is not a specific order or sequence of activities. To follow, portals' activities instead occur simultaneously: crowdfunding platforms attract on their website musicians seeking financial resources while simultaneously alluring groups of supporters who are willing to fund projects.

#### **Standard Interfaces**

The portals are characterized by the presence of standard interfaces that are necessary to establish order and direction for platforms' customers. An example refers to the standard procedures for musicians to apply for a project and pledge

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funds. Another example is provided by FundedByMe: for each project page, a virtual space has been configured for supporters (or simply visitors) to leave a comment or feedback. Within the same page, musicians can upload musical videos for potential supporters to learn and get valuable information on them. Finally, another important standard interface is provided by the set of payment methods employed by the crowdfunding portal. FundedByMe, for example, allows credit card as the only possible form of payment.

### **Activities of crowdfunding platforms configured as value networks**

Basing on the theoretical contribution of Stabell and Fjeldstad (1998), it is possible to delineate a set of primary and support activities, pursued by the crowdfunding platforms considered in the current study.

#### **Primary Activities**

Primary activities observed from the three selected platforms can be summarized as follows:

1. *Network Promotion and Contract Management*. This set of activities refers to those critical actions pursued by the platforms in order to attract customers to join the network, and manage contracts initialization and termination. Within this category of activities, examples are: platform online and offline advertisement; support of musicians for the campaign development; monitoring of crowdfunding campaigns.
2. *Service Provisioning*. This set of activities is aimed at “establishing, maintaining and terminating links between customers and billing for value received” (Stabell and Fjeldstad, 1998: 429). For the portals examined, service provisioning activities coincide with: monetary transfers from one customers’ side to the other; cashing the amount of funds achieved through successful campaigns; termination of crowdfunding campaigns once the threshold or the time deadline have been reached.
3. *Network Infrastructure Operation*. This set of activities is “associated with maintaining and running a physical and information infrastructure” (Stabell and Fjeldstad, 1998: 429). In crowdfunding portals such as FundedByMe, network infrastructure operations mainly consist of maintaining and operating the website, make sure that it is constantly

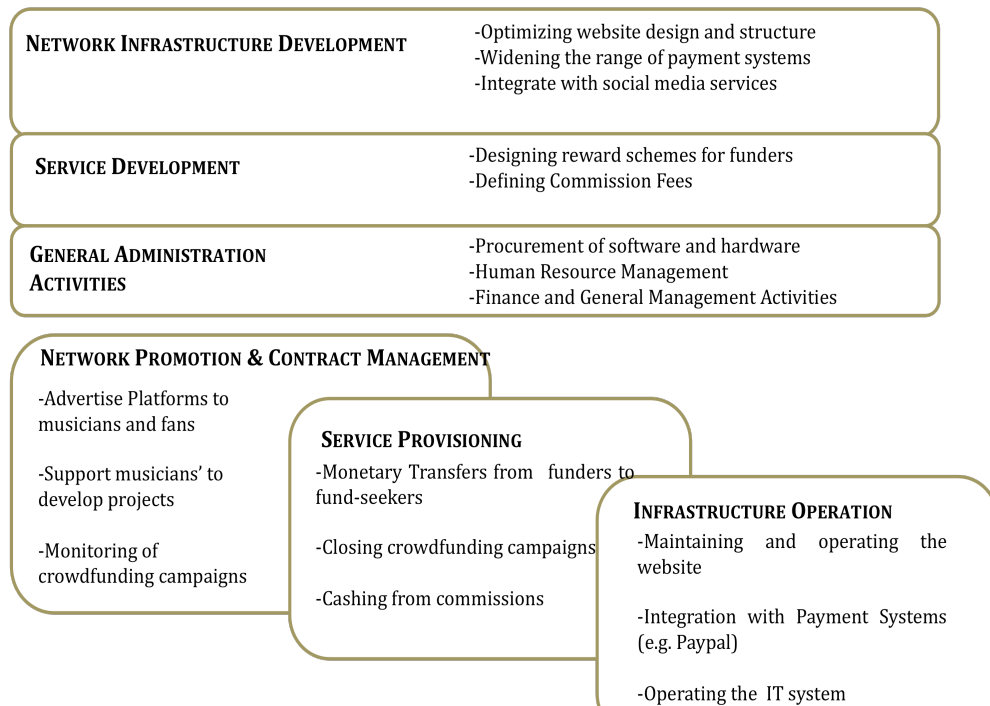
synchronized with the payment system; fix bugs and pitfalls that may hit the IT system.

