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BEHIND THE MUSIC
**Profiting from Sound: A Systems Approach to the Dynamics of
the Nordic Music Industry**

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ABSTRACT

This report summarizes the Nordic research project behind the music - Profiting from Sound: A Systems Approach to the Dynamics of Nordic Music Industry. The project was funded by The Nordic Industrial Fund (Center for Innovation and Commercial Development) which is an institution under the Nordic Council of Ministers. This report has been written and compiled from materials and inputs provided by the researchers involved in the project and by the industry reference group.

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BEHIND THE MUSIC

Profiting from Sound: A Systems Approach to the Dynamics of the Nordic Music Industry

Final Report

March 2003

**Edited by
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Preface

This report summarizes the Nordic research project *behind the music - Profiting from Sound: A Systems Approach to the Dynamics of Nordic Music Industry*. The project was funded by The Nordic Industrial Fund (Center for Innovation and Commercial Development) which is an institution under the Nordic Council of Ministers. The Fund initiates and finances research and development into the Nordic innovation system. Projects financed by the Nordic Industrial Fund aim to contribute to increasing the competitiveness of Nordic trade and industry, strengthening Nordic business culture whilst also contributing to sustainable societal development. This report has been written and compiled by Dominic Power from materials and inputs provided by the researchers involved in the project and by the industry reference group.

Dominic Power, March 2003.

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Executive Summary: Main Findings and Policy Challenges

THE MUSIC INDUSTRY IN A PERIOD OF RESTRUCTURING

Findings

- The Nordic music industry is clearly growing in terms of employment rates and sales.
- An increasing share of value creation within the music industry stems from related industries. Activities such as digital distribution, music videos, song-writing and software comprise a growing share of the industry's activities.
- There is an emerging division of labour between independent and major record companies and labels.
- Boundaries between various activity types are getting blurred. In particular, boundaries between record companies, publishers, management and promotion companies are increasingly unclear as many of these tend to be involved in the same activities.

Key policies

- Policies towards the music industry should take into account the role and the extent of related music services, and the intersection of music and other related services such the media and ICT. There are mutual benefits and new products to be gained from mixing music with other industries.
- There is a need for the collection of more accurate industrial statistics and benchmarks on the music industry. Better figures are needed in order to identify problems and benchmark developments.
- A supportive local market is crucial to the industry. Decreased sales taxes or value added taxes on musical products would act as a considerable stimulant to domestic demand. The sales taxes applied to both recorded and live music should be brought into line with the substantially lower rates of sales tax applied to other cultural products.

A KNOWLEDGE DRIVEN INDUSTRY

Findings

- The music industry consists of a wide variety of different activities and these require specialised skills and competencies. Whilst high levels of musical and artistic skills exist in all five countries, musical skills are often not matched by business skills. There is a clear lack of skills and knowledge coordination in the industry.
- The music industry is split between highly concentrated and powerful multinational corporations (the 'majors') and numerous, relatively small scale, independent firms. This division can serve to create a competitive and dynamic business environments that is essential for creativity and for the serving of the different types of markets and customers the music industry serves. Equally the

fragmentation and splitting of the industry in this way can be an obstacle to firms' competitiveness and ability to innovate, individuals' experiences and life-long learning, and the industries' visibility at national and governmental levels.

Key policies

- Public sector cultural policies have inadequate integration with business development policies. There is a need for a better coordination and integration between cultural and business policy towards the music industry.
- There is a need for better coordination of existing strengths and competencies in the industry. To this end action should be taken to:
 - Encourage the development of Nordic music industry gatherings or events in order to support information exchange, diffusion of best practice, better networking amongst Nordic firms and actors, and cross national marketing.
 - Support joint ventures and local cluster initiatives in order to improve knowledge diffusion and networking between the different sets of actors and competencies in the music industry. Small and independent music and music-services firms are especially vulnerable, and whose joint ventures, business networks, and new independent industry associations should be supported.
- Support the development of third-level educational programmes focusing on the music industry, since there has been an increased need for people with more formalised educations in parallel with the increased internationalisation and professionalization of the industry. Action should also be taken to:
 - Provide seminar series focusing on export market characteristics; trends and workings; new technologies; business skills such as management, marketing and administration.
 - Initiate mentoring programs and informal networks targeted at increasing the participation and career development of women in the industry.
 - Firms, music organisations and educational authorities should monitor national and international best practice in music education and competence development.
- Support the establishment of national umbrella organisations that link various organisations representing the music industry. There is a need for a national organisation that represents the music industry with a single voice – both nationally and internationally – in all questions of common interest and that has the power to lobby on the industry's behalf.

AN EXPORT ORIENTED INDUSTRY

Findings

- The Nordic countries have relatively small domestic music markets and very outward looking business cultures. This means that success on export markets is crucial for the industries' long-term commercial viabilities and that export success is highly prized by industry actors.

Key policies

- Set up and publicize central points or one-stop-shops for seed capital to fund promotional tours, showcases, and radio play promotion in foreign markets.
- Music industry firms need better access to detailed information on potential export markets' business climates, cultures, organisation and profile. Existing public sector export promotion authorities could better help with this. Equally the idea of setting up specialised music export promotion offices should be investigated (where it has not been done already).

THE PROJECT

- The report presents the main findings from a Nordic Industrial Fund financed research project, 'Behind the Music' on the industrial dynamics of the Nordic popular music industry. The project took place between April 2002 to March 2003.
- The project was carried out by 11 researchers drawn from the five Nordic countries studied. Each of the five teams mapped out and measured the scale of the industries in their countries. In addition each team carried out case studies based on selected themes deemed to be important to understanding the music industry.
- The project was interested in understanding the shape and size of the industries, the competitiveness of the industries and how weaknesses could be addressed, opportunities identified, and competitive strengths built upon. An underlying common focus has been how different company types influence upon processes of learning, innovation and competitiveness.

The full project report, more details of the project's work and extra materials can be found at:

<http://www.step.no/music/>

Details of the Nordic Industrial Fund's work and this project can be found at:

<http://www.nordicinnovation.net/>

Sammendrag: Hovedfunn og politikutfordringer

MUSIKKINDUSTRIEN I EN RESTRUKTURERINGSFASE

Funn

- Nordisk musikkindustri vokser, både i forhold til sysselsetting og salg.
- En økende andel av verdiskapningen i musikkindustrien har sitt utspring i relaterte næringer, som digital distribusjon, musikkvideoer, song-writing og software.
- Det er en økende grad av arbeidsdeling mellom uavhengige plateselskaper og multinasjonale selskaper.
- Grenser mellom ulike aktivitetstyper viskes ut. Spesielt blir skillelinjene mellom plateselskaper, forlag, management og promotionselskaper mer uklare, ettersom mange av disse i økende grad er involvert i de samme aktivitetene.

Politikutfordringer

- Politikk rettet mot musikkindustrien bør ta høyde for rollen til relaterte tjenestenæringer, og samspillet mellom musikk og tilgrensende næringer som media og IKT. Et slikt samspill representerer potensielle synergieffekter og nye produkter for så vel musikk som tilgrensende næringsfelter.
- Det er et behov for innsamling av mer nøyaktig industristatistikk og sammenlikningsgrunnlag innenfor musikkindustrien. Man trenger et bedre og mer koordinert datamateriale for å kunne identifisere problemer og sammenlikne utviklingstendenser.
- Et støttende lokalt marked er viktig for industrien. Reduserte skatter på musikkprodukter vil stimulere til økt nasjonal etterspørsel. Skattenivået på så vel innspilt som live musikk ligger uforholdsmessig høyere enn andre kulturprodukter, og bør justeres i forhold til disse.

EN KUNNSKAPSDREVET INDUSTRI

Funn

- Musikkindustrien består av et bredt spekter av ulike aktiviteter som krever spesialiserte egenskaper og kompetansetyper. Musikalsk og kunstnerisk kompetanse finnes i alle fem landene, men denne kompetansetypen blir ikke alltid supplert med en næringsmessig kompetanse. Musikkindustrien består således av flere aktører som besitter komplementære kompetansetyper. Det er et klart behov for en bedre koordinering av disse ulike kompetanseformene.
- Musikkindustrien består av noen store, multinasjonale selskaper på den ene siden, og et større antall småskala uavhengige nasjonale selskaper på den andre. Dette skillet kan bidra til å skape et konkurransedyktig og dynamisk næringsmiljø, som er avgjørende for kreativitet og for å kunne betjene ulike forbrukere og markeder. Samtidig kan en fragmentert bransje og en splittet industri

fungere som et hinder for selskapers innovasjonsevne, konkurransedyktighet og individers læring og kompetansespredning, og bransjens synlighet på et nasjonalt plan.

Politikkutfordringer

- Offentlig kulturpolitikk er for lite integrert med næringspolitikk. Det er et behov for bedre koordinering og integrasjon mellom kultur- og næringspolitikk innenfor musikk.
- Det er en utfordring å koordinere de ulike kompetanseformene som per i dag finnes i bransjen, for på denne måten utløse det potensialet som bransjen besitter.
 - Stimulere til utvikling av arrangementer og happenings for en samlet Nordisk musikkindustri for å bidra til utveksling av kunnskap og best practice, styrkede nordiske nettverk mellom selskaper og aktører, og felles markedsføring.
 - Støtte samarbeidsprosjekter og lokale klyngeinitiativ for å styrke kunnskapsdiffusjon og nettverk blant ulike aktører og kompetanseformer i industrien. Konsolidere kompetansebasen, samarbeidsprosjekter og nettverk blant mindre, uavhengige selskaper, ettersom disse er spesielt sårbare.
- Støtte utvikling av utdanningsprogrammer rettet mot musikkindustrien, ettersom økt internasjonalisering og profesjonalisering av bransjen har skapt et behov for mer formalisert kompetanse.
 - Tilrettelegge for seminarserier som fokuserer på eksportmarkeder, utviklingstendenser, ny teknologi og forretningskompetanse, som ledelse, markedsføring og administrasjon.
 - Initiere programmer og uformelle nettverk rettet mot økende deltakelse og karriereveier for kvinner i industrien.
 - Selskaper, musikkorganisasjoner og utdanningsinstitusjoner bør kartlegge nasjonal og internasjonal best practice innenfor musikkutdanning og kompetanseutvikling.
- Støtte utviklingen av en nasjonal paraplyorganisasjon som forbinder de ulike organisasjonene som representerer musikkindustrien. Det er et behov for en nasjonal organisasjon som representerer musikkindustrien med én stemme, både nasjonalt og internasjonalt – i spørsmål hvor man har sammenfallende interesser.

EN EKSPORTORIENTERT INDUSTRI

Funn

- De Nordiske landene representerer relativt små hjemlige markeder og har således utadvendte næringskulturer. Dette innebærer at eksportmarkeder er helt sentrale for industriens langsiktige kommersielle levedyktighet og at eksportsuksess er høyt verdsatt av industriaktører.

Politikkutfordringer

- Opprette og offentliggjøre sentrale one-stop-shops for såkornkapital for å støtte salgsfremmende turnéer, showcases og markedsføring på radio i fremmede markeder.
- Selskaper i musikkindustrien har behov for mer detaljert kunnskap om potensielle markeders næringsklima, kulturer, organisasjon og profil. Slike fremstøt kan kanaliseres gjennom eksisterende eksportfremmende tiltak og offentlige aktører. Man bør også undersøke muligheten for å sette opp spesialiserte markedsføringskontorer (der hvor dette ikke allerede er gjort).

PROSJEKTET

- Denne rapporten representerer hovedfunn fra forskningsprosjektet 'Behind the Music', hvor industriell dynamikk i nordisk musikkindustri har vært gjenstand for analyse. Prosjektet har vært fullfinansiert av Nordisk Industrifond, og er gjennomført i perioden april 2002 til mars 2003.
- Prosjektet er gjennomført av 11 forskere fra alle de nordiske landene. De fem deltakerlandene har kartlagt omfanget av de respektive nasjonale musikkindustrier. I tillegg har hvert land gjennomført utvalgte casestudier for å frembringe en bedre forståelse av dynamikken i musikkindustrien.
- Prosjektet har søkt tegne et bilde av form og størrelse på industriene, og hvordan styrker og svakheter legger føringer for dynamikk og konkurransekraft. Et underliggende hovedfokus har vært hvordan og i hvilken grad samhandling mellom ulike selskapstyper påvirker kunnskaps- og læringsprosesser, innovasjonsevne og konkurransekraft.

Prosjektrapporten og utfyllende underlagsmateriale kan finnes på

www.step.no/music

For mer informasjon om Nordisk Industrifond og prosjektet:

www.nordicinnovation.net

Policy challenges to improve the competitiveness of the Nordic popular music industry

The popular music industry is a growing industry and an important contributor to national economies. Up until recently much of the public policy attention music has received has been in terms of cultural and social policy rather than the industrial policy and support it needs. It is essential that the music industry is targeted, like other important industries, with sound, well-formulated and supported industrial policies. On the basis of the work done by the participants in this project, it appears that there are a variety of areas in which *both* public sector *and* private sector actors can help the industry better achieve its potential. Below we identify challenges and action areas in which industry actors themselves can work. We also identify challenges and action areas where the public sector could usefully be engaged. It seems from the project that improving the competitiveness of the music industry is a job that can work best through partnership and cooperation both within the industry itself, and between the industry and outside actors such as the public sector and indeed related industries. This project found there to be six main target areas in which challenges and action areas can be identified and one general category.

General Challenges

Before pointing to these six specific areas the project highlighted some general issues that policy-makers and interested actors need to pay attention to and act upon.

- Firstly, there is a lack of accurate industrial statistics on the music industry. National statistical bodies in discussion with the industry and researchers should develop more accurate measures of music's industrial structure and performance. In specific an annual report detailing the music industry in figures is needed in order to identify problems and benchmark developments. Furthermore such a report should be based upon a common Nordic approach to allow comparison and benchmarking.
- Existing governmental and municipal policies in support of the arts and musical education remain an important underlying basis for a successful music industry and they should not be neglected in the future. However, work is needed to diversify cultural and musical policy to better include popular music.
- Governmental action on the protection and enforcement of intellectual property rights is crucial to the industry's profitability and long term survival: all efforts must continue to be made to keep both legislation and policing of copyrights up-to-date and in line with international best practice.

Measures should be taken to monitor and assess other the evolving structure of other countries' copyright laws and regulations: such as, for instance, Germany's recent introduction of a law that allows small copyright holders to renegotiate contracts previously made.

- Rapid change and the existence of many sharp practices in the wholesale and retail of music point to the need for competition authorities to investigate the structures and practices of the wholesale and retail of music.
- Rapid changes in technology are allowing firms to radically change the nature of musical products being sold in Nordic markets: e.g. copy protected CDs that will only play on certain types of equipment. Consumer rights bodies and organisations should examine the impact and legality of the introduction and development of such new technologies.
- The extraordinary sales boom that the reduction of value added taxes (moms) on books in had in Sweden points to the fact that decreasing sales taxes or value added taxes on musical products would act as a considerable stimulant to domestic demand. The sales taxes applied to both recorded and live music should be brought into line with the substantially lower rates of sales tax applied to other cultural products such as, for instance, books, newspapers, theatre performances. National governments and tax authorities should carefully examine the differential and punitive tax levels applied to music. National music industries should join lobbying efforts at a European level that have the goal of equalising tax levels between music and other cultural products.

Target Areas

1) Industry development

It is important to recognize that the success of musicians and firms is often heavily linked to a strong national industry and a strong national brand: a strong national identity and brand helps all.

Action should be taken to:

- Support the establishment of national umbrella organisations that link various organisations representing the music industry. In each Nordic country there are currently a large number of industry and workers' organisations as well as collecting societies supporting different parts of and interests within the national music industries. However, there is a need for one national organisation that represents the whole music industry – both nationally and internationally – in all questions of common interest. An umbrella organization that links together all actors and provides a shared forum for the industry and its supporters is therefore needed. Help with the financing of such an organisation could be one mode of governmental support for the industry.
- Such an organization should not attempt to take over from existing industry organizations which are already doing an excellent job. However, it should take responsibility for lobbying on common issues, be institutionally capable of applying for funding from governmental bodies (both European and national), and be capable of coordinating the delivery of funding where needed, and act as a linking mechanism for the national and international promotion and betterment of the national music industry. Such an organisation could also play a powerful role in coordinating efforts to counter music piracy: a united front in fighting piracy would also act as a key attraction and linking mechanism for such a new organisation.