### **Support Activities**

Along primary activities, crowdfunding portals are aided by what are identified as support activities, which can be further decomposed in four main categories:

1. *Network Infrastructure Development*. This set of activities “includes activities associated with the design, development, and implementation of network infrastructure” (Stabell and Fjeldstad, 1998: 430). In crowdfunding portals, this type of activities is identified with the actions perpetrated by web designers and developers in order to optimize the website visual look and structure; improve the access to a wider set of payment methods; embed social networks tools within the portals page.
2. *Service Development*. This kind of activities relates with the possibility of modifying and adjusting customers’ contracts terms. For crowdfunding portals, service development activities are aimed at improving reward schemes for investors, or altering commission fees applied to fund-seekers.
3. *General Administration Activities*. While financing and general management are functions similar to other business environments, procurement in crowdfunding platforms mainly consist in the purchasing of necessary software and hardware necessary to run the portal and integrate with an online payment system.

A picture of the value network diagram applied to FundedByMe has been depicted in Figure 11. Although FundedByMe has been used, the illustration of the diagram, including the description of primary and support activities, can also be well applied to the two other examined portals.



**FIGURE 11:** VALUE NETWORK CONFIGURATION MODEL FOR FUNDEDBYME.COM.

**SOURCE:** STABELL AND FJELDSTAD (1998) AND DATA SOURCED FROM FUNDEDBYME.COM

## Platforms Economics

Stabell and Fjeldstad (1998) have identified specific drivers of costs and value for firms characterized by a value network configuration. Such drivers can be well applied to the case of crowdfunding platforms.

### Scale

Crowdfunding platforms are characterized by what Shapiro (1985) has identified as positive network demand side externalities: the higher is the number of customers, the higher will be the value perceived by each customer. This also suits crowdfunding platforms economics. The higher the number of funders, the more convenient for musicians seeking funds to join. This in turn triggers a virtuous cycle because the more musicians, the higher the probability for a fund giver to match his preference with a specific project he/she enjoys. This process constitutes a powerful driver to trigger value creation within crowdfunding platforms.

### Composition

Composition is another driver that has been indicated by Stabell and Fjeldstad (1998) as crucial to foster networks' process of value creation. That is especially true for crowdfunding platforms: if the size of fund-seekers in the network is

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disproportionate with respect to funders, then there is too much competition for too few funds and entrepreneurs will find little value to join the platform as a venue to fund their projects.

### **Capacity utilization**

From what has been described in the theoretical background, capacity utilization refers to the maximum volume of transactions that a value network can handle. In the case of crowdfunding platforms, capacity utilization depends on the level of traffic and financial transfers that the IT system can support. While it is very important, it is currently not the most important factor to account for, as traffic is still relatively low for all the three portals examined.

### **Learning**

By learning is meant the potential positive externalities affecting different activities. Learning for reward-based crowdfunding platforms mainly stems from a constant monitoring of projects to better delineate the optimal threshold campaign levels. The reverse can also occur: by better understanding the optimal traits of successful campaigns, portals can allocate time according to which project need most support to win funds.

### **Vertical Scope**

Vertical scope refers to the need for “a mediation exchange to require multiple levels of co-producing mediation activities” (Stabell and Fjeldstad, 1998:432). Vertical scope is related with the degree of control that firms employ on coproducing activities for a given service to function. For crowdfunding platforms to operate efficiently, it is necessary to integrate the website portal with a proper online payment system which is guaranteed by external providers. Crowdfunding platforms may want to internalize the payment system in order to achieve efficiencies and, by doing so, they vertically extend the range of services they offer.