- Such an organization should be officially recognised by the various governmental ministries of each country that work towards and fund the development of national industrial bases.
- Help encourage independent labels play a larger role in the industry - as marketers in their own right, and as suppliers to majors in 'food chains' – as they are central to innovation processes. Policy could stimulate the creation of new independent labels, through entrepreneurship support, finance, and education. Larger firms can profitably help in this through, for example, externalising/subcontracting A&R competences, using independent project coordinators or independent labels as 'external laboratories' for experimentation with local music

2) Export development

It is important to recognize that commercialisation processes and export markets are key to success.

Action should be taken to:

- Set up and publicize a central point or one-stop-shop for seed capital to fund promotional tours, showcases, and radio play promotion in foreign markets is needed. Existing export promotion organisations or an umbrella organisation could provide such a service.
- Address the need for one-stop websites or common access points where news and information on all aspects of new products, firms and individuals in the national music industries can be found by both foreign music fans and industry actors alike. In the case of, for example, Sweden this would involve setting up www.MusicSweden.com or www.Swedishmusic.com. A '.com' domain is essential for such websites' profile and functionality in the US and elsewhere.
- Employ promotional or public relations staff in key export markets: USA, Japan, UK, Germany. Several countries (France, Britain, Finland) have either set up or are in the process of setting up 'music embassies' to promote their national music industries and acts in foreign markets: principally the USA. This is an idea worthy of monitoring and action. However, we suggest that a more cost effective, flexible and efficient alternative might be the hiring of foreign professional publicists - that are based in and experienced with the specific target export market - to promote a country's music.

3) Competence development

It is important to recognize that the music industry is a competence driven industry and one which relies upon interdependencies between very different competencies and agents.

Action should be taken to:

- Support the development of educational programmes focusing on the music industry. The purpose should be to educate students interested in pursuing careers as managers, agents, market managers, etc. (e.g. the 'Music Management' course run by the Baltic Business School, Kalmar Högskola, Sweden) since there has been an increased need for people with more formalised educations in parallel with the increased internationalisation and professionalization of the industry. Formal courses in technical aspects of music product and sound engineering should also be supported. Research funding councils should also be encouraged to support basic research into music industry management and technology.

- Integrate international exchange programmes, apprenticeships and work placements into music industry educational courses in order to help individuals at early stages of their careers build better networks and have experience of other working practices and cultures.
- Provide competence development aimed at potential venture capitalists such as investment banks, venture capital funds, public sector SME support agencies, etc. For example, seminars and other focused information activities that communicate realistic information issues such as how the music industry works, potential profits and pitfalls, information on markets trends, etc. Like other industries the music industry needs venture and investment capital to fund product development and launching. Such capital has traditionally been almost entirely sourced within the industry. Due to the industry's decreasing capital base, widening the industry's access to investment capital and finding 'alternative' sources is crucial to product innovation and competitiveness.
- Provide seminar series open to music industry focusing on: export market characteristics, trends and workings; business skills such as management and marketing administration.
- Initiate a mentoring program targeted at increasing the participation and career development of women in the industry. Female participation tends to be low in areas such as A&R and top executive positions: this may hinder the development of new products and important markets segments (such as women).
- Support the development of regular informal forums for women in the music industry in order to promote networking, information exchange, and a sense of community for women in the industry.
- National music organisations and educational authorities should carefully monitor national and international best practice in music education and competence development. Equally firms should also attempt to monitor national and international best practice in the area of competence development.
- Support the creation of joint ventures, networks, and new independent industry associations among small record companies so that they can better learn from each other.

4) Service industry development

It is important to recognize that the music industry is not only about producing world class acts/artists/bands.

Action should be taken to:

- Promote the development of a separate identity and brand for the increasingly valuable music service industry (a job for the umbrella organisation).
- Promote awareness in the traditional core of the music industry (record companies etc.) of the existence of the extensive range of music services available at home.
- Guarantee that music service firms are included in activities and measures taken to support export development.
- Recognise that more accurate information is needed on this growing sector and work to develop more accurate indicators for service industry performance (existing music industry indicators such as CD sales figures tell us little about service firms' performance).
- Alert other and related industries and cluster-policies focused on other industries to the potential benefits of cross-industry cooperation with the music industry. The evidence presented in this report on the interaction between ICT and music in Finland and in Stockholm show that mutual benefits and new products can come from mixing music with other industries.

5) Regional and cluster development

It is important to recognize that the music industry has historically relied upon key places, strong local milieus and scenes to drive creativity, innovation and competitiveness. In this respect the recent policy focus on cluster-based regional policies can be of great help to the music industry.

Action should be taken to:

- Support the establishment of strong regional music industry associations, entrepreneurial support networks and educational activities.
- Maintain and extend the recognition of the importance to regional development of cultural industries such as music that is currently enshrined in European Union structural adjustment and regional development funding.
- Further encourage regional economic development actors and agencies to recognise both the opportunities presented by clusters or agglomerations of music industry firms and actors.

6) Nordic cooperation development

It is important to recognize that the music industries of each Nordic country are small by international standards. Cross-national cooperation could help these smaller industries gain a larger international presence.

Action should be taken to:

- Encourage the development of a Nordic music industry gathering or event in order to support information exchange, diffusion of best-practice, better networking amongst Nordic firms and actors, and cross national marketing. Such a gathering may function best if run alongside existing large festivals (such as Roskilde in Denmark, By:Larm in Norway, Hultsfred in Sweden) or international industry gatherings (such as Midem in France, South by Southwest in the USA).
- Support joint export promotion and touring in order to help the development of a common Nordic and Scandinavian music industry identity and market.
- Support touring of bands *in* the Nordic area, to promote the creation of a Nordic market.
- Encourage national industry organisations - especially new umbrella organisations - to work closely with their Nordic counterparts on common issues such as joint export promotion, competence development, Nordic and international industry gatherings, Nordic Music Awards, and piracy.
- It should be understood by public sector actors that cross-national cooperation in the music industry not naturally follow formalised political cooperation structures such as Nordic cooperation. In some cases cooperation between Scandinavian music industries and actors may be a more natural route to take due to geographic proximity and the degree of commonality between their languages and cultural identities.
- Encourage awareness within firms of the existence of European Union funds that support cross-border cooperative ventures. Firms should also be provided with help in applying for such funds.
- Encourage the cross-border linking of formal educational courses and programmes. Existing educational cooperation structures and governmental bodies could easily perform this task.

- The Nordic Council of Ministers or the Nordic Industrial Fund could perform useful roles in highlighting the importance of supporting the popular music industry. The Council in particular could act to support the cross-national networking and awareness of various regional initiatives and cluster organisations that are focused on the music industry.

Introduction

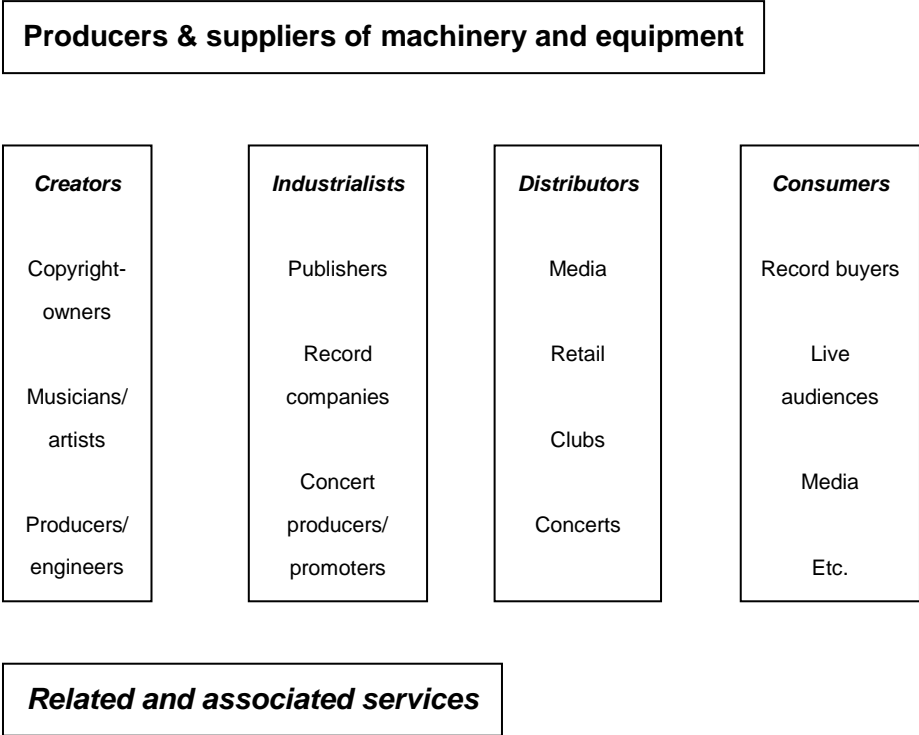
Throughout the 1900s a rapid commercialisation and industrialisation of the production of popular music occurred. Fuelled by technical innovations such as long-play vinyl records and stylistic innovations such as rock-n-roll, popular music was transformed from a largely non-commercial social or folk activity into a marketable, mass consumption commodity. With the transformation of music into a profitable commodity a large industry has grown up around the production and sale of recorded music around the globe. In 2000 this global industry was worth at least US\$37 billion in sales (IFPI 2001) having risen from US\$27 billion in 1991: an increase of around 35%. If one adds in the additional 40% or so that is involved in the illegal or pirate trade in music (IFPI 2002) one can say that the global music market is worth at least US\$50 billion a year. The legitimate global music market is one dominated by five large multinational entertainment corporations – the so called ‘majors’ – and by certain large markets or ‘territories’ such as the USA, Japan, Germany and the UK. Despite being a global industry in which big fish and big ponds dominate, the music industry is also one where dynamic local scenes, firms and artists have enormous importance and if successful can reap substantial profits. For smaller countries music can be a valuable export earner and source of employment as well as a powerful force in shaping a nation’s international identity and profile.

It is such considerations that underpinned the research project this report is based upon. The project examined the industrial dynamics of the popular recorded music industries in the five Nordic countries – Denmark, Finland, Iceland, Norway and Sweden – with a view to understanding their present and future competitiveness. We set out to analyse how these industries compare to each other, how they link to each other, how they could learn from each other, and the place they occupy in the global music industry. In this report we outline what we found out about the sizes, shapes and strengths of each industry. We also report on certain themes we found to be of especial importance in understanding the workings of and competitiveness of the music industry in general.

A first step in the project was attempting to answer a basic question: How can the music industry be defined, described and analysed empirically? As with many industries the music industry is one that is hard to define and delimit. It has many inputs and many outputs. Its products involve inputs from such difficult to pin down areas as culture and emotions and its outputs have stretched to powerful social and political messages that have influenced millions. Despite the multiplicity of inputs and outputs music involves, this project has narrowly focused itself upon the commercialisation of music that occurs in an industrial system. Rightly or wrongly we have chosen to focus ourselves on a for-profit industrial system that uses popular music as its core product and ingredient. The scope of this study then has been limited to include only ‘popular’ music (and not, for instance, classical) and in particular popular music in a commercial and industrial setting. In other words we use the term ‘music industry’ in this study to refer to the commercial exploitation of recorded music by actors organised in commercial units: principally firms.

The term ‘music industry’ refers to the activities related to the creation, production, distribution and consumption of popular music, including industry and governmental institutions that affect the industry’s performance. At present this industrial system can be roughly represented as consisting of six main parts which can be seen in Figure 1 below.

Figure 1: Actors involved in the music industry



In short, the creative side of the music industry is organised around independent freelance workers such as composers, lyricists, musicians and music producers who generally handle aesthetic production. The recording, or industrial production, of music is mainly performed by record companies, which operate as central A&R (Artists and Repertoire) or recruitment organisations and as releasers of the finished recordings. Important in this context (i.e. as producers of core products or services in the industry) are music publishers and concert promoters/producers. This aesthetic and industrial production is embedded in a number of distinctive economic and culture-producing functions and intermediaries that support different phases of the production chain. This is of course a simplified picture, since the production of music is not a series of linear activities undertaken by different atomistic firms or creators. Rather it could be seen as a number of intersecting areas – networks – where ideas and commodities are circulated amongst individuals and firms. Thus, these networks are as follows: first, a network of creativity, formed from the fusion of networks of composition and representation, wherein music is created through multiple acts of performance; second, a network of reproduction, which is a narrower definition of the original network of repetition, and which includes the manufacture of multiple copies of audio recordings; third, a network of distribution; and, fourth, a network of consumption, incorporating retail organisations. These four core networks are linked to and supported by producers and suppliers of machinery and equipment – ranging from CD pressing plants to instrument makers – and to a range of associated and related

services – including activities ranging from specialised accountancy and legal services to specialised logistics and transport services.

With this understanding of what the music industry involves, teams in each of the Nordic countries set out to investigate the current state of, and competitiveness of, the music industries in each of their countries. This work took place between April 2002 and March 2003 and essentially consisted of two parts. The first part of the work was to ‘map’ the music industry in each country. This involved both an attempt to measure the industries (in terms of such elements as employees, firms, sales, institutions, etc.) and to highlight especially important trends, strengths, weaknesses, and emerging issues, threats and opportunities.

The second part of the work involved each of the teams carrying out targeted case studies. These case studies were designed to address particularly important issues and developments identifiable in both the country the case study was carried out in and the industry in general. Thus although the case studies are based on material collected in specific countries the aim of them is to draw out issues and conclusions that may equally apply to the music industries of all five countries. The case studies then take a targeted look at important issues such as: inter- and intra-firm coordination and collaboration; relations between major and independent firms; regional cluster initiatives aimed at creating music centres; digital distribution; business competencies and skills; export strategies and issues; relations between foreign subsidiaries and local firms and scenes; and developing synergies between music and ICT (information and communications technology).

This report mirrors the two main parts of the research work. In the first part of the report we present the results of the national ‘mapping’ exercises; with an introduction that highlights commonalities and important differences between the national industries. The second part of the report presents the results of the eight case studies carried out. This section of the report begins with an introduction that briefly summarises the current state of research into the music industry, how the case studies relate to the literature, and briefly summarises some of the main findings of the case studies. The report finishes with the presentation of the research groups’ suggestions for improving the competitiveness of the music industry (both at national and Nordic levels). These suggestions are presented in the form of challenges that need to be addressed and are aimed at both actors within the industry itself and also public sector actors who may wish to support the industry.

One unusual aspect of this report is that it is based on findings from five countries. As far as we are aware this is one of the first academic research projects that has addressed the industrial dynamics and structure of the music industry from such a detailed comparative perspective. The involvement of five countries and the explicit aim of international comparison and benchmarking that underpinned the work we felt greatly added to the scientific accuracy and strength of the research; as well as making the results more useful, reliable and applicable to the realities of what is a highly internationalised industry. A key conclusion of the project is that there is much that can be learnt by each country’s music industry from their neighbours and that cooperation could greatly help the industries in the future. The final section of policy challenges outlines many actions that can be taken by all the national industries to improve their competitiveness, and in addition many that can be applied cross-nationally at a Nordic level.

However, the findings of the project also demonstrate the extremely complex situation facing the Nordic music industries in the fields of innovation, competitiveness and economic change. It is obvious from the report that instead of a distinctly Nordic music industry and business model we have in fact a handful of separate national industries and business models. What should however be noted here is that the variations between these national industries and models can only be partly explained by factors such as market size. From the study it appeared that time and time again it was key actors and the mode of coordination and cooperation between them that stood out as explaining success. Most obviously this can be seen in the fact that in general the production of popular music is more competitive when the firms involved are gathered together in a coherent and agglomerated industry. The success of music industries based in certain cities, such as Stockholm, demonstrated to us that individual music firms and actors are more successful when they are near each other. Such proximity does not just boil down to physical proximity (although this can help) but most importantly to dense social networks and shared business cultures and identities. It seems that in order to best encourage the competitiveness of the Nordic music industry support needs to be given to efforts and initiatives that try to build up such networks, or clusters, of firms and individuals in certain places.

Supporting the music industry's innovation, industrial functioning and competitiveness thus involves concerted action at both local-national and international levels. In order to compete in a global industry and marketplace cooperation between the relatively small Nordic music industries holds many benefits. At the same time the music industry is one based on social and human capital and competencies that are best nurtured in strong localised industrial settings. We hope that this report helps highlight ways in which such a difficult balance can be better achieved and how taking music seriously as a growing and important industry can help us better profit from sound.