### **Horizontal Scope**

By horizontal scope is meant the extent of customer segments that a crowdfunding platform is willing to service. For crowdfunding platform, horizontal scope is determined by the degree of specialization that platforms are willing to pursue. For example, some crowdfunding portals restrict the horizontal scope by

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specializing exclusively on a specific category of projects (e.g. movies) in order to offer the highest quality service on that field. Others loose the range of projects categories available on the site in order to attract a larger number of customers: in this case the platforms is considered to widen its horizontal scope. Different horizontal scope strategies entail different costs and value creation processes as well.

### *Crowdfunding as a new-market disruption*

Before tackling the heart of the current analysis, it will be important to briefly resume the funding methods at musicians' disposal. According to what drawn from the previous section, musicians can employ only a very restricted set of fundraising methods to fuel their business. The main bulk of such methods consists of the practice of employing personal savings or collecting funds from close friends and familiars. Resorting to a commercial loan, business angels or venture capitals support are methods that have been precluded to all of the respondents due to the high risk and low profitability attributed to not well known musicians' businesses. Record labels have been a possible funding tool only for one respondent, but in general they prove not to be a viable choice as it is out of reach for the large majority of musicians who are not popular enough. This occurs because, as it has been found in the previous section, musicians need to have a proved track of record sales and an established fans base in order to be contracted by record labels. Hence only a restricted set of promising bands or musicians (as one of the interviewees demonstrated to be) are entitled to benefit from the record labels activity.

After having developed a model in the previous section, it has been possible to delineate an important finding: for new-comers and unknown musicians such as the ones I have been interviewing, crowdfunding is emerging as the best fundraising method at musicians disposal, given its level of scalability and control. In fact, because record labels are not likely to represent a feasible choice for the type of musicians considered, crowdfunding generally guarantees a higher share of financial resources and a similar level of business control, comparing to the employment of personal funds.

Given such a situation, there appear to be the proper settings for crowdfunding to take a strong foothold within a context where musicians do not have a concrete alternative beside using their own resources. Such a finding is key because it represents a scenario that resembles the proper settings for a new-market innovation to develop, according to the theoretical framework of Christensen and Raynor (2003). Hence, in what follows I have applied Christensen and Raynor's (2003) theories to the reward-based crowdfunding phenomenon as it has been extensively studied from the findings.

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The rationale for analyzing the findings under the lens of Christensen and Raynor (2003) theories is to generate a valuable set of answers to the main research question presented at the beginning of the thesis. In particular examining the extent to which crowdfunding possesses a “disruptive potential” (Christensen and Raynor, 2003) has drawn important conclusions on the kind of impact that crowdfunding can have on musicians’ business.

In what follows as a first step I apply Christensen and Raynor’s (2003) Litmus Test in order to define the innovative character featuring reward-based crowdfunding for musicians in Denmark, Norway and Sweden.

### **Litmus-test on reward-based Crowdfunding**

As already explained, the Litmus Test is a theoretical model composed by three sets of questions that are used by practitioners to analyze the extent for a given product or service to possess “disruptive potential” (Christensen and Raynor, 2003).

Hence the goal for employing the Litmus-test is to analyze to what extent reward-based crowdfunding possesses such a disruptive potential, on the basis of the findings presented in the previous section.