Mapping the National Industries: Overview and Key Findings

As mentioned earlier a major concern of the project was to measure or ‘map’ the music industries in each country. This work involved the measurement of basic indicators such the numbers of employees and firms involved, sales, and market values, etc. The work also involved assessing major trends in the industries: in particular changes in the way the industry is organised and the way different parts and activities work together (or not). Information was also gathered on, for instance, supporting institutions, industry organisations and associations, educational programmes relevant to the industry, and governmental policies with an effect on the industry.

It should be noted that such measurement is far more difficult than it may first appear. Collecting even basic facts and figures on the music industry is extremely difficult and prone to a series of potential inaccuracies. Take for instance the seemingly basic question: how many people work in the music industry? The most reliable data available, official governmental statistics, use so-called Standard Industrial Classifications (SIC) to organise the measurement of industries. SIC-coded data tends to serve the music industry very poorly as there are no independent categories for the music industry: they tend to aggregate or bunch music industry firms together firms from other similar industries (e.g. publishing or media). A further problem with using such statistics is that it is virtually impossible to account for related and associated services as they are hidden within other industries’ statistics. There is also the difficulty that in all the countries there are large numbers of musicians, technicians, marketers, promoters, etc. that only occasionally, or on a part-time/causal basis, work in the music industry, and are therefore not captured by available measures. Finally, because of the different methods of collecting employment data, and different data protection laws, in different countries finding both reliable and comparable data is extremely difficult. Unfortunately it is not only in the area of employment data that such problems arise. Thus the facts and figures presented in this report should be viewed as indicative rather as categorical; though every effort has been taken to make sure they are as accurate as possible. A first finding of the study then was that there is a great need for reliable and accurate data on the music industry. It would be enormously helpful to the industry and to analysts if regularly updated and readily comparable data was available in order to benchmark the industry and understand key trends.

Despite these data problems we found a clear set of patterns indicating that the music industry in the Nordic countries is undergoing rapid growth but also substantial restructuring. Before going on to present detailed accounts of each country we present some common key findings:

Key Findings from the Nordic Countries

Employment Growth Trends

- In the longer term (the past 10-15 years) there has been a growth in those employed in music in all countries. In the shorter term this pattern has been more differentiated. Between 1995 and 1999 (the last year for which accurate comparative figures were available) employment growth was observed in Finland, Iceland, Norway and Sweden; in the same period employment dropped 5% in Denmark (though it was still 10% above its 1992 level).
- Employment growth does not apply to all firm types. There is strong evidence that in the last few years the majors and the larger independents are downsizing in Iceland, Norway and Sweden. This is not the case in Denmark and Finland; but indications are that companies are beginning to try to downsize in Denmark.
- The national industries remain largely male-dominated with female participation almost entirely accounted for by low-level clerical and administrative functions. Evidence from Sweden suggests this is very slowly changing. In addition to wider equality issues, the under-representation of women in decision making functions - especially A&R - may limit product development and sales aimed at female consumers (consuming music is a very personal process and the industry needs the most representative workforce possible in order to react to the consumers).

| | No. Firms 1999 | No. Employees 1999 | % Firm Growth 1995-99 | % Growth Employment 1995-99 |
|----------------|-------------------|--------------------------|-----------------------------|-----------------------------------|
| Denmark | 1918 | 3057 | 11 | -5 |
| Finland | 2143 | 3108 | 50 | 10 |
| Iceland | 107 | 948 | 16 | 9 |
| Norway | 1177 | 9125 | 14 | 35 |
| Sweden | 3839 | 8292 | 20 | 9 |

Firm Growth Trends

- Since 1990 there has been high rates of growth in the number of firms active in all the Nordic music industries. This is despite the fact that in several of the countries the number of active firms in the rest of the economies has been falling.
- Growth has been particularly strong in the areas of independent firms and firms engaged in production activities.
- In Finland and Sweden there has been a growth in publishing companies and activities.
- The size of Iceland means that few companies exist and none are active in areas such as publishing.
- In all five countries there has been strong growth in independent record labels. On the other hand major record labels have been downsizing in some countries.

Industry and Firm Restructuring

- Firms active in all five countries appear to be undergoing a period of restructuring and change.
- Boundaries between traditional activity types are getting blurred: most notably in the independent sector. In particular, boundaries between record companies, publishers and promotion companies are increasingly unclear or they are all involved in the same activities. Strong indications exist that to suggest that firms are preparing for an industry shakeout and are attempting to position themselves in various activities so as to maximise their chances of survival.
- Interconnections between major and independent firms are in many cases increasing. In addition to a longer history of alliance building, mergers and acquisitions, independents and majors are increasingly linked together by the larger firms' increased use of project-working and out-sourcing. In general, it appears that cooperative and collaborative firm relations seem to be on the increase and acquisitions of independents by majors are on the decline.
- Evidence suggests that, in all the Nordic countries, national industries are experimenting with new divisions of labour. Larger firms, in particular the majors, are increasingly focused on marketing and sales, distribution, and the exploitation of catalogue material. Independents are increasingly responsible for A&R and 'creative development' functions: they account for the majority of new domestic products but the minority of sales revenues.
- Changes in the activities and shape of the majors in each country need to be monitored closely. The level of the majors' active involvement in a nation is a key determining factor in industry restructuring, divisions of labour, and export potential. Evidence from Sweden shows that the majors can be crucial channels and champions for the export of domestic products. However, in Denmark, Norway and Sweden the majors are sourcing fewer inputs domestically; in Iceland and Finland they are increasing their use of domestic inputs.
- The nature of the majors' orientation to domestic repertoire has a key effect on exports. The nature of this involvement seems largely dependent on local actors employed in national branches of the majors. More particularly local actors' success in promoting the export of domestic repertoire seems to rely on the degree to which local actors are (a) embedded in the domestic industry, (b) mobile within the larger corporate group and (c) possess credibility within the larger corporate group. External networking of corporate actors seems to be a key issue for national branches' corporate policy.
- Clear evidence exists that the wider global sales and revenue problems the majors are suffering has effects on the actions and independence of Nordic branches of these corporations. The majors' global priority lists are more important than ever and shorter than ever with the result that many parent groups (and larger territory branches) are allowing less independence to Nordic majors' and distributors' promotional budgets, release strategies, and general operations. Problems in the global marketplace (especially in the US market) therefore have a direct effect on the Nordic music industries' domestic operations and export potentials.

Sales and Retail Environments

- The Nordic countries have experienced long-term sales growth with rapid retail value growth until 1998 but declining relative sales growth in the last 3-4 years. With the exception of Finland and Sweden the countries have relatively high per capita spending on musical products.

| | Unit sales 2000 (million units) | Retail value 2000 (million US\$) | Unit sales per capita 2000 (units) | Music expenditure per capita 2000 (US\$) |
|----------------|------------------------------------|-------------------------------------|--|--|
| Denmark | 19.5 | 233.3 | 3.7 | 43.8 |
| Finland | 11.4 | 115.8 | 2.2 | 22.4 |
| Iceland | 0.8 | 15.2 | 2.7 | 54.6 |
| Norway | 15.0 | 232.3 | 3.3 | 52.0 |
| Sweden | 28.2 | 322.9 | 3.2 | 36.5 |

Source: IFPI 2001

- With the exception of Finland, unit sales have been consistently increasing. In recent years there has been an increase in mid-price sales but declining sales in full-price products (with the exception of Norway). This signals a shift towards new pricing levels and mechanisms.

| Percentage growth 1991-2000 | | | | | |
|------------------------------------|------------|--------------|-------------------------|--------------------------|---------------------------------|
| | Unit sales | Retail value | Retail value indexed | Unit sales per capita | Music expenditure per capita |
| Denmark | 74.1 | 27.8 | 23.3 | 68.1 | 23.4 |
| Finland | -19.2 | 14.8 | -0.5 | -20.7 | 11.5 |
| Iceland | 5.7 | 49.3 | 33.1 | -2.5 | 37.7 |
| Norway | 29.1 | 96.9 | 74.3 | 21.9 | 85.8 |
| Sweden | 24.7 | 69.2 | 42.1 | 21.0 | 64.2 |

Source: taken from the figures compiled by project participants

- Musical products are in increasing competition with other entertainment products: notably computer games and DVD.
- The type of retail forms involved in the sale of music has changed rapidly. With the exception of Iceland and Denmark (no reliable data available), internet and mail order sales have been rapidly growing - though from a very small base. Rack retailers and mass merchandisers have taken increasingly large market shares in all countries.
- There has been an increasing concentration of retail enterprises: fewer specialised outlets and bigger chains. These fewer players have more power to determine discounts (on average 20% in Denmark and 30% in Norway) and insist on more flexible returns policies. 'Price-and-position' payments and 'cooperative advertising' funds are now commonly demanded by retailers thereby further increasing the cost to record companies and distributors of entry into the retail market.

Export Growth Trends

- All the Nordic countries have experienced long-term growth in music exports. In particular, Sweden has enjoyed sustained long-term growth in music exports and international exposure. However, for all countries recent downward trends on global markets mean either potential slowing or negative growth in exports.

- In the cases of Finland, Iceland and Norway musical products have enjoyed growing domestic and international exposure. However, growing international exposure has not been fully translated into economic benefits at home.
- Denmark has experienced long-term export growth but since 2000 music exports have stagnated.

Policy Environments and Supporting Institutions

- All countries have well-developed educational systems and resources for musicians. Such educational systems are a vital resource underpinning the future of the music industry.
- Public sector cultural policies are in all countries more heavily focused on non-commercial and 'artistic' music forms. There is good support of creative content. However, classical music is better served than 'popular' music.
- Public sector cultural policies have inadequate integration with business development policies: i.e. too little cultural policy in business policy and too little business policy in cultural policy. This means that popular music can fall between two stools: on the one hand it is given very low priority within 'cultural' policy and on the other it is not deemed a valid or credible 'industry' appropriate for inclusion in industrial policy.
- In Denmark, Finland and Sweden there is an emerging set of formalised third level and vocational courses and music and music business education.
- All countries had well-functioning collecting societies and intellectual property regimes. However, copyright issues emerging from the development of new forms of music media, such as ring signals, need urgent concerted action.
- Venture capital support and export promotion support needs better public backing.

Denmark

Mark Lorenzen¹ and Lars Frederiksen²

Executive summary

- The Danish music industry has recently surfaced as a flourishing sector with high rates – related to national average – of exports, turnover growth and firm start-ups.
- We found serious problems defining the music industry due to for example lack of useful data. NACE codes are insufficient for describing the activities of the industry.
- The industry creates value from traditional use of property rights (mechanical royalties from CD sales) rather than from supplying international artists with songs, or exploiting music in new media such as movies, games, or ring signals. Yet, a substantial part of revenues comes from sales and IPR's of record companies back catalogues. There are also relatively few Danish industries related to the music industry, such as instrument or software producers. This means that today, a key performance issue for the Danish pop music industry is product innovation in the traditional sense: Release of new music CDs.
- Denmark has a globally high level of per capita music expenditure. A European barometer survey (2002) finds that Denmark is the nation within the European Union where most people listen to pop and rock music.
- The Danish market for music (retail value) is according to IFPI rated as the 20th largest in the world. The value of the Danish record sales reached US\$233 million in 2000 but by 2002 had dropped around 25%. Sales of recorded music experienced growth from 1991 to a peak in 1996 of around 67%. However, from 1996 to 2000 we find a drop in sales of 23%. A drop that has increased seriously in the period from 2000-2002 both concerning units sold and value of sales.
- The origin of repertoire sold on the Danish market is: 30% domestic, 65% international artists, 5% classical. However, there is a growing trend towards more releases of Danish artists/acts though fewer of these Danish releases seem to derive from the major record companies.
- In 2000, 19.3 million units were sold in Denmark. Unit sales the unit number have increased since 1991.
- In 1999, the industry turnover was US\$856 million: around 0.37% of total Danish GDP. The music industry's turnover growth (index 1992=100, 1999=163) has been higher than that of the general Danish economy (index 1992=100, 1999=131).
- In the last 6-8 years the exports have grown. Total export values grew from US\$44.2 million in 1992 to US\$96.7 million in 1999. This accounts for approx. 0.20% of total Danish exports.
- The Danish pop music industry has 3057 full-time employees in 1918 firms. There has been a 19% increase in the number of active firms since 1995. The number of employees has increased by only 10% between 1992 and 1999.

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- The majority of music industry firms are SMEs: more than 90 % have less than 9 employees – 80% of firms are either sole-traders or have one employee.
- Almost 46% of the firms of the industry are located within the Greater Copenhagen area. Copenhagen also has the highest rate of firm start-ups.
- The five majors dominate the recording business in Denmark. These five with a further 5-10 partly independent firms, account for 95-98 % of the sales of recorded music in Denmark. EMI alone accounts for 48% of the national market.
- The numbers of Danish record producers grew from 12 in 1992 to 244 in 1999 (193%). However, there are relative few independent labels in Denmark relative to the UK or Sweden.
- There is a lack of industrial policy targeted at the music industry. However, current initiatives from government to support creative industries, set up music management courses, and efforts by regional agents to set up music cluster initiatives are promising.

Introduction

During the 1990s, the Danish music industry experienced rapid growth in the number of employees, sales, and export rates (relative to the total Danish economy). This trend, working in tandem with the export successes of Danish artists such as Aqua, Olsen Bros., and Safri Duo, spurred considerable political interest. The Danish music industry developed from being a policy resort area of the Ministry of Cultural Affairs into an industry believed to hold a lever for a small and open low-tech economy such as the Danish in the setting of a new knowledge- and experienced-based World economy. Innovation and production of music products (as well as film-making, book publishing and other “creative” products) hence emerged as a new trade and industry policy area.

What follows is a brief mapping of various aspects of the Danish pop music industry, presenting mainly quantitative, but also qualitative, data. First, the output of the music industry is related to three parameters illuminating the industry’s performance: sales per year (value and units); turnover of firms in the industry; plus export rates. Next, the activities of the industry are mapped according to employment; industry structure (number of firms, size structure, and spatial configuration). Finally, we outline the national institutional set-up of relevance for the pop music industry.

Record sales

The Danish market for music is the 20th largest in the world, according to IFPI. In absolute terms, the Danish market for music recordings is small, accounting for approximately 0.1 – 0.2 % of the Danish economy (TI, 2000). Nevertheless, growth of turnover and exports makes the industry interesting. Notably, the growth rates of the industry seem to be caused by an increase in export revenues rather than by an increase in domestic spending (IFPI, 2002). There have not been significant changes over the last 10 years in Danish consumption of domestic and international pop (as well as classical) releases. In 2000, 30% of the sales value stemmed from domestic pop music, and 65% from international (while classical music accounted for the last 5%).

Table (1): Value of the record sales (millions of USD) and number of units sold in Denmark 1991-2000 (millions)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Value (singles and albums) | 182.5 | 192.0 | 190.0 | 265.6 | 306.3 | 306.8 | 273.2 | 266.5 | 263.9 | 233.3 |
| Total Units (3 singles =1 album) | 11.2 | 10.3 | 11.0 | 15.8 | 15.3 | 17.9 | 18.4 | 17.8 | 18.8 | 19.5 |

(Source: IFPI 2002)

Table 1 shows a 67% increase of value of record sales from 1991 to 1996 (caused by a growing consumer interest in music, a general growth in disposable income, and a increasing release rates of new music products), but a 20% drop from 1996 to 2000. The downturn is not so significant when measured in numbers of units sold, where there is an almost 75% increase from 1991 to 2000. Yet, recent figures from IFPI-Denmark indicate a severe drop both in sales of units and in value: The number of units sold on the Danish market dropped from 15.2 million in 2001 to 11.9 millions in 2002, and sales value dropped approx. 32% from 2000 to 2002, and approx. 28% for the entire period from 1996-2002.

Turnover

Table (2): Figures on the turnover for the Danish music industry and the general turnover for the total Danish economy (1992-1999).

| Year | Turnover music industry (mill. \$US) | Turnover general Danish economy (mill. US\$) | Music as % of total Danish turnover | Music industry turnover growth indexed (1992=100) | Danish economy's turnover growth indexed (1992=100) |
|------|--------------------------------------|--|-------------------------------------|---|---|
| 1992 | 523.9 | 177745.5 | 0.29 | 100 | 100 |
| 1995 | 755.2 | 200154.5 | 0.38 | 144.2 | 122.6 |
| 1997 | 769.8 | 222038.1 | 0.35 | 147 | 125 |
| 1999 | 856.1 | 234046.4 | 0.37 | 163.4 | 131.7 |

(Source: The Danish Statistical Office 2002)

The turnover of the Danish music industry accounts for about 0.37 % of total Danish GDP, and has increased significantly during the 1990s (TI 2000). The music industry has experienced a 63.4% growth in the period 1992-1999, whereas Danish GDP has only grown by 31.7%. The bulk of turnover growth has taken place within the industry segments 'Publishing of sound recordings' and 'Reproduction of sound recordings' (TI 2000).