1. The first set of questions of the Litmus-test is focused on exploring whether an idea or a product can become a new-market innovation. The focus here is to analyze whether or not crowdfunding is a new-market disruption vis-à-vis other fundraising techniques to which musicians could not access.
  - a. The first question asks whether or not the product or service taken onto consideration targets “non-consumption” (Christensen and Raynor, 2003). It is important to recall what is meant by using the term non-consumption. By using Christensen’s and Raynor’s (2003) words, non-consumption can be identified as the “existence of a large population that historically has not had the money, equipment or skill” to purchase a service or a product and “as a result [it] has had to go without it altogether or have needed to pay someone with more expertise to do it for them” (Christensen and Raynor, 2003:49). *Applied within this analysis, is crowdfunding*

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*targeting non-consumption?* My findings show that crowdfunding is, indeed, targeting non-consumption. In fact the category of musicians studied in this research corresponds to a “large population” of musicians who historically did not possess the proper features or “skills” to “consume” financial products or services, such as access to commercial loans or funds provided through contracts with record labels. It is also true that they had to get by and “go without” the access of record labels or banks. This explains why all of the musicians considered in this work had to resort to private sources of financing.

- b. The second question asks on whether or not to use a given service (i.e. accessing to financial resources), customers “had to go to inconvenient, centralized locations” (Christensen and Raynor, 2003:49). *Applied within this analysis, did musicians have to go to inconvenient, centralized locations?* This question can also be positively answered. In fact, in order to get financial resources, also renowned musicians (such as one of the interviewees) had to turn to a restricted bunch of record labels who have historically exercised significant pressure and bargaining power towards musicians. In this sense, record labels can be considered as an “inconvenient” and “centralized” locations where to contract a service (i.e. get funded). Inconvenient because it asks for a price usually considered very high, which coincides with a loss of control over the business (a factor that led the respondent to abandon the record label route). Record labels can also be considered as centralized in that they have functioned as a set of few gatekeepers for musicians to access not only funds, but also other services, including musical video producing and touring. Hence basing on this first set of questions, crowdfunding has all the potential to become a new-market innovation.
2. The second set of questions explores the potential for a service/product to become a low-end disruption, as defined by Christensen and Raynor (2003), in case the questions are answered affirmatively. The goal here is to investigate to what extent crowdfunding can act as a low-end disruptive

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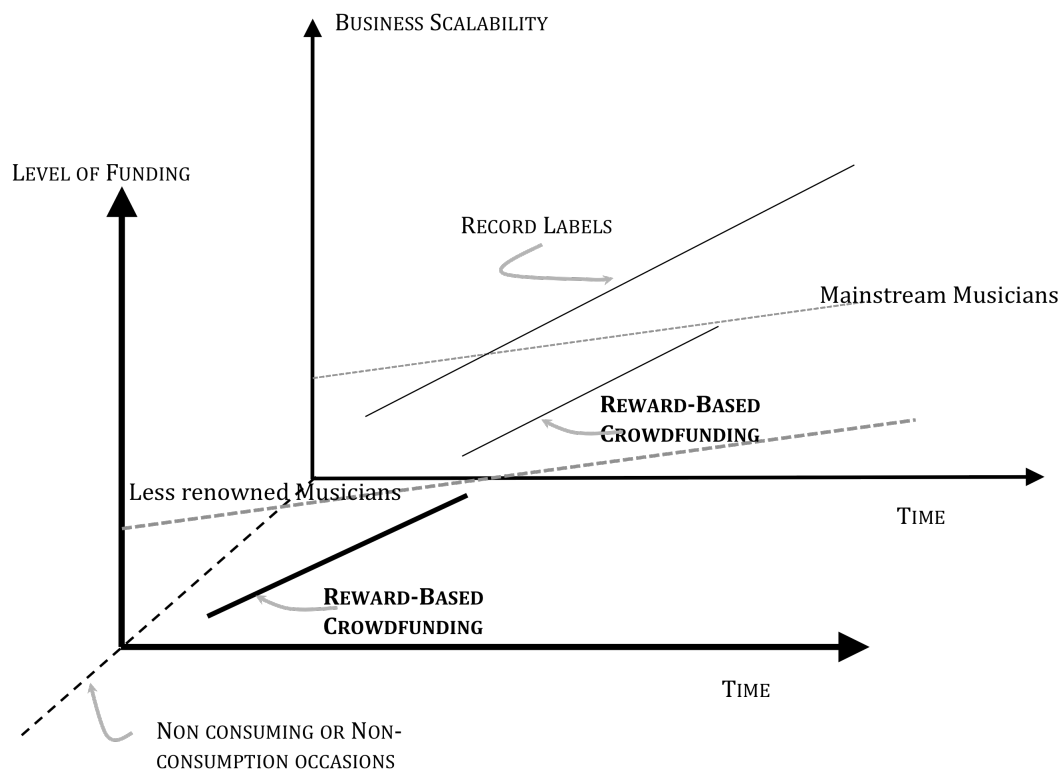
innovation towards existing fundraising techniques for musicians. Before getting into the questions, it is important to specify that, within this questions set, the focus shifts from the large category of musicians (well represented by the majority of the sample in my research) who could not access the services provided by record labels, towards those musicians (or bands) who are popular enough to be considered profitable by record labels (as is the case for Artist #1), but who do not represent the high-end customers group of record labels. In other words, they can be considered as low-end market musicians.