Exports

Export rate figures may inform us about the international competitiveness of Danish music relative to e.g. the US, UK and the other Nordic countries. The total exports of the Danish music industry were in 1999 estimated to account for approximately 0.18% of the total Danish export of goods and services. The exports of the music industry grew significantly in the period 1992-1999, particularly when compared to the development of total Danish exports during the same period. The Danish music

industry also experienced above-average growth in employment and the number of firm start-ups (see table 6).

Table (3): Figures on exports of the Danish music industry and the general Danish economy from 1992-1999

| | Music industry exports (mil. US \$) | Total Danish exports (mill. US\$) | Music as % of total Danish exports | Music industry exports growth indexed (1992=100) | Danish economy's export growth indexed (1992=100) |
|-------------|-------------------------------------|-----------------------------------|------------------------------------|--|---|
| 1992 | 44.2 | 41849.2 | 0.11 | 100 | 100 |
| 1995 | 95.7 | 48713.0 | 0.20 | 216.5 | 166.4 |
| 1997 | 81.1 | 51454.1 | 0.16 | 183.5 | 123.0 |
| 1999 | 96.7 | 54478.6 | 0.18 | 218.8 | 130.2 |

(Source: The Danish Statistical Office 2002)

Table (4): Number of receivers of royalties from abroad, 1997-1999

| | 1997 | 1998 | 1999 |
|---------------------|------|------|------|
| Number of receivers | 2176 | 2489 | 2717 |

(Source: The Danish Music Information Center, 2002)

The figures of the number of Danish artists receiving royalties from abroad illustrates an increase of the use of Danish music abroad. Also, as the figures illustrate that Danish music export revenues do not rest upon a few stand-alone hit records³, they suggest that the Danish music industry may have a significant future export potential.

Table (5): Export revenues of music products in 1998 and 1999 (million US\$)

| Export revenues from music | 1998 | 1999 |
|--|--------------|--------------|
| Music products total (CD's, etc.) | 38.44 | 28.01 |
| Performance rights (KODA) | 2.13 | 2.40 |
| Radio/TV- rights (GRAMEX) | 0.36 | 0.13 |
| GRAMEX, | 0.85 | 0.85 |
| Mechanic rights: Via NCB | | 1.47 |
| Mechanic rights: (direct from publisher) | 9.07 | 5.13 |
| NCB's affairs abroad | 3.98 | 9.98 |
| Concert-bookers, managers, etc. | 15.09 | 12.07 |
| Danish artists signed abroad | 3.02 | 3.62 |
| CD production | 15.70 | 16.30 |
| Total music exports | 88.64 | 79.96 |

(Source: The Danish Music Information Center, www.mic.dk)

³ Neither Aqua nor Safri Duo released material in 1999

Most export income is generated by sales of finished music products (CDs). Payment of the performance and publishing rights derives from the collecting societies of KODA⁴ and NCB (although some parts of the export markets are not covered by KODA).

Demand

Tastes on the Danish market for music are mainstream and relatively homogenous, and hit-kists and sales are dominated by domestic music. Within the 10 best selling CDs in 2000, 5 are Danish produced and featuring Danish artists, and on the Singles Top 50, the 5 best selling singles are all Danish of origin (IFPI, 2002). The number of sound recordings⁵ sold 1998 in Denmark amount to 3.3 units per capita, a purchase rate only surpassed by the US (4.,0) and the UK (3.9). Sweden (2.9) is below Denmark. For the US and UK, market size clearly matters, as record companies develop many more products for domestic markets than in the Nordic countries. Nevertheless, Danish consumers’ strong preferences for Danish music seemingly help remedying the effects of the small size of the Danish market.

Employment and firms

The number of firms within the music industry has increased over the last decade: Whereas in 1992, the number of music firms accounted for 0.47% of all Danish firms, in 1999, the 1918 firms in the industry accounted for about 0.59% of all Danish firms.

Table (6): The number of firms, employed and full-time employed in the Danish music industry (1992-1999)

| | 1992 | 1995 | 1997 | 1999 |
|----------------------------|------|------|------|------|
| Number of firms | 1618 | 1735 | 1803 | 1918 |
| Total Employed | 4948 | 5432 | 4983 | 5429 |
| Full-time employees | 3109 | 3205 | 2834 | 3057 |

(Source: The Danish Statistical Office, 2002)

Entrepreneurship is high within the music industry, particularly when compared to the Danish average: There was a 19% increase in the number of firms in the music industry from 1992 to 1999, while in the same period, the total number of Danish firms decreased by 4.5%. Yet, the growing number of firms is not matched by an increase in the number of full-time employed. From 1992-1999 we find an increase of about 10% in employment, but the number of full-time employed shows no significant changes. As illustrated in Table 6, there is a small increase in the period 1992 to 1995, but a severe drop from 1995 to 1997, and just a weak recovery in 1999. The 3057 persons full-time employed in the music industry in 1999 account only for 0.26 % of the number of full-time employed in the total Danish economy. The total number of employed in the Danish music industry increased slowly from 1992 to 1995, and, after a drop 1995-1997, has gown slowly since.

⁴ KODA is the main body of the Danish society for collecting royalties.
⁵ In this measurement three singles count as one sound recording unit (Eurostat 2000)

Table (7): Number of people employed in various sectors of the Danish music industry (1992-1999)

| Branch (NACE code) | 1992 | 1995 | 1997 | 1999 |
|--|-------------|-------------|-------------|-------------|
| Creation | | | | |
| 923110 Performing artists, producers of artistic and literary work | 268 | 801 | 776 | 675 |
| Industry | | | | |
| 221400 Publishers of sound recordings | 61 | 190 | 198 | 450 |
| 221500 Other publishers | 2763 | 1872 | 1174 | 1427 |
| 223100 Industry for the reproduction of sound recording | 29 | 169 | 172 | 376 |
| 246500 Industry for prepared unrecorded media | | 188 | 346 | 17 |
| Distribution | | | | |
| 514330 Wholesale (CDs, tapes, records, videotapes) | 469 | 736 | 768 | 809 |
| 524530 Stores for records & videotapes | 272 | 383 | 439 | 485 |
| 524540 Stores for music, instruments & music scores | 460 | 426 | 484 | 453 |
| 923200 Theatre & concert hall companies etc | 326 | 352 | 306 | 431 |
| Machinery & equipment | | | | |
| 363000 Industry for music instruments | 300 | 315 | 320 | 306 |
| Total number of employed of the music industry | 4948 | 5432 | 4983 | 5429 |
| Total number of employees in Denmark | 1554948 | 1585432 | 1634983 | 1685429 |

(Source: The Danish Statistical Office 2002)

Table (8): Number of firms in the different sectors of the Danish music industry (1992-1999)

| Branch (NACE code) | 1992 | 1995 | 1997 | 1999 |
|---|-------------|-------------|-------------|-------------|
| Creation | | | | |
| 923110 Performing artists producers of artistic and literary work | 129 | 180 | 185 | 219 |
| Industry | | | | |
| 221400 Publishers of sound recordings | 12 | 150 | 219 | 244 |
| 221500 Other publishers | 600 | 464 | 434 | 417 |
| 223100 Industry for the reproduction of sound recording | 7 | 19 | 33 | 39 |
| 246500 Industry for prepared unrecorded media | | 5 | 5 | 7 |
| Distribution | | | | |
| 514330 Wholesale (CDs, tapes, records, etc.) | 43 | 85 | 106 | 107 |
| 524530 Stores for records & videotapes | 41 | 127 | 128 | 158 |
| 524540 Stores for music, instruments and music scores | 255 | 224 | 208 | 196 |
| 923200 Theatre and concert hall companies | 420 | 361 | 369 | 416 |
| Machinery & equipment | | | | |
| 363000 Industry for music instrument | 111 | 120 | 116 | 115 |
| Total | 1618 | 1735 | 1803 | 1918 |

Whereas the category 'Other publishers' has experienced a particular employment decrease, employment has increased in sectors as 'Wholesale' (514330), 'Publishing of sound recording'

(221400), ‘Industry for the reproduction of sound recording’ (22310), and ‘Performing artists, producers of artistic and literary works’ (the latter by an impressive 152%).

There has been a 193 % growth in the number of record labels (NACE: 221400), from 12 in 1992 to 244 in 1999, while we see a 35 % drop in the number of ‘other publishers’ (NACE: 221500) during the same period. In most other sectors, the picture has been more static.

Table (9): Size and number of firms in the various parts of the Danish music industry, 1999

| Branch (NACE code) | Number of employed – Firm size | | | | | Total |
|--|--------------------------------|------------|-----------|----------|----------|--------------|
| | 0 | 1-9 | 10-49 | 50-99 | 100(+) | |
| Creation | | | | | | |
| 92310 Performing artists producers of artistic and literary work | 169 | 42 | 8 | | | 219 |
| Industry | | | | | | |
| 22140 Publishers of sound recordings | 224 | 17 | 2 | | 1 | 244 |
| 22150 Other publishers | 319 | 86 | 8 | 3 | 1 | 417 |
| 22310 Industry for the reproduction of sound recording | 31 | 5 | 2 | | 1 | 39 |
| 24650 Industry for prepared unrecorded media | 5 | 1 | 1 | | | 7 |
| 51433 Wholesale (CDs, tapes, records, videotapes) | 57 | 33 | 14 | 2 | 1 | 107 |
| Distribution | | | | | | |
| 52453 Stores for records & videotapes | 121 | 31 | 4 | 2 | | 158 |
| 52454 Stores for music, instruments & music scores | 132 | 57 | 7 | | | 196 |
| 92320 Theatre & concert hall companies etc | 375 | 40 | 1 | | | 416 |
| Machinery & equipment | | | | | | |
| 36300 Industry for music instruments | 96 | 13 | 5 | 1 | | 115 |
| Total | 1529 | 325 | 52 | 8 | 4 | 1.918 |

(Source: The Danish Statistical Office, 2002)

Most firms in the music industry are small and medium sized enterprises (SMEs) having less than 9 employed, and more than 80% are one-person firms (many of those are owned by artists). The average number of persons employed (not full-time) per Danish music firm 1999 was 2.8.

Firm location

There is a clear concentration of music firms within the Greater Copenhagen area (Copenhagen and Frederiksberg municipality and Copenhagen council), accounting for 46% of all firms of the Danish music industry. A minor concentration (12%) of firms is found in the city of Aarhus (Aarhus Council). The music industry concentration within the Greater Copenhagen area is more significant than the concentration of firm in all industries (19%). The number of firm start-ups in the period 1992-1999 was also larger in the Copenhagen region than in other parts of Denmark.

Table (10): The spatial distribution of firms in the Danish music industry from 1992 to 1999

| Location (council) | 1992 | | 1995 | | 1997 | | 1999 | |
|-----------------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Music industry | Total in area | Music industry | Total in area | Music industry | Total in area | Music industry | Total in area |
| CPH and FRDBRG Municipality | 435 | 30,143 | 479 | 29,672 | 550 | 30,811 | 649 | 32,206 |
| Copenhagen Council | 212 | 29,100 | 228 | 29,321 | 229 | 29,518 | 238 | 30,188 |
| Frederiksborg | 120 | 21,609 | 120 | 21,503 | 124 | 21,898 | 129 | 22,557 |
| Roskilde | 71 | 13,305 | 55 | 13,081 | 41 | 12,902 | 55 | 13,138 |
| Vestsjællands | 63 | 19,983 | 63 | 19,104 | 72 | 19,027 | 77 | 19,098 |
| Storstrøms | 44 | 17,551 | 45 | 16,524 | 44 | 16,213 | 42 | 16,072 |
| Bornholms | 12 | 3,677 | 10 | 3,248 | 15 | 3,076 | 15 | 2,977 |
| Fyns | 98 | 28,510 | 118 | 27,502 | 120 | 26,870 | 115 | 26,721 |
| Sønderjyllands | 47 | 17,934 | 52 | 17,387 | 62 | 17,001 | 52 | 16,566 |
| Ribe | 44 | 16,422 | 40 | 15,416 | 43 | 15,094 | 46 | 14,918 |
| Vejle | 74 | 22,510 | 89 | 21,669 | 72 | 21,666 | 70 | 21,720 |
| Ringkøbing | 43 | 23,145 | 49 | 21,567 | 51 | 21,051 | 50 | 20,490 |
| Århus | 204 | 38,740 | 231 | 37,200 | 236 | 36,938 | 238 | 36,910 |
| Viborg | 38 | 21,723 | 45 | 20,351 | 38 | 19,726 | 35 | 19,445 |
| Nordjyllands | 113 | 36,258 | 111 | 33,352 | 106 | 32,233 | 106 | 31,639 |
| Total | 1618 | 340,813 | 1735 | 326,899 | 1803 | 324,051 | 1918 | 324,645 |

(Source: Danish Statistical Office 2002)

Record Companies

The record company segment is characterized by a high level of disintegration, but also a strong concentration of market power. Even with a growing number of small independent labels (today, there are between 60 and 80 such labels), 75-90 % of sales are undertaken by branch plants of the five major multinational labels (EMI, BMG/Bertelsmann, Sony/CBS, Universal/Vivendi and AOL Time Warner). The members of IFPI/DK account for approximately 95% of the record sales in DK per year. IFPI represents 37 companies: The majors, larger independent labels, plus umbrella organisations of the major independent labels.

The five majors situated in Copenhagen seem to put increasing emphasis upon marketing and distributing products from their international back catalogue than upon searching for and signing Danish music. Whereas EMI still sign Danish music, BMG, Sony Music Denmark (and to a less extent Universal) narrow down the number of yearly releases of Danish music. The majors employ 20-40 persons each in Denmark. While on a global scale EMI is the smallest company of the five, it has the largest presence in Denmark. It has 47% of the market for Danish music in Denmark, and pursues a policy of buying stakes in various Nordic independent companies (Pogo/Finland, Virgin, CMC, and Medley/Denmark) as well as using Danish independent labels for 'external A&R'. There are few Danish independent record labels as compared to the UK or Sweden. The Danish majors have

appropriated much staff from independent record companies, through acquisition (of e.g. Medley into EMI; Pladecompaniet into Sony; and Genlyd into BMG).

Even if TI (2000) argues that about 67% of the firms of the Danish music industry collaborate as sub-suppliers and almost 50% as direct customers, there are relatively few horizontal collaborations and alliances in the industry, and IFPI/Denmark plays a modest role of coordinating among its members. One consequence is that 'food chains' among majors and independents (where independents function as 'external A&R' for majors performing marketing and distribution tasks to the benefit of independents) are relatively sparse.

Distributors and retailers

Most of the majors and a range of independents co-own the distribution company GDC, covering 90% of Danish distribution of audio and video products.

There are three main types of Danish music retailers, holding almost equally market shares: 1) The specialised independent record shops (e.g. GUF, and TP Music), 2) The large national or even international music retail chains (e.g. Fona and HMV), and 3) Supermarkets (e.g. FDB or Dansk Supermarket (i.e. Føtex, Bilka, and OBS). While not included in the statistics in the current mapping exercise, the latter segment is becoming an important player.

Live performances

A recent Europeanbarometer survey refers that the highest rate of people attending a pop/rock concert during the last 12 month is found in Denmark (Eurostat 2002).

Public authorities

The Danish music industry is affected by three ministerial resort areas, those of the Ministry of Cultural Affairs, the Ministry of Trade and Industry, and the Ministry of Education. In 2000, the Ministry of Cultural Affairs drafted a White Paper on the development of the 'Creative Industries', concluding that interaction between the creative and the business field will yield economic synergies. However, while this ministry supports the development, production and performance of Danish music primarily from a cultural perspective, the Ministry of Trade and Industry has so far demonstrated relatively little participation to the more business related aspects of the music industry.

According to the Danish Music Act from 1976, funding to popular music genres is mainly allocated through the Danish Music Council, being the main political authority concerning the music industry. Holding the final administrative authority with respect to the distribution of subsidies, the Music Council advises and assists public authorities and institutions in matters related to music. Both classical and rhythmic music are subsidized. The amount allocated to the Danish Music Council in the Finance Act of 2001 is approx. US\$23 million; US\$9.2 million are subsidies for the more than 200 music schools for children and youth; and US\$3.47 million are subsidies for venues arranging rhythmic music concerts. The council subsidises specialised organisations within the field of rhythmic

music such as the Danish Rock Council ROSA, the Danish Folk Council FFS, the Danish Jazz Federation, and The Danish World Music Association. The majority of funding from the council is given to prioritised genres as classical music, children's music, folk and jazz music, rather than pop music. The county music committees and similar music committees in the municipalities of Copenhagen and Frederiksberg support local music initiatives. Other local Danish governments also support music initiatives within their respective areas.

The Danish Music Information Center MIC is an important player in the Danish music industry, addressing the development of both its cultural and business related aspects. This institution is a state-funded, non-profit organization set on providing information about and promoting Danish music at home and abroad, disseminating knowledge – nationally and internationally – of Danish music, providing existing information, registration and documentation of Danish music, and coordinating initiatives abroad to ensure the best possible use of public subsidies.

The Danish Rock Council ROSA is music-political umbrella organisation representing a range of music associations and organisations. It is an independent organisation, yet mainly publicly funded. ROSA's objectives are to support Danish rock music and related genres as stipulated in the Music Act, support public institutions in cultural and musical political matters related to the rhythmic music scene, and to support the distribution of Danish music nationally as well as internationally. Other independent organizations such as the Danish Musicians Union, the Danish Artist Association, and Spillested DK are involved in organising ROSA activities. In particular, ROSA's support functions for upcoming bands and artists are successful.

Public education institutions

Denmark has six high-level music education institutions (conservatories), engaged in educating professional musicians, singers, composers, music teachers, etc., and there are courses related to rhythmic music at all these institutions. In order to enrol at the conservatories, one must pass an extensive admission test. In 2002, 682 were accepted on the Danish conservatories. Musikalsk Grundkursus MGK, a two year part-time preparatory classes for conservatories, is offered at several public music schools all over Denmark.

At high school level, there are 2 hours a week compulsory classes in music understanding and practice and some high schools offer a specialised line offering music education. Furthermore, there are a few specialised gymnasiums that offer a special music education. Music schools for children and young people are found in almost all of the 275 municipalities in Denmark. The classes are subsidised by the Music Council with a special grant of around 10 mil. USD per year, but often rests upon co-funding from user payment and small grants from the local authorities. Public school education in music starts in first grade with one hour (45 min.) per week, developing into 2 hours a week from the second to fourth grade. Music education in fifth and sixth grade is one hour a week. The education finishes as compulsory classes in sixth grade, however it can be chosen as free classes 2 hours a week until ninth grade. An effect of the large public music education scheme is that playing music is a common hobby among youngsters in Denmark.

Within the academic approaches to music one finds The Graduate studies in Musicology at the Department of Musicology, University of Copenhagen; the Music Department, Aarhus University, and the Department of Music and Music Therapy, Aalborg (here, the music-therapy studies aim to use music for psychological and curative purposes).

There are numerous local culture organisations involved in arranging concerts, courses, etc., including at least 30 folk high schools offering a wide range of training courses in various aspects of music, evening classes, semi-educational organisations occupied with teaching and playing music. More than 100 festivals and concert series are held all over the country (Roskilde Festival, Midtfyns Festival and Skanderborg Festival).

Industrial professional bodies and organisations

Table (12): The main professional and worker organisation of the music industry in Denmark.

| Core sector | Supporting organisations |
|---|---|
| Creators: composers, artists etc. | KODA* |
| | GRAMEX* |
| | Danish Musicians Union (DMF) |
| | Danish Artist Association (DAF) |
| | Danish Songwriters Guild (DPA) |
| | Danish Composers Society |
| | Danish Council of Performing Artists' Organization |
| | Council of Danish Artists |
| | The Danish Society for Jazz, Rock and Folk Composers (DJBFA) |
| | Fajabefa (the Association for Amateur Rhythmic Musicians) |
| Industrialists: record companies, publishers etc. | International Federation of Phonographic industries (IFPI) |
| | Spillested.Dk |
| | Danish Independent Publishers |
| | Society Of Danish Impresarios |
| | Association Of Danish Music Festivals |
| | Association Of Art Bureaus In Denmark (FKD) |
| | Danish Music Publishers' Association |
| | Association Of Phonogram Suppliers In Denmark |
| Distribution | GDC |

* These organisations are also collecting societies and are described below

There are estimated about 7,500 organised professional musicians, singers, composers and conductors in Denmark. Usually, artists and musicians join the Danish Musicians Union, or the Danish Artist Union (DAF). As a composer one can chose among three unions: Danish Composers' Society, Members of Danish Songwriters Guild (DPA) and the most recent and largest association is The Danish Society for Jazz, Rock and Folk Composers DJBFA. The three organisations support their members in various ways, and they collaborate in making all information concerning the members

available on the Internet at www.komponister.dk. IFPI-DK is the Danish branch of the International Federation of Phonographic Industries, the major organisation representing the firms of the recording industry. The members of IFPI encompass both Danish and foreign owned firms, whose turnover together account for more than 95% of all sold CD's per year in Denmark. IFPI Denmark handles its member's common interests: protection of the rights of members, negotiations with other holder of rights, fight against piracy, collecting and distribution of money for the IFPI members, establishing hit lists, music awards arrangements, and export initiatives. IFPI collaborates with the collecting society KODA and GRAMEX (see below), and it is the organisation distributing mechanical royalties to the main record companies. Most independent labels in Denmark remain without an overarching industrial association.

Collecting societies

In Denmark the main institutions involved within this area encompass KODA, GRAMEX, NBC, and Copy-dan. Having exclusive rights in its geographical territory, KODA bases its activities on collecting money for artists and other copyright holders, and is managed by the composers' associations and the publishers' association. Part of its revenues is distributed as subsidies for music projects. In 2001, KODA collected US\$45.144 million and redistributed US\$43.068 million to holders of performance rights. About US\$27.8282 million stemmed from performance rights in Denmark in 2001. Of this, about 45% was received by Danish members. In 2001, KODA forwarded some US\$2.64 million from performance rights collected round the world of to 11,439 of its members. Nordisk Copyright Bureau (NCB) manages all collection and accounting related to mechanical rights. KODA and NBC have collaborated since 1936. The Nordic owners of rights transfer all their rights to the local copyright company, which administrate the performance rights, while mechanical rights are managed by NCB. As such, NCB represents all protection of music in the Nordic countries regarding recording, storage and spreading, that is music on CDs. In 2001, NCB collected US\$72.476 million in total. In general, the collection increased across the Nordic countries by 5% from 2000. Yet, on the Danish market, the collecting decreased by 16%, mainly due to a weak sale of CDs in 2001. From NCB, only 9.4% of the earnings went to Denmark because of the concentration of publishing and record companies primarily in Sweden. Danish holders of mechanical rights received US\$6.312 million from NCB in 2001. Copy-dan takes care of copyright holders' interests related to photo-copying of sheet music GRAMEX administers the performing artists' (i.e., the musicians') rights, collecting royalties for the music recorded on CD, records or tape.

Amateur music associations

Rhythmic amateur music is nationally organised in Fajabefa, the association for amateur rhythmic musicians. Established in 1974, the organisation aims at improving their conditions, through establishing rehearsal facilities, concert venues, etc. Today, Fajabefa has more than 110 local branches and 5800 members.

Export supporting institutions

An initiative aimed at promoting of Danish music abroad, MXP – Danish music export and promotion, was set up in 2000. Managed by the Danish Musicians Union, the promotion effort annually produces a series of promotion CDs featuring a selection of the best of Danish music. The CDs are released for and first presented at the international MIDEM convention and are subsequently distributed to industry professionals around the world including radio programmers, music journalists, publishers, record companies and managements, festivals, venues, music industry conventions, seminars etc. The efforts of MXP are continuously supported by artists, their managers, record companies and publishers and enjoys financial support from the Musicians' Union, The Authors' Rights Society (KODA), and the Danish Music Council.

Finland

Hanna Virtanen⁶

Executive summary

- Many of the figures presented below are only rough estimates due to the scarcity of well-defined comprehensive information about the Finnish music industry. In this study, all statistics based on the Standard Industrial Classification (SIC) include the following ten music related classes:

| SIC Code | Description |
|----------|---|
| 22140 | Publishing of sound recordings |
| 22310 | Reproduction of sound recordings |
| 24650 | Manufacture of prepared unrecorded media |
| 36300 | Manufacture of musical instruments |
| 51481 | Wholesale of musical instruments and supplies |
| 52452 | Retail sale of musical equipment and supplies |
| 92311 | Artistic creation |
| 92312 | Theatre and concert activities |
| 92320 | Operation of arts facilities |
| 92340 | Other entertainment establishments |

- Based on the ten SIC codes, the Finnish music industry employed a little over 3,000 people in 1999. The actual number involved in the music business is much greater, though. For instance, the Finnish Musicians' Union alone has about 3,300 members. According to a survey by Oesch (1998), employment in the Finnish music industry was about 5,000 people in 1995 excluding the creators and performers of music.
- Some 2,100 companies were operating in the Finnish music industry in 1999. Compared to 1995, the number of companies had grown by 5%. Most of the firms engaged in the Finnish music industry are very small, employing only 1-4 people and with a turnover of less than US\$ 200,000 per annum.
- About 40 % of the firms are located in Southern Finland, excluding the Helsinki metropolitan area (Oesch, 1998). About half of the performers and composers, and over 30% of the other business units of the music industry, operate within the Helsinki metropolitan area.
- In 1999 the revenues of the Finnish music industry amounted to some US\$300 million. Most likely, the total value of the Finnish music industry is, however, at least twice this SIC-based amount.
- Only a couple of hundred thousand Finnish records are exported each year when, simultaneously, about 6 million foreign records are sold in Finland (*Muusikko* Online 1998). Finland is also a net importer in every other sub-sector of the music industry.
- The record sales represent only a small fraction of the total revenues of the Finnish music industry. In 2001, the value of record sales was US\$ 113.3 million (11.7 million units), of which some 48% came from domestic music (ÄKT ry, The Finnish National Group of IFPI). The expenditure on records per capita was US\$ 21.8, or 2.25 units, in 2001.

⁶ ETLA The Research Institute of the Finnish Economy, Helsinki, Finland.

- The record sales attained its highest level in Finland in 1989 (16.4 units sold). From 1990 to 1999, there was a 27% decrease in records sold. During the same period, the value of the Finnish record market grew by 7% , when measured by current prices, and decreased by 2% when using fixed (1999) prices. In 2002, record sales fell in Finland both in units and value (ÄKT ry).
- According to the IFPI (International Federation of the Phonographic Industry), domestic music piracy in Finland is approximately 10-25% of the total market. Bootlegs are imported into Finland mainly from Russia and Estonia. The poor demand for records in Finland is also attributable to low CD player penetration, extensive demand for live music in dance venues, substantial airplay and a high copying rate (F&L Management Service Ltd.).
- The subsidiary companies of the five majors represent some 60% of the record sales in Finland. The market leader in music publishing is Warner Chappel Music Finland Oy and in wholesale records Pec corp., which is owned by EMI, Universal, Sony, and BMG, with equal shares.
- The department stores are the key record retailers in Finland with a 36% market share (ÄKT ry). The rack sales are estimated to cover 25% and the specialised shops 20% of the record sales.
- The recent international breakthroughs by artists and groups like HIM, Bomfunk MC's and Darude have increased the interest in Finnish popular music both nationally and internationally.

Introduction

The Finnish music industry has been little researched. In addition, significant and adequate information about Finnish music industry activities is difficult to find. Comprehensive analyses of this particular area are required, in order to achieve a better understanding of the industry and its real contribution to employment and economic growth.

This mapping exercise attempts to describe the Finnish music industry by way of available information and statistics. However, due to the lack of well-defined and regularly collected statistics, many of the figures given below are only rough estimates and should be interpreted cautiously. In this study, the music industry is defined as consisting of sound recording production, live performances, copyright activity, publishing of printed music and musical instrument production. In addition, some approximations about the value of music education are presented. The emphasis of the study is on the popular music industry and record market.

Sound recording market

Small size and the strong position of domestic music characterise the Finnish recording market. In 2001, the value of the sound recording sales was US\$ 113.3 million (or about US\$ 92.8 million exclusive of the value added tax). The recording sales are divided relatively evenly between the national and international music repertoires when measured in units sold. The value of the domestic music sold is, however, a little less. The portion of classical music is around 10% of the total value of record sales.



Source: ÄKT ry (The Finnish National Group of IFPI)

The Finnish record market is small due to the small population. In addition, the annual purchases of records per person are also lower than in the other Nordic countries. In 2001, the expenditure per capita on records in Finland was limited to 2.25 units, or US\$ 21.8 (ÄKT ry). Since the decrease in sales during the economic recession in the early nineties, the number of records purchased has not yet returned to its highest pre-recession level attained in 1989 (16.4 million units). However, due to the higher average price of records, the total value of sales has been increasing until recently. During the first half of 2002, record sales fell by 8.1% in units and 5.2% in value (ÄKT ry).

Table 1. Sound recording sales in Finland

| Year | LP (million units) | MC (million units) | CD (million units) | Total (million units) | Total (million US\$) | Total (million €) |
|------|-----------------------|-----------------------|-----------------------|--------------------------|-------------------------|----------------------|
| 1990 | 5.5 | 6.8 | 3.4 | 15.7 | 153.1 | 111.9 |
| 1991 | 4.5 | 5.7 | 4.4 | 14.6 | 145.6 | 109.2 |
| 1992 | 3.0 | 4.6 | 5.7 | 13.3 | 113.3 | 94.1 |
| 1993 | 0.8 | 4.0 | 5.2 | 10.0 | 99.1 | 89.1 |
| 1994 | 0.1 | 3.9 | 6.0 | 10.0 | 120.6 | 98.3 |
| 1995 | 0.2 | 3.3 | 6.9 | 10.4 | 134.6 | 105.2 |
| 1996 | 0.1 | 3.0 | 8.3 | 11.4 | 142.3 | 113.4 |
| 1997 | - | 2.1 | 9.9 | 12.0 | 134.0 | 122.0 |
| 1998 | - | 1.3 | 11.0 | 12.3 | 147.6 | 125.7 |
| 1999 | - | 0.8 | 10.7 | 11.5 | 120.6 | 119.8 |
| 2000 | - | 0.3 | 11.5 | 11.8 | 117.7 | 125.4 |
| 2001 | - | 0.1 | 11.6 | 11.7 | 113.3 | 127.2 |

Source: ÄKT ry

According to a survey by F&L Management Service Ltd. (1998), the low music consumption in Finland is attributable to low CD player penetration, extensive demand for live music in dance venues, substantial airplay, and a high copying rate. Substantial music piracy stands out as another major

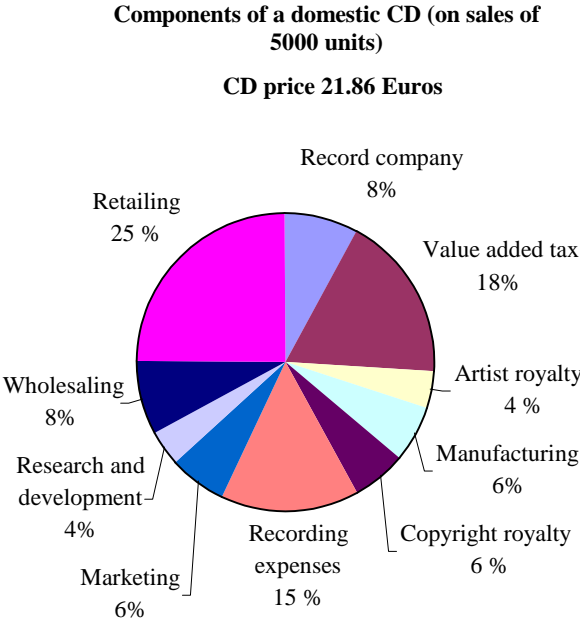
factor that diminishes the demand for records. Finland is, in fact, the only Nordic country with a piracy level exceeding 10%. According to an estimate by the Anti-Piracy Centre in Finland (TTVK), some 3.0 million pirated CDs were brought to Finland from Estonia and Russia during the period 10/2001-10/2002. Another commonly offered explanation for the decrease in the demand for records is the growth in Internet piracy.