- a. The first question within this sub-section asks the following: “are there customers at the low-end of the market who would be happy to purchase a product with less (but good enough) performance if they could get it a lower price?” (Christensen and Raynor, 2003:50). By considering the case of the only respondent who fits this question, a positive answer can be provided, because there seem to be several “customers” (like Artist #1) who have considered to pursue a crowdfunding campaign (i.e. purchase a crowdfunding service) instead of engaging with a record label. Basing on the findings elaborated in the previous section, crowdfunding does not perform as record labels: in fact, it does not provide the same amount of services and the same quality supplied by record labels (e.g. touring, musical videos, etc). Nevertheless, crowdfunding comes at a lower price, in this case considered as a higher degree of control kept by the band or the musician over the business (e.g. control on property rights, music styles, profits on music sales). It is the last factor (i.e. lower price) that proved to be key for crowdfunding to win Artist #1 away from record labels. Artist #1 has indeed declared that all the band really needed was a specific amount of money to record their next album and the possibility to spread the word, something that Boomerang.dk has proved “good enough” in supplying. On the contrary the contract offered by record labels proved to be expensive and overwhelming with features that Artist #1 did not really need. In this sense Artist #1 can be considered an over-served customer.

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- b. The second question asks on whether or not, with crowdfunding, it is possible to “create a business model that enables to earn attractive profits at the discount prices to win the business of these over-served customers at the low-end [of the market]” (Christensen and Raynor, 2003:49). This question can be answered affirmatively but with caution. Crowdfunding platforms can indeed earn attractive profits by winning over-served customers such as Artist #1, who truly represent the most profitable customers for crowdfunding platforms: the more popular an artist, the broader the diffusion (or her) crowdfunding campaign, the higher the commissions for crowdfunding platforms. It’s not a chance that the crowdfunding campaign led by Artist #1 has been the most profitable campaign at Boomerang.dk. Nevertheless, as mentioned, some caution should be taken: currently, there are not many artists such as Artist #1 that turned to crowdfunding platforms. The largest bulk of crowdfunding platforms’ customers consists in those musicians who can’t be contracted by record labels and, as previously described, don’t possess many financing alternatives beside employing their own savings. Basing on the analysis pursued on the second set of questions, crowdfunding does also show a somewhat high potential as a disruptive innovation versus existing sources of financing in the music industry, mainly being identified in the record labels.
3. Finally, there is a final question which should be answered affirmatively in order for a given product or service, such as crowdfunding, to be actually considered as having disruptive potential. This question goes as follows: “Is the innovation at stake disruptive to all of the significant incumbents in the industry?” (Christensen and Raynor, 2003:50). In case crowdfunding proved to be a sustaining innovation to the main incumbents (i.e. record labels), then the whole Litmus test would lose validity. On the basis of the findings within the study, there is no indication to lead the author to consider crowdfunding as a sustaining technology for record labels’ business model. One reason stems from the fact that embedding crowdfunding within their business model would lead record labels to lose

the control they exercise on musicians, hence they would lose their main source of profits. In other words, record labels' own cost structure "forces" musicians to consider only a limited set of high-end musicians and artists, characterized by a relatively high audience and popularity.