Table 2. Shares of singles and albums in total sound recording sales (units)

| Year | Singles (%) | Albums (%) |
|------|-------------|------------|
| 1991 | 5.3 | 94.7 |
| 1992 | 5.0 | 95.0 |
| 1993 | 4.4 | 95.6 |
| 1994 | 3.3 | 96.7 |
| 1995 | 3.2 | 96.8 |
| 1996 | 2.9 | 97.1 |
| 1997 | 3.7 | 96.3 |
| 1998 | 4.1 | 95.9 |
| 1999 | 4.4 | 95.6 |
| 2000 | 5.1 | 94.9 |

Source: IFPI, The recording industry in 2001

The recording industry has many intermediaries. In 2001, domestic performers received about US\$ 2.2 million in revenue from record sales in Finland. The wholesale and retailing expenses of domestic music were some US\$ 18 million and the share of the value added tax some US\$ 9.8 million.



Source: ÄKT ry

Copyrights and collecting societies

The purpose of copyright is to protect the creative work and to assure the profitability of the business so as to maintain the attractiveness of making music. New digital technology solutions are rapidly changing the structures of the music industry and copyrights need to be adjusted accordingly. In Finland, certain changes to the Copyright Act have been under development, although, the ratification of the related EU directive (2001/29/EU) has been delayed.

Income from the exploitation of copyrights makes up an important part of the turnover in the music business. Copyright organisations have an essential role in supervising and controlling the exploitation and channelling of revenues to the creators, publishers, performers and producers of music. These organisations also promote and give financial support to different sectors of the music industry. There are two significant collection societies operating on the Finnish music scene: The Finnish Composers' Copyright Society, Teosto ry (13,730 members) and Gramex ry (24,608 artist members and 4,865 producer members in 2001). In addition, Kopiosto ry, a copyright organisation for authors and publishers, collects remunerations from the photocopying of sheet music in educational establishments, for example. In addition to collecting societies, music publishers also accumulate remunerations directly from the exploitation of dramatic rights (stage music). Finally, ÄKT ry (The Finnish National Group of IFPI) collects producers' copyright remunerations from the performance of music videos, which probably are of only marginal significance though.

The authors' rights consist of financial and moral rights, of which only the former can be passed by a publishing contract from the creators to the music publishers. The financial rights include performing rights and mechanical reproduction rights. In 2001 Teosto ry collected US\$ 26.3 million in performing rights fees in Finland. In total, Teosto distributed about US\$ 12 million in remunerations to domestic players for the exploitation of performing rights. The collection of reproduction rights fees is handled by the Nordisk Copyright Bureau (NCB), but these fees are disbursed to the domestic players via Teosto ry. Domestic copyright holders received altogether US\$ 5 million in reproduction right fees collected in 2001.

Besides authors' rights, the Finnish Copyright Act has also provisions on neighbouring rights, which belong both to the artist whose performances have been recorded on phonograms and to the producers of phonograms. In 2001 Gramex collected about US\$ 13 million as remunerations for the exploitation of neighbouring rights. About US\$ 6.1 million of this was distributed to domestic players.

Total value of the Finnish music industry

The revenues of the music business consist of several sources, not merely of recording sales. In fact, the sound recording sales represent only a small fraction of the total revenues of the Finnish music industry. Unlike recording sales, the rest of the music industry revenues are very poorly examined. For example, there are no precise, accurate statistics for the value of live music performances and the available estimates vary a lot depending on the definitions and techniques used in the calculations. Furthermore, the Standard Industrial Classification contains no separate classes for the activities of the music industry. Instead, these are categorised under various other, more extensive classes. Hence,

based on the current SIC it would be extremely difficult to identify and compile the categories to include in a comprehensive analysis of the total value of the music industry in Finland.

Live music and related business make up an important part of the Finnish music business. Especially for the artists and musicians, live performances are considered to be a significant employer and source of income. According to the aforementioned estimation by F&L Management Service Ltd. (1998), the revenues from live music performances in Finland were about US\$140 million in 1997. However, that study defines the live music business extremely narrowly. For instance, it excludes the value of the music activities that are mainly supported through public subsidies, such as operas and orchestras. In 1998, *Muusikko* magazine rated the turnover of live music performances to be about US\$340 million. This estimation covers the music sector more extensively including also, for example, publicly supported activities and church music.

When including the production of recordings and music performances (from *Muusikko* magazine, 1998), publishing of printed music (from the Finnish Music Publishers' Association, 2002), copyright remunerations (from the annual reports of Teosto ry and Gramex ry, 2001) and musical instrument production (from Pekka Oesch, 1998) the value of the domestic music market is around US\$700 million. In addition to this, the value of music education in Finland is approximately US\$80 million (*Muusikko* Online 1998).

Finland is a net importer in every sector of the music industry. No extensive statistics of the import and export values of the industry are available, however. About 6 million sound recordings are imported each year, and only a couple of hundred thousand Finnish records are sold abroad (*Muusikko* Online 1998). A parallel tendency can be observed in the live music business, as well as in the copyright payments. In 2001, Teosto ry distributed over US\$13 million to foreign rights holders while, at the same time, US\$2.2 million was received from foreign societies. Also the imports of musical instruments are higher than the exports. Oesch (1998) estimated in his survey that the export value of musical instruments was about US\$1 million, whereas the import value exceeded US\$14 million in 1995.

Employment in the Finnish music industry

The employment of the Finnish music industry is poorly known, even though some approximations have been presented. Oesch (1998) calculated, based on the responses he received to his questionnaire, that the music industry employs about 5,000 when excluding performers and creators of music. The precise number of the creators and performers is very difficult to estimate. Many of them make their living in something else and have music just as an avocation. Moreover, some of the creators are also working as performers, thus, causing an overlap in the figures.

Teosto ry. had 13,730 creator and publisher members in 2001, and in the same year 48,975 new music works were registered. According to estimations by *Muusikko* magazine (1998), there are about 5,000 professional musicians in Finland. In addition, the Sibelius Academy, conservatories, and music institutes employ almost 2,500 full-time and about 1,500 part-time teachers (*Muusikko* Online 1998).

Table3 illustrates the music industry employment by means of ten SIC codes, which mainly contain firms active in the music industry. However, many music activities can also be found in several other SIC classes, such as “Other business activities” (SIC74849), “Publishing of books” (SIC22110), and “Retail sale of books via mail order houses” (52611). Furthermore, the codes included here contain other than music-related activities. Hence, the table only partially describes the Finnish music industry.

Table 3. Employment by sectors of the music industry in Finland (following the Standard Industrial Classification 1995)

| SIC95 | Standard Industrial Classification 1995 | 1995 | 1997 | 1999 |
|--------------|---|-------------|-------------|-------------|
| 22140 | Publishing of sound recordings | 192 | 304 | 394 |
| 22310 | Reproduction of sound recording | 61 | 73 | 76 |
| 24650 | Manufacture of prepared unrecorded media | 2 | 42 | 53 |
| 36300 | Manufacture of musical instruments | 106 | 133 | 95 |
| 51481 | Wholesale of musical instruments and supplies | 282 | 112 | 167 |
| 52452 | Retail sale of musical equipment and supplies | 305 | 518 | 411 |
| 92311 | Artistic creation | 601 | 796 | 975 |
| 92312 | Theatre and concert activities | 932 | 1147 | 550 |
| 92320 | Operation of arts facilities | 49 | 56 | 64 |
| 92340 | Other entertainment establishments | 296 | 333 | 323 |
| Total | | 2826 | 3514 | 3108 |

Note: The figures only include companies that operated at least six months in the period under observation, had a total turnover of more than US\$ 8,976, or employed more than half a person.

Source: Statistics Finland

Structure and core players of the music industry

According to the survey by F&L Management Service Ltd. (1998), the core sectors of the Finnish music industry are considered to involve creators and performers, music publishers, record companies, recording studios, manufacturers of recordings, and agencies and booking offices. Of these, music publishers do not have a distinct function in the Finnish music market. Instead, they are mainly connected to the record companies. Oesch (1998) also included in his mapping players operating in the field of musical instruments, as well as the music press.

The actual number of business units operating in the Finnish music industry is considerable. Oesch (1998) found in his research over 1,500 music industry enterprises in Finland. The largest sub-sector of the music industry, according to the survey by Oesch, is formed by agencies and booking offices with a 24 % share. Most of the firms engaged in the music business are very small, employing only 1-4 people and creating an annual turnover of less than US\$ 200,000. According to Oesch (1998), the share of companies with a turnover of more than US\$2 million is distinctly highest among the record companies, while companies with more than five employees dominate in music press publishing, record companies, agencies and booking offices, and firms engaged in the retail sale of musical instruments. This large number of small firms offers substantial job opportunities, but can also be seen

as an obstacle. For example, the lack of financial resources of small firms can hinder progress in the Finnish music industry.

Table 4. Number of companies by sectors of the music industry in Finland (following the Standard Industrial Classification 1995)

| SIC95 | Standard Industrial Classification 1995 | 1995 | 1997 | 1999 |
|--------------|---|-------------|-------------|-------------|
| 22140 | Publishing of sound recordings | 218 | 273 | 313 |
| 22310 | Reproduction of sound recording | 33 | 52 | 47 |
| 24650 | Manufacture of prepared unrecorded media | 4 | 3 | 5 |
| 36300 | Manufacture of musical instruments | 40 | 55 | 56 |
| 51481 | Wholesale of musical instruments and supplies | 40 | 53 | 49 |
| 52452 | Retail sale of musical equipment and supplies | 222 | 244 | 256 |
| 92311 | Artistic creation | 650 | 893 | 1041 |
| 92312 | Theatre and concert activities | 95 | 147 | 151 |
| 92320 | Operation of arts facilities | 16 | 17 | 13 |
| 92340 | Other entertainment establishments | 115 | 177 | 212 |
| Total | | 1433 | 1914 | 2143 |

Note: The figures only include companies that operated at least six months in the period under observation, created a total turnover of more than US\$ 8,976, or employed more than half a person.

Source: Statistics Finland

The music industry is located mainly in the Helsinki metropolitan area and Southern Finland. According to Oesch (1998), about 40% of all firms can be found in Southern Finland, excluding the Helsinki metropolitan area. About half the performers and composers, and over 30% of the other business units of the music industry are located within the Helsinki metropolitan area, which can accordingly be considered the centre of the Finnish music industry. Most of the music business companies are legally organised as limited-liability companies or commercial name companies of “natural persons”.

In Finland, as internationally, the sound recording market is increasingly dominated by five multinational record companies: Warner, Sony, Universal, EMI and BMG. The subsidiary companies of these five majors control about 60% of the sound recording sales in Finland (*Muusikko* Online 2001). They can also be found in the background of the largest independent record companies. In 2001 an independent record company, Poko Records Oy, was sold to EMI Finland Oy, and in March 2002, Universal Music Oy became the majority shareholder in Spin-farm Oy. Concurrently with the “majors” taking over the Finnish sound recording market, the number of independent companies has also been increasing. Due to technological progress, the music business has also become affordable for smaller players, and new companies have entered the industry (Pekka Oesch 1998).

The subsidiaries of the five majors are also active in many other sectors of the recording market. The superior market leader in music publishing is Warner Chappel Music Finland Oy, holding a market share of more than 50% (F&L Management Service Ltd. 1998). The wholesale of records is dominated by Pec Corp., which is owned equally by EMI, Universal, Sony, and BMG.

Currently, only the record companies, music publishers and musicians have strong interest groups. The national trade association of record producers, ÄKT ry, has about 15 members that together control

some 87% of the recording sales in Finland (*Muusikko* Online 2001). The publishers' interest group, the Finnish Music Publishers' Association, has 34 members, including all the most important players. The most significant organisation for professional musicians, The Finnish Musicians' Union, has about 3,300 members.

Table 5. Top ten record companies in Finland by turnover

| Record company | Corporate mother company | Net sales & other operating income [million €] |
|----------------------------|--------------------------------------|--|
| Warner Music Finland Oy | AOL Time Warner (US) | 15.0 |
| Oy Emi Finland Ab | EMI Group (UK) | 12.6 |
| Universal Music Oy | Vivendi Universal (France-US) | 11.7 |
| BMG Finland Oy | Bertelsmann AC (Germany) | 10.7* |
| Sony Music Ent. Finland Oy | Sony Corporation (Japan) | 9.9 |
| Edel Records Finland Oy | Edel Company Music AC (Germany) | 6.0 |
| Spin-farm Oy | Vivendi Universal (France-US) | 4.5 |
| Poko Records Oy | EMI Group (UK) | 3.5* |
| Oy Fg-Naxos Ab | HNH International Ltd (Hong Kong) | 2.1* |
| Johanna Kustannus Oy | Love Music Publishing Ltd. (Finland) | 1.7 |
| Total | | 77.7 |

Note: * Accounting period 2000. All the periods in the table are 12 months.

Source: Trade register of the National Board of Patents and Registration of Finland

Unlike many countries, the specialised music shops do not play a major role in the retail distribution of sound recordings in Finland (see Table 6). Instead the department stores, such as the 26 big Anttila stores, are the key retailers of recordings with a 36% market share. The rack sales are estimated to cover 25% of the recording sales, of which the Sokos, Citymarket and Prisma stores control about 8 to 10% (ÄKT ry). The record sales via the Internet consist mainly of mail-order type sales.

Table 6. Structure of the sound recording sales in Finland

| Retail type | % of sales |
|-------------------------|------------|
| Department stores | 36% |
| Rack sales | 25% |
| Specialised shops | 20% |
| Mail-order | 15% |
| Internet shops + others | 4% |

Source: ÄKT ry 2002

Exporting Finnish popular music

Classical music is considered to be the greatest strength of the Finnish music industry, and most of the international success has been achieved within that field. It was not until a few years ago that Finland had its first international breakthrough in the field of popular music. Since both the financial support

of society and the music education have traditionally focused on the classical style, the music talent has also found its way mainly there. In addition, the lack of professional marketing skills, commercial know-how and resources has restrained the export of Finnish popular music.

Another important aspect relates to the fact that it is usually necessary for artists to perform in Finnish to succeed in the national popular market. Simultaneously, this wide use of the Finnish language both hinders the ambition of domestic artists to engage in international markets and also makes it more difficult for them to enter these markets. The artists are, therefore, often forced to carefully consider how to target their efforts. Aspiring international fame obliges the artists to take great risks and, as a consequence, many of them are inclined to content themselves with the domestic market. Furthermore, expanding into the export market requires too many resources with respect to the financial situation of the small companies in the Finnish music industry.

The recent international breakthroughs by artists and groups like HIM, Bomfunk MC's and Darude, however, give hope for a more successful future for Finnish popular music. These breakthroughs have commonly been interpreted as a consequence of the improved quality of the Finnish popular music product. The achieved success improves the image of the Finnish music industry and, thereby, also the attractiveness of domestic artists to international financiers. It also increases experience and knowledge in the country, making it easier to pursue stardom.

Besides more international attention, these success stories have also created a growing interest in the export of domestic popular music at the national level. An illustrative example of this is the Finnish music export agency that was launched in December 2002. It is the first systematic and cooperative export effort in the field of popular music that receives support from the Finnish Ministry of Foreign Trade and Industry. Hence, it appears that the popular music industry in Finland is also receiving growing economic attention, which inevitably adds to the appreciation of the Finnish popular music product.

Gylfi Dalmann Adalsteinsson⁷ and Helga Bjorg Ragnarsdottir⁸

Executive Summary

- This is the first attempt to present the Icelandic music industry in numbers. Accurate information regarding the industries size, its export and airplay performances are not available.
- The industry is very small. In 2001 approximately 740 thousand copies of sound recordings were sold at distributor level.
- An awareness of the economic as well as cultural importance of the music industry has been growing for the last decade.
- The value of the domestic record sales at retail level increased by almost 50% between 1991 and 2001.
- At the same time the value of domestic sales at distributor level has increased by almost 85% and the value of foreign sales by only 40%. The increase in domestic market share has resulted in the market being split equally between foreign and domestic releases.
- More and more individuals or small companies are releasing sound recordings than before. In 1992 56 titles were released by other than the main record companies. In 2000 this number is 125 titles, which are 62% of all released titles.
- The market is divided between one large record company and 3-4 small ones. Skífan, the largest, has distributing rights for EMI-Virgin, Sony, Universal, BMG and Warner Music, which together with Skífan's domestic labels held approximately 80% market share in the year 2001. Skífan itself sold 68% of the total copies sold or 505 thousand copies with a value of US\$5.9 million⁹.
- In 1995 roughly 69% of pop concerts took place in the capital region, and 57% in 1999.
- It seems that lack of competence accessing capital or other support is as well as lack of supportive institution explain why actors within the industry have not reached a higher level of professionalism.
- In May 2002 the Trade Council of Iceland hosted a conference for the music industry. By hosting this conference they marked the beginning of cooperation between the Trade Council and the music industry. The conference initiated the formation of an organization, Samtónn, within the industry, that is meant to unite the divided industry into one organization. Samtónn is expected to be the voice of the industry vis-à-vis the government and institutions.
- In March 2003 the Trade Council is going a step further and initiating a seminar with key actors within the industry. Participants will come from Samtónn, the record companies, artist societies, the ministries mentioned above and the Federation of Icelandic Industries. The purpose of this meeting is to reach common ground in industry affairs, to make it more strategic
- New legislation regarding the industry is being written. Within the music industry people are hopeful that this legislation will improve the environment for musical activities by increasing support for artists within popular music.