All in all, reward-based crowdfunding as studied through the Litmus-test, seems to possess features that characterize it both as a new-market innovation and as a low-end disruption. Nevertheless, one should not identify a contradiction in this conclusion. In fact, many disruptions are often hybrids, combining new-market and low-end approaches. (Christensen and Raynor, 2003). It is also important to notice that the emphasis is currently stronger on the new-market innovation component of crowdfunding because, as already noticed, the largest bulk of customers comes from that part of the market which historically could not find much support from incumbents (i.e. record labels).



**FIGURE 12:** DISRUPTIVE INNOVATION MODEL APPLIED TO REWARD-BASED CROWDFUNDING PLATFORMS.  
**SOURCE:** CHRISTENSEN AND RAYNOR (2003) APPLIED TO CROWDFUNDING

Figure 12 provides a conceptual support to understand the innovative character of crowdfunding as a form of financing musicians and bands. Figure 12 applies Christensen's and Raynor's (2003) theories of disruptive innovation to the case of

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reward-based crowdfunding in relation with industrial incumbents (i.e. record labels) and musicians.

As it has been observed, crowdfunding is a hybrid innovation, meaning that, as a form of financing musicians, it possesses traits both of low-end disruption and new-market innovation.

As a low-end disruption, crowdfunding is depicted in the first graph in the background of Figure 12, that refers to the market of mainstream musicians. Under this perspective, crowdfunding has the potential of capturing customers who are over-served by record-labels, such as Artist #1 in the interview rounds of this work. Business scalability –as defined in the “Interview Results section”– represents the performance measure of mainstream musicians’ market: the higher the exposure it can guarantee to a band or musicians, the more performing a specific form of financing (such as record labels). In this market, crowdfunding is not as performing as record labels are to musicians. This occurs because, as previously explained, crowdfunding can’t provide the same level of scalability to musicians’ businesses as record labels do.

With respect to the second case (i.e. being a new-market innovation), crowdfunding appears as being a very appealing financing medium for those musicians who are not served by record labels nor by any other actors. Hence, because it competes against non-consumption, crowdfunding operates within a new-market context, corresponding to the graph located at the forefront of Figure 12. In such a new context for consumption, the level of funding represents the main form of market performance.

Overall, the Litmus-test has been a useful tool to shed lights on the innovative character of crowdfunding. This in turn led to a significant understanding of the crowdfunding phenomenon, useful to address the main research question. Hence, the analysis process within this section has brought meaningful insights on the potential impact that crowdfunding has on musicians’ business. A particular emphasis has been posed on those creative entrepreneurs possessing relatively few resources and a small audience, as has been the case for the largest share of the group of musicians sampled within the study.

## Conclusions

The analysis conducted within the previous section shed lights on two important outcomes.

The first outcome has resulted from the analysis of how crowdfunding platforms generate value. On the basis of the theoretical contribution of Stabell and Fjeldstad (1998) on value networks, it has been possible to discover that crowdfunding platforms extract value at profit in an area –funding not very popular musicians– where doing so had historically proved to be hard and inconvenient.

The second outcome resulted from the results gotten through the interview analyzed through the lenses of Christensen and Raynor (2003) theory of disruptive innovation. This second analytical process led to the important outcome that reward-based crowdfunding contains characters of disruptive innovation.

On the basis of the conclusions resulted from the analysis in the previous section, it has been possible to elaborate a set of answers in response to the research question of this work. Hence this section concludes the dissertation by answering the research question.