⁷ Institute for Business Research, University of Iceland.

⁸ Institute for Business Research, University of Iceland.

⁹ 501 million ISK

Introduction

An awareness of the economic as well as cultural importance of the music industry has been growing for the last decade. A forum for discussions regarding the industry has emerged and the music industry is receiving more attention than it has done before. New music laws are being written, the Ministries of Commerce and of Education and Culture are increasing their cooperation in music industry affairs, and the Trade Council of Iceland has decided to devote considerable attention to the industry in the near future. Still much more remains to be done; the music industry needs to be defined as an industry equal to other industries with the same access to capital and institutional support.

Institutional set-up

The Icelandic music industry has not enjoyed a strong institutional support system in the past, but given the increased interest taken by governmental institutions recently, this may be changing. Over the last few years institutions such as the New Business Venture Fund and the Trade Council of Iceland have involved themselves in music industry affairs by consulting them in matters of export, raising capital and marketing their product. It is likely that, paralleled to increased support from institutions as well as venture capitalists, the music industry will become more professional than before, which in turn is likely to improve its performance. The institutions and industry organizations listed in Table 1 have not necessarily been involved in the music industry in the past but, given recent developments, are likely to become part of it in the nearest future.

Table 1. The institutional set-up

| |
|---|
| Supporting institutions |
| The Ministry of Industry and Commerce |
| The Ministry of Education, Science and Culture |
| Trade Council of Iceland |
| Technological Institute of Iceland (IceTec) |
| The New Business Venture Fund |
| Industry organizations |
| The Federation of Icelandic Industries |
| Performing Rights Society of Iceland (STEF) |
| Collecting society for performing artists and phonogram producers (SFH) |
| Icelandic Musicians' Union (FÍH) |
| Collecting Society (IHM) |
| The Icelandic National Group of IFPI (SHF) |
| Music festivals |
| Iceland Airwaves |
| Músíktílaunir |

Supporting institutions

The Ministries of Industry and of Commerce¹⁰

The Ministries of Industry and of Commerce in Iceland are, according to law, two ministries sharing one minister. Their main activities are, for example: industrial matters, industrial development and innovation. The ministry has stated that it will encourage industries based on intellectual property, such as the film and music sectors, in the future. Furthermore it has announced that a development fund will be established for the music industry, the main objective being to increase the export value of Icelandic music. In 1995-2002 the Ministry of Industry and Commerce has allocated approximately US\$500,000¹¹ to the music industry.

The Ministry of Education, Science and Culture¹²

The Ministry of Education, Science and Culture administers musical activities. The Ministry has in the years 1995 to 2002 allocated approximately US\$100,000¹³ to popular music. Under the Artists' Grants Act no. 35/1991¹⁴ the Ministry granted US\$3.1¹⁵ to four different artists' funds in 2001. One of those four funds is the musical composers' fund, which receives approximately 8% of the total sum, or just over US\$245,000.¹⁶ Apart from these grants the Iceland Symphony Orchestra receives an annual sum from the national Budget. In the 2002 that sum is just under US\$3 million.¹⁷ It is evident that what has been categorized as "popular" music receives only a fraction of the support allocated to classical music. New legislation regarding the industry is in preparation. Within the music industry people are hopeful that this legislation will improve the environment for musical activities, by increasing support for artists within popular music.

The New Business Venture Fund¹⁸

The New Business Venture Fund is an independent entity owned by the state. Overall supervision of the Fund is in the hands of the Minister of Commerce.

The role of the New Business Venture Fund is to encourage development and growth in all sectors of the Icelandic economy through participation in innovation-oriented investment projects and support for development and marketing projects. For this purpose, the Fund may advance share capital or make loans, guarantees or grants. For a long time companies within the music industry did not receive any support from the New Business Venture Fund. Recently that has changed, and two record companies have enjoyed the fund's support for the last few years.

The Trade Council of Iceland¹⁹

The Trade Council of Iceland assists Icelandic companies with marketing their products, services, and know-how in the international marketplace. The Trade Council provides a range of practical business information, organizes and implements marketing and trade missions, and hires local marketing and

¹⁰ <http://idnadarraduneyti.is/interpro/ivr/ivreng.nsf/pages/min-policy>

¹¹ 41 million ISK

¹² Ministry of Education, Science and Culture. (2002). Menning.

¹³ 8 million ISK

¹⁴ Ministry of Education, Science and Culture (2002)

¹⁵ 246.9 million ISK

¹⁶ 19.8 million ISK

¹⁷ 238 million ISK

¹⁸ <http://www.nsa.is/user/home/>

¹⁹ <http://www.icetrade.is/english/default.htm>

sales consultants to assist them for limited periods of time. In May 2002 the Trade Council of Iceland hosted a conference for the music industry. By hosting this conference they marked the beginning of cooperation between the Trade Council and the music industry. The conference initiated the formation of an organization, Samtónn, within the industry, that is meant to unite the divided industry into one organization. Samtónn is expected to be the voice of the industry vis-à-vis the government and institutions. In March 2003 the Trade Council is going a step further and initiating a seminar with key actors within the industry. Participants will come from Samtónn, the record companies, artist societies, the ministries mentioned above and the Federation of Icelandic Industries. The purpose of this meeting is to reach common ground in industry affairs, to make it more strategic.

Industry organizations

The Federation of Icelandic Industries (FII)²⁰

The Federation of Icelandic Industries (FII) is the main organization of Icelandic employers in manufacturing industries, crafts, software production and related services. Membership consists of nearly fifteen hundred enterprises, ranging from small family businesses to Iceland's largest industrial companies. Its mission is the creation of a more favourable climate for industrial enterprise in Iceland, and supporting its interests at home and abroad.

Collecting societies

There are four separate collecting societies in Iceland:

1. **IHM**²¹ is a collecting society for authors, performers and producers. It collects remuneration for the sale of blank audio and video media and hardware, used for reproduction of material protected by copyright, and distributes this to rights holders.
2. **Fjölís** is the Reproduction Rights Organisation in Iceland. It concludes agreements with users of protected materials which are used by photocopying. Fjölís collects fees for these uses and distributes them to the rights holders organisations
3. **SFH**²² is the Collecting Society for Performing Artists and Phonogram Producers.
4. **STEF**²³ is a collecting society for lyricists and composers. By joining STEF, an originator transfers to STEF its legal rights to royalties for public performance and recordings. In return STEF is responsible for ensuring that anyone performing and recording music has a license to do so and does so according to law. NCB, a Nordic mechanical copyright society that works on behalf of the national performing rights societies in the Nordic area, safeguards mechanical rights to musical compositions on behalf of composers, lyricists etc. and music publishing houses. These rights cover the right to record music, manufacture copies and distribute copies.

²⁰ <http://www.si.is/>

²¹ <http://www.ihm.is/>

²² <http://www.sfh.is/>

²³ <http://www.stef.is/web/>

Table 2. Income from royalties in Iceland 1999 and 2002. Million US\$

| | 1999 | 2001 |
|--|--------------|------------|
| Radio, TV and other public performances (STEF) | 129 | 162 |
| Mechanical rights (NBC) | 19.2 | 24 |
| Total | 148.2 | 186 |

Source: Based on an interview with an industry representative.

Record Sales

The value of domestic record sales at retail level has increased by almost 50% between 1991 and 2001 (table 3). The value at distributors' level or wholesale has increased even more, or approximately 60% between 1994 and 2001. At the same time the value of domestic sales at distributor level has increased by almost 85%, and the value of foreign sales by only 40%. The increase in domestic market share has resulted in the market being split equally between foreign and domestic releases. The explanation for this is partly due to robust sales of local compilations comprised mainly of international repertoire but categorized as local releases. Another explanation may be that Icelandic consumers are more reluctant to make illegal copies of Icelandic music than of foreign music. At the same time as the value of sales at distributor level is almost 85%, the increase in sale of sound recordings in copies is only 6% between 1991 and 2001. The increase in domestic market share may very well be because Icelandic consumers are more reluctant to make illegal copies of Icelandic music than of foreign music. Also it is possible that a strengthening music scene in Iceland has caused a change in consumer behaviour.

Table 3. Value of Icelandic record sales 1991-2001. Million US\$²⁴

| | Retail value | Sale value at distributor level | | | Percentage | |
|------|--------------|---------------------------------|----------|---------|------------|---------|
| | | Total | Domestic | Foreign | Domestic | Foreign |
| 1991 | 15.90 | ... | ... | ... | 32 | 68 |
| 1992 | 11.59 | ... | ... | ... | ... | ... |
| 1993 | 8.26 | ... | ... | ... | ... | ... |
| 1994 | 12.62 | 6.75 | 2.86 | 3.89 | 42.4 | 57.6 |
| 1995 | 15.25 | 8.13 | 3.68 | 4.45 | 45.3 | 54.7 |
| 1996 | 16.48 | 9.14 | 4.27 | 4.87 | 46.7 | 53.3 |
| 1997 | 15.92 | 8.82 | 3.67 | 5.15 | 41.6 | 58.4 |
| 1998 | 19.62 | 10.82 | 4.83 | 5.99 | 44.7 | 55.3 |
| 1999 | 19.80 | 10.98 | 4.66 | 6.33 | 42.4 | 57.6 |
| 2000 | 15.79 | 8.75 | 3.73 | 5.01 | 42.7 | 57.3 |
| 2001 | 12.80 | 7.09 | 3.50 | 3.59 | 49.3 | 50.7 |

Sources: PricewaterhouseCoopers/SHF-Icelandic Group of IFPI (Audit Surveys, 1995–2001) and IFPI (The Recording Industry in Numbers 1998 and 1999)

²⁴ In Table 3 figures for 1991–1993 are IFPI's estimates. The figures for 1994–2001 are based on surveys of distributors with an estimated market share of some 95 and 85% of the total market in the years 1994–2000 and in the year 2001, respectively. There should also be noted that retail value includes VAT, sale value at distributor level excludes VAT and figures for the year 2001 are estimates.

Industry size

The Icelandic music industry is very small, but it is important when addressing the issue of the industry's size to keep in mind that the Icelandic population is just under 300 thousand people²⁵. In a report produced for the Ministry of Industry and Commerce in 1997 it was stated that industry employed 750-1,000 people. Their estimate was not based on thorough research, but it was based on the opinion of a group of people who know the industry well, and is therefore hard to ignore. More accurate information regarding the industry's size is not obtainable at this time, due to complications regarding the adoption of the NACE codes at Statistics Iceland. To be able to provide information regarding the industry's size, a small survey was made. Information was gathered from within the industry regarding the number and size of firms within it. The survey indicated that there are 3-4 publishers of sound recordings (NACE code 22140) in Iceland, employing a total of 20-25 people. The number of specialized stores for records and videotapes is approximately 5-6, employing 26-32 employees. Also nine stores for music, instruments & music scores (NACE 52454) were found. Figures regarding the number of people they employ are not available. The survey did not include supermarkets or book stores that sell sound recordings. Over the last few years, the variety of sound recordings within those larger stores is increasing, thus increasing their share of the market; information regarding how large this share is could not be obtained at this time.

It is important to keep in mind that the figures regarding number of employees within the industry are not quite comparable since Edda and Skífan are divisions of larger enterprises. Edda has been Iceland's largest book publishing company for many years. In the year 2001 the music department was founded. The department, which employs three people, is a small unit within the company that employs a total of 132 people. Skífan, the publishing unit, employs nine people. Skífan merged with Norðurljós (Northern Lights), a large media enterprise in Iceland, in 1999. Both Skífan and the Edda music department enjoy the support of a larger unit in resources such as marketing, payroll offices, administration etc.

The small survey referred to above covered only a small part of the music industry. It did not, for example, include performers and creators of music. In 1998 the Icelandic Musicians' Union had 465 members, of whom 161 were categorized as being within popular music. Apart from the production companies, distributors, and artists, there are more companies and employees within the industry, such as promoters of music, concert halls, bars and other venues where music is performed. With that in mind, the suggestion made in the 1997 report, of 750 –1,000 employees, does not seem far-fetched. A more detailed study on the industry's size is needed if the Icelandic music industry is to be comparable to other industries.

²⁵ <http://www.hagstofa.is>

Producers and distributors in the Icelandic music industry²⁶

The Icelandic music industry consists of a very few, small enterprises, especially in comparison to other countries. Therefore it is possible to take a closer look at these companies and compare them (Tables 4-5). At the same time it poses problems, because they are reluctant to provide information, in case it might be useful for their competitors. Information regarding turnover is, for example, not available in most cases.

According to Table 4 Skífan is the largest single producer in Iceland releasing 43 titles, or 23% of total releases, in 1999, and 58 titles or 28% in 2000. It is also evident that there has been a significant increase in the category “others”; in 1999, 131 titles or 69% fall into that category, and 125 titles or 62% in 2000. This may be explained by new improved technology in recording, which enables more and more people to record a CD in a less expensive way than before. Skífan is also the largest distributor of sound recordings, with 68% of total copies sold or 505 thousand copies at the value of \$4.9 million²⁷. Edda enters the music market in the year 2001 with 50 thousand copies sold or 7% of sold copies (Table 5.).

Table 4. Release of sound recordings by producers 1990-2000

| Year | Total Releases | Japis | Skífan | Spor | Smekk- Leysa | Others |
|------|----------------|-------|--------|------|-----------------|--------|
| 1990 | 83 | – | 13 | 19 | 4 | 47 |
| 1991 | 128 | – | 19 | 38 | – | 71 |
| 1992 | 140 | 1 | 25 | 57 | 1 | 56 |
| 1993 | 154 | 4 | 31 | 32 | 7 | 80 |
| 1994 | 177 | 9 | 25 | 43 | 12 | 88 |
| 1995 | 195 | 13 | 26 | 22 | 8 | 126 |
| 1996 | 217 | 8 | 10 | 34 | 8 | 157 |
| 1997 | 198 | 5 | 17 | 23 | 11 | 142 |
| 1998 | 196 | 7 | 22 | 28 | 12 | 127 |
| 1999 | 191 | 8 | 43 | • | 9 | 131 |
| 2000 | 203 | 6 | 58 | • | 14 | 125 |

Source: Statistics Iceland (1999)

Table 5. Sales of sound recordings by distributor 1995-2001

Sold copies in thousands

| Year | Total | Edda | Japis | Skífan | Spor | Smekk- leysa | Tóna- flóð | Others |
|------|-------|------|-------|--------|------|-----------------|---------------|--------|
| 1995 | 600 | • | 155 | 230 | 181 | • | • | 34 |
| 1996 | 680 | • | 172 | 242 | 228 | • | • | 38 |
| 1997 | 740 | • | 177 | 293 | 233 | • | • | 37 |
| 1998 | 810 | • | 176 | 345 | 249 | • | • | 40 |
| 1999 | 910 | • | 168 | 579 | • | • | 119 | 44 |
| 2000 | 790 | • | 185 | 550 | • | • | 15 | 40 |
| 2001 | 740 | 50 | ... | 505 | • | 18 | ... | 167 |

Source: PricewaterhouseCoopers/SHF-Icelandic IFPI Group (Audit Surveys, 1995-2001)

²⁶ In Tables 4,5 and 6 it should be kept in mind that Spor was taken over by Skífan through a merger in autumn 1998. In Tables 4 and 5 regarding the category “others” Skífan and Spor released jointly three titles in the year 1995, seven titles 1996, 10 titles 1997 and nine titles 1998. In Table 6 figures from 2001 are estimated and Japis is included in the category “others” 2001.