### RESEARCH QUESTION

**WHAT IS THE IMPACT OF REWARD-BASED CROWDFUNDING ON MUSICIANS' BUSINESS IN DENMARK, NORWAY AND SWEDEN?**

### ANSWERS TO RESEARCH QUESTION

**FUNDRAISING IN A SIMPLER AND MORE ACCESSIBLE WAY**

**STRONGER AND MORE DIRECT RELATIONSHIP WITH AUDIENCE AND FANS BASE.**

**HIGHER CONTROL ON BUSINESS AND PROJECTS**

**IMPACT OF CROWDFUNDING ON MUSICIANS BUSINESS IS EXPECTED TO INCREASE**

**FIGURE 13:** ILLUSTRATION OF THE RESEARCH QUESTION AND ANSWERS

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Figure 13 provides a brief review of both the research question and the answers formulated in response to the research question.

## *Answers to Research Question*

### **Higher Accessibility to Funding**

**Crowdfunding enhances musicians to fundraise in a simpler and more accessible way.**

It has been essential to stress the innovative character of crowdfunding. Considering crowdfunding as a new market innovation for low-income musicians to rescue funds in order to fuel their activity entails important implications. When analyzing a new-market innovation Christensen and Raynor (2003) claim that in general “new-market disruptive products are much more affordable to own and simpler to use” (Christensen and Raynor, 2003:45). This is also the case of crowdfunding for musicians. Affordability of crowdfunding is reflected in its accessibility. Every musician who believes his (or her) music is worth to be consumed is entitled to apply for a crowdfunding round and try his/her luck. Simplicity of using crowdfunding can be seen mainly in the low requirements that are asked to apply for a crowdfunding campaign. Uploading an audio-file of a song together with a video to illustrate the reasons behind the decision to crowdfund, represent the unique requirements for musicians. Then, to judge whether a project deserves the necessary funds is a choice up to the crowd, and not to a restricted set of record labels. In such a context, crowdfunding appears as a much easier process than passing through the lengthy process of privately pledging funds from different individuals (which is a process normally implied when resorting to the use of personal financial resources). Similarly crowdfunding is simpler when compared to the process of obtaining funds from record labels: in fact, in order to have access to a limited set of investors such as record labels, it is often required to develop a business network which is a process taking a considerably high share of time, as it was revealed from the interviews.

Overall, an important impact of crowdfunding is to lower the industrial barriers for rescuing funds for musicians, in a context where doing so has proved to be a hard task prior to the rise of crowdfunding –especially for those artists who were not popular enough to engage in a partnership with record labels.

### **More Direct Relationship with Audience**

#### **Crowdfunding enhances musicians to assume a stronger and more direct bond with their audience and fans base.**

The use of crowdfunding implies a more direct approach of musicians to their audience. In fact, by crowdfunding, artists are likely to pledge funds primarily from fans and in general from those individuals who enjoy to consume the artist's product. Hence, in order to appeal to fans and increase the chances to get funded, artists are likely not only to provide rewards, but also to establish a direct bond with project supporters. During a crowdfunding campaign fans assume a direct and vital role as ambassadors and marketers of their favourite musicians. Fans are likely to feel the importance of their role, especially when their crowdfunding campaign results successful. So are artists likely to understand this role and appreciate fans efforts in promoting their music. From here stems the possibility to establish a strong bond between the two sides. This scenario is in line with the results gotten from the interviews: for all the respondents declared that the crowdfunding campaign has implied a process of close interaction with fans in ways that interviewees had not experienced before. In this context, it is then unsurprising to observe musicians claiming that, and that they feel more committed to produce music because they owe their music to their fans.

Such finding well fits a context like the music industry where, thanks to technological advancements, the distances between musicians and fans have largely decreased, as the manager from Koda asserted in the preliminary interviews.

## Higher Control

### Crowdfunding enhances musicians to assume a higher degree of control on their business

In the interviews results, crowdfunding has been compared to different fundraising methods, namely engaging in contracts with record labels and employing personal financial resources. As it has been observed, through crowdfunding musicians can maintain a level of control similar to what they could obtain by collecting personal financial resources. In other words, as opposed to the case of record labels, musicians are expected to have a high degree of control on financial decision-making. The impact of this aspect of crowdfunding is expected to result in the development of an increasingly more independent work for musicians. In this context, the control feature of crowdfunding is critical especially for over-served musicians who can also choose to engage in partnerships with record labels.



**FIGURE 14:** FUNDRAISING TECHNIQUES FOR MUSICIANS. **SOURCE:** MODEL DEVELOPED BY THE AUTHOR

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**Increasing weight on musicians business****The importance of reward-based crowdfunding on musicians' businesses is expected to increase**

Specifically for the purpose of financing musicians, crowdfunding should not be dismissed as a fad. Some may be led to think to such a scenario, given the tiny weight of crowdfunding on the aggregated income within the music industry in the three selected countries. Nevertheless the numbers alone cannot measure the potential of crowdfunding as a form of financing musicians. Instead, by means of an analytical study, showing that it can act as a new-market disruption, crowdfunding is expected to grow to serve musicians of two kinds: musicians who don't have better alternatives than using their own funds, on one hand; musicians who seek more control on their business and hence decline partnerships with the industry main incumbents (i.e. record labels), on the other hand. The former category of musicians represents the largest share of music projects for crowdfunding platforms.

Because crowdfunding is addressing non-consumption, the industry incumbents – record labels– currently “feel no pain or threat” (Christensen and Raynor, 2003: 46) as their most profitable customers (the most popular artists) are not directly targeted by crowdfunding. Hence, record labels are not expected to fight crowdfunding back. This is an additional factor expected to speed up and facilitate the rise of crowdfunding as a financing innovation for musicians. Such a fact implies that crowdfunding is likely to get quite sophisticated in terms of scalability and in the amount of funds that can be possibly rescued. Furthermore, it is expected to refine accuracy in predicting the optimal amounts of funds to be pooled from the crowd. According with a model previously developed by the author in the results section of the interview , we can expect crowdfunding to go in the direction of the fourth quadrant, on the right-up end in the graph, as it is possible to observe from the figure below.

According with this view, crowdfunding has the potential to become more appealing not only for new-entrants (who would have the possibility to pool more funds than by just resorting to private means) but also for those musicians who are over-served by record labels and would like to retain more control on their own business. In other words, we can expect crowdfunding to shift its emphasis from a new-market innovation, as it is prevalently nowadays, toward a low-end

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disruption and, as a result, increasingly take lower-margin customers away from record labels' business.

### *Further Research*

This work has uncovered several issues that deserve more attention in the future.

One important issue regards the segment of musicians that can be served by crowdfunding platforms. This study emphasized that the most likely musicians to resort to crowdfunding are low-income, cash-strained artists who don't have a fans base large enough to attract capitals from record labels. Nevertheless, it has been shown that crowdfunding is also attractive to more famous and successful musicians. Hence, in this context crowdfunding seem to possess the traits to become a low-end disruptive innovation for record labels. More research should be conducted on such a topic, in order to explore the potential of crowdfunding to assume a more relevant role within the music industry in the longer term. It would be also interesting to conduct a research on how record labels perceive the rise of crowdfunding, and the strategies they have set with respect to it.

Another topic that deserves further research concerns the type of crowdfunding that is most efficient to serve the needs of creative entrepreneurs, such as musicians, to rescue funds. In first place, researchers should explore the question on whether or not crowdfunding platforms can influence the success of a given project basing on the characteristics of the platform itself. In a second stage, more should be researched on whether specialized platforms (i.e. focusing exclusively on a specific set of actors, such as musicians) may (or may not) perform better than platforms serving more than one type of actors. Finally, more should be explored to compare the impact on musicians produced by reward-based crowdfunding on one hand, and equity-crowdfunding on the other.

A final topic concerns a relevant issue that has emerged from the interview rounds and that can be expressed with the following question: How can artists rely on crowdfunding in a sustainable manner? From the study, it has emerged that musicians are concerned with the number of times they can proceed to crowdfund. In fact, for most of the interviewees, crowdfunding can be used only under special conditions and in rare occasions. That poses questions on the limits of crowdfunding as a form of financing musicians. Future research should be set to study how this issue can be resolved by crowdfunding platforms.

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