²⁷ 501 million ISK

Table 6. Market share of the largest sound recording labels 1995–2001. Market share in percentage of total sales

| Producer label | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-------------------------------|------|------|------|------|------|------|------|
| BMG | 7.2 | 6 | 8.2 | 8 | 7.2 | 8.1 | 2.5 |
| Edda | • | • | • | • | • | • | 4.9 |
| EMI – Virgin | 9.6 | 9 | 12.9 | 8 | 7.5 | 9.5 | 7.6 |
| Disky International | • | • | • | • | 1.8 | 0.1 | • |
| Japis | 2.5 | 3.3 | 1.1 | 1.5 | 1.4 | 0.8 | • |
| MNV | • | • | 1.6 | 1.3 | 0.4 | 0.3 | • |
| Polygram | 9.2 | 9 | 10.7 | 12.5 | • | • | • |
| Skífan³ | 11.7 | 9.8 | 14.3 | 18.1 | 28.1 | 29 | 27.8 |
| Smekkleysa (Bad taste) | 3.8 | 1.6 | 2.8 | 1.2 | 2.1 | 2.4 | 2.5 |
| Sony Music | 6.2 | 8.4 | 9.3 | 11.3 | 9.8 | 7.8 | 8.7 |
| Spor³ | 14.2 | 15.1 | 13.7 | 13.5 | • | • | • |
| Tónaflóð/Undraland | • | • | • | • | 1 | 0.3 | • |
| Universal | • | • | • | • | 13.6 | 15.3 | 13.6 |
| Warner Music | 5.7 | 5.4 | 6 | 5.1 | 4.2 | 4.6 | 5.5 |
| Others | 30 | 32.3 | 19.4 | 19.5 | 23 | 22 | 26.7 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: PricewaterhouseCoopers/ SHF-Icelandic Group of IFPI (Audit Surveys, 1995–2001).

Skífan has the major market share of the largest sound recording labels, or 28% in the year 2001. Universal comes in second with half of Skífan's share. Skífan also has the distributing rights for EMI-VIRGIN, Sony Music, Universal and Warner Music, which together with Skífan hold a 63% market share in 2001. The category "others" consists of small publishers, most of them likely to have published very few titles - often only one. When the category "others" is excluded there are, on one hand, Skífan and the labels for which Skífan has distribution rights, a total of 63% market share, and on the other hand the rest of the labels with a 10% market share. In 2001 these 10% are distributed between Edda (4.9%), Smekkleysa (2.5%) and BMG (2.5%).

Location of the music industry

In 1995 roughly 69% of pop concerts took place in the capital region, and 57% in 1999. In 1995 11.5% of pop concerts took place in the North, and 12.1% in 1999. Other places enjoy less than 7% of the pop concerts held in the country, with the exception of the East, which has increased its share of pop concerts from 6.6% in 1995 to 11.2% in 1999. Reykjavik is the only music centre in Iceland. The components of the music industry in Iceland are almost all located in the country's only city: Reykjavík. All the record companies are located there, all locales for major concerts are located there, stores that specialize in sound recordings are located in Reykjavik, and finally most pop music performers are located there. The strength of Reykjavík as the centre of all musical activity in Iceland is obvious, and it seems that it could be demonstrated even further by examining the origin of the main actors in the industry; many of them come from small places around the country and come to Reykjavik to be able to participate in the musical arena.

Airplay performances

The royalty-collecting societies in Iceland could not provide any accurate information regarding the share of domestic music in airplay performances. In order to give an idea of the division between foreign and domestic airplay, six radio stations were contacted and asked to estimate the share of Icelandic music on their station.

Table 7. The share of Icelandic music in radio stations

| Radio station | Icelandic music as share of music played |
|--------------------|--|
| Channel 1 | 35% |
| Channel 2 | 35% |
| Bylgjan | 20% |
| Fm 95,7 | 15% |
| Létt 96,7 | 10% |
| Radio X | 10% |
| Children's channel | 100% |

Source: A survey within the music industry.

The Icelandic National Broadcasting Service has the highest share; both channels state that 35% of all music broadcast is Icelandic. The other stations, owned by Norðurljós, present a lower share of Icelandic music, with the exception of the children's channel.

Conclusion

The music industry is a growing industry. The value of domestic record sales at retail level has increased by almost 50% between 1991 and 2001. The growth has been more in domestic music than foreign, leading to the fact that the market is split equally between foreign and domestic releases. The market is divided between one large record company and 3-4 small ones. Skífan has distributing rights for EMI-VIRGIN, Sony Music, Universal and Warner Music, which together with Skífan hold a 63% market share in the year 2001. Approximately 27% of the total market fell under the category "others," which leaves the remaining record labels with a 10% market share.

This is the first attempt to map the music industry in Iceland. Therefore few data were available, and statistics and other information were often hard to find. There are no export figures available regarding the music industry, information regarding the size of the industry is lacking, and accurate statistics regarding airplay performances are also not available.

It seems that lack of competence in accessing capital or other support, as well as lack of supportive institutions, explains why actors within the industry have not reached a higher level of professionalism. Over the last few years institutions such as the New Business Venture Fund and the Trade Council of Iceland have involved themselves in music industry affairs by consulting them in matters of export, raising capital and marketing their products. It is likely that, paralleled to increased support from institutions as well as venture capitalists, the music industry will become more

professional. Hopefully that will entail more accessible information, and put pressure on government systematically to gather statistical and other forms of information regarding the industry.

The industry stands at a crossroads. It will be interesting to see whether the Ministries of Industry and Commerce will take action as they have declared themselves willing to do, in order to improve the performance of the music industry.

Markus M. Bugge²⁸

Executive summary

- The value of the Norwegian record sales from store has increased with 148% from 1990 to 2001 (Nominal figures). When adjusting the numbers to the consumer price index (1998=100), the total growth corresponds to 91%. This equals an 80% increase in music expenditure (record sales) per capita.
- The share of Norwegian music of the national market has decreased from 24% in 1991 to 18% in 2001. Compared to other countries Norway has the lowest consumption of domestic artists.
- The total value of Norwegian record sales from store amounted to about 2 billion NOK in 2000.
- In 2001 the total unit record sales in Norway corresponded to somewhat more than 13 million units (albums and singles).
- In 2000 Norway was ranked on a 21st place by retail value of world music sales globally, constituting 0.6% of the world music sales (IFPI).
- In 2000 Norway was ranked on a 32nd place by volume of world music sales globally, constituting 0.4% of the world music sales (IFPI).
- Norway has the 4th highest expenditure on phonograms per capita globally.
- The public support to Norwegian phonogram production has slightly decreased from 1991 to 2001. (Indexed figures, 1998=100)
- The Norwegian music industry amounts to about 9000 employees distributed across some 1200 companies (1999). According to number of employees, this is a 35% increase since 1995. The employment growth exceeds the growth in number of firms, which corresponds to about 14%.
- The amount of employees working within the Norwegian music industry corresponds to about half a percent of the total active working force.
- The overall majority (90%) of all companies within the music industry have got less than 10 employees.
- The Norwegian music industry consists of about 60% men and 40% women.
- About 40% of all employees in the music industry are located in Oslo (1999). This number increases to about 50% when including the surrounding area (Akershus, Østfold, Buskerud and Vestfold).
- About 30% of all companies in the music industry are located in Oslo (1999). This number increases to about 50% when including the area surrounding Oslo (Akershus, Østfold, Buskerud and Vestfold)
- The major record companies (IFPI members) represent 91% (2000) of the total record sales in Norway (GGF - Grammofonplategrossistenes Forening).
- In 2001 the total Norwegian phonogram productions corresponded to 357 national record publications.
- Rock/pop constitutes about one third of the total Norwegian phonograms produced.

²⁸ STEP – Centre for Innovation Research/SINTEF Industrial Management, Oslo, Norway.

- The FONO members represent more than 70% of all Norwegian national record publications annually.
- The IFPI members represent 71% (2000) of the total value of record sales of domestic music (GGF).
- In 1999 the share of Norwegian music in NRK radio (P1, P2 and P3) was 23%.
- The Norwegian music industry consists of about 20 major record companies (IFPI members), representing the Norwegian branches of all the ‘majors’ and a number of smaller multinational companies, and about 100 independent record labels (FONO members).
- Mergers and acquisitions among the major record companies characterise the second half of the 1990s. This has been a period of manifestation of the largest record companies.
- Growing underground: The number of companies being connected to FONO, the branch organisation for Norwegian record companies, has increased throughout the 1990s.
- There is a growing attention towards Norwegian music both nationally and internationally: Through recent international, but also through a rising awareness about the positive spin-off effects and indirect branding value in promoting national artists abroad. The national media also reflects and supports this pattern and tendencies.
- Every day half of all Norwegians listen to a record. Listening to music is thus the second most popular media use in Norwegian households after TV, newspapers and radio.

Introduction

Throughout the last decade there has been a growing awareness and interest towards the entertainment industry and its economic implications, dynamics and consequences. Similarly the traditional separate spheres of culture and trade are becoming more interconnected. These characteristics represent a need for better understanding and knowledge about the dynamics and capabilities of music as an industrial sector. In the wake of international successful Norwegian bands Norwegian music has received increasing attention both nationally and internationally. On this background the present study seeks to shed new light on the Norwegian popular music industry, and how it relates to the respective sectors in the other Nordic countries.

In ‘The Popular Music in the Cultural Policy’ Gripsrud (2000) recently discussed various aspects of popular music within the cultural sector in Norway. The report treats popular music as 1) a cultural expression, 2) the significance of popular music for identity and 3) the economic, social and political conditions for popular music. The present study takes its departure from the third of these points, and must be seen as a continuation of the exploration of the field of popular music, and its consequences and implications for the formulation of both economic and cultural policy, and similarly the coordination of the two policy areas.

The present text includes quantitative and descriptive material about the Norwegian music industry, collected from various sources. The figures comprise an outline of employment statistics, geographical location patterns, sales figures, market shares and public support towards the music industry. Neither

data on Internet penetration, export figures nor downloading of music files from the Internet could be provided for the present text.

Employment statistics

Table 01: Number of employees in industrial sectors related to the Norwegian music industry, 1995, 1997 and 1999. Absolute numbers and percent (1999)

| Nace code | | Number of persons | | | Share |
|----------------------------------|---|-------------------|-------------|-------------|------------|
| | | 1995 | 1997 | 1999 | 1999 |
| Creators | | | | | |
| 92310 | Performing artists, producers of artistic and literary works | 684 | 1075 | 2113 | 23,2 |
| Industrialists | | | | | |
| 22140 | Publishers of sound recordings | 146 | 241 | 255 | 2,8 |
| 22150 | Other publishers | 318 | 541 | 774 | 8,5 |
| 22310 | Industry for the reproduction of sound recording | 51 | 64 | 63 | 0,7 |
| 24650 | Industry for prepared unrecorded media | 2 | 15 | 6 | 0,1 |
| 51434 | Wholesale (records, tapes, CDs and videotapes) | 891 | 911 | 717 | 7,9 |
| Distributors | | | | | |
| 52452 | Stores for records and video tapes | 1320 | 1269 | 1372 | 15,0 |
| 52453 | Stores for music, instruments and music scores | 299 | 285 | 271 | 3,0 |
| 52614 | Mail order, household appliances, radio, TV, records, tapes, CDs and musical instruments. | 191 | 68 | 60 | 0,7 |
| 92320 | Theatre and concert hall companies etc. | 2387 | 2530 | 2956 | 32,4 |
| 92340 | Dancing and other entertainment establishments | 456 | 593 | 494 | 5,4 |
| Machinery & equipment | | | | | |
| 36300 | Industry for musical instruments | 38 | 42 | 44 | 0,5 |
| Grand Total | | 6783 | 7634 | 9125 | 100 |

Source: SSB, Employment Statistics

In 1999 there were about 9000 employees within the Norwegian music industry²⁹. This is a 35% employment growth since 1995. There has been a considerable growth in number of firms and individuals in the music industry during the 1990's, which largely exceeds the respective growth rates for the Norwegian industry on the whole. The employment growth in the music industry is four times bigger than the growth rates for the Norwegian industry in general. The growth in number of companies in the music industry has been twelve times larger than the respective growth in the total Norwegian industry.

There is a male dominance in the Norwegian music industry. The average gender distribution across the industrial sectors is 60% men and 40% women. The gender distribution is particularly unequal within 'Wholesale' and 'Publishers of sound recordings', which covers most of the major record companies. This may have implications for the A&R (Artist & Repertoire/ talent scouting) processes and the selection of artists and bands. There is a risk that such gender distortions may hinder a full exploitation of the music market.

²⁹ The employment statistics numbers must be treated with care, as many of the categories may include personnel from other sectors, and similarly personnel belonging to the music industry could have been excluded from the definitions and NACE categories selected.

The number of companies constituting the music industry in Norway has risen from 363 in 1989 to 1177 in 1999, which is a 224% increase. The share of companies with less than 10 employees has increased from 85% in 1989 to 90% in 1999. The growth of companies with less than 10 employees is an opposite pattern from what we see for the total economy as such, where the share of companies with less than 10 employees has fallen two percentage points to 76% during the same time period. This industrial sector thus seems to have a particularly high share of small companies. The distribution part of the industry comprises the majority in terms of employment, or almost 57% of the employment in the entire industry. While the average employment growth in the sector is 35% from 1995 to 1999, ‘performing artists, producers of artistic and literary works’ has risen with 209% during the same period.

Table 02: Number of companies in industrial sectors related to the Norwegian music industry, 1995, 1997 and 1999. Absolute numbers.

| NACE code | | Number of companies | | | Share |
|----------------------------------|---|---------------------|-------------|-------------|------------|
| | | 1995 | 1997 | 1999 | 1999 |
| Creators | | | | | |
| 92310 | Performing artists, producers of artistic and literary works | 251 | 300 | 302 | 25.7 |
| Industrialists | | | | | |
| 22140 | Publishers of sound recordings | 39 | 53 | 57 | 4.8 |
| 22150 | Other publishers | 65 | 105 | 127 | 10.8 |
| 22310 | Industry for the reproduction of sound recording | 16 | 13 | 16 | 1.4 |
| 24650 | Industry for prepared unrecorded media | 1 | 3 | 3 | 0.3 |
| 51434 | Wholesale (records, tapes, CDs and videotapes) | 33 | 41 | 45 | 3.8 |
| Distributors | | | | | |
| 52452 | Stores for records and video tapes | 289 | 292 | 251 | 21.3 |
| 52453 | Stores for music, instruments and music scores | 97 | 82 | 89 | 7.6 |
| 52614 | Mail order, e-household appl., radio, TV, records, tapes, CDs and musical instruments | 32 | 15 | 11 | 0.9 |
| 92320 | Theatre and concert hall companies etc. | 103 | 132 | 148 | 12.6 |
| 92340 | Dancing and other entertainment establishments | 102 | 124 | 121 | 10.3 |
| Machinery & equipment | | | | | |
| 36300 | Industry for musical instruments | 6 | 6 | 7 | 0.6 |
| Grand Total | | 1034 | 1166 | 1177 | 100 |

Source: SSB Employment statistics

The majority of personnel work in the counties that comprise the largest cities. In 1989 50% of all persons associated to the music industry worked in Oslo. In 1999 this number was reduced to somewhat more than 30%. The increase in employment has been lower in Oslo than in other parts of the country. Hordaland in particular seems to ‘steal’ employment shares from Oslo. Between one third and one fourth of all companies that are defined as belonging to the music industry are located in Oslo. This share proves relatively stable from 1989 to 1999.

The content providers to the industry however, i.e. the providers of talent or musical skills, is not necessarily an urban phenomenon. This function within the value chain takes place in all parts of the country, and must be regarded as a link between the cultural sphere and the music industry.

As an indicator of the undergrowth of persons and musical skills, ‘activities of municipal music schools’ might be used to illuminate part of this potential personnel base for the national music industry. When looking at the figures for municipal music schools one sees that the number of persons being occupied with this activity has increased from 179 in 1989 to 1708 persons in 1999. The total number of members in such music interest groups comprised 183,000 persons in 2000 (SSB, 2000).

Norwegian record sales

The value of the total record sales in Norway³⁰ has almost doubled (91%) from 1990 to 2001 (Index: 1998=100). The corresponding nominal figures amount to a 148% growth. This represents an 80% growth in expenditure per capita on music (record sales) from 1990 to 2001³¹. Similarly the record sales has decreased with a 6.5% share from 1998 to 2001. In 1998 the total value of record sales amounted to about 2 billion NOK. Pop and rock music constitute the largest share of Norwegian productions, and represents approximately 30% of all Norwegian music produced. The total turnover of the Norwegian music industry is about double that of the respective turnover within the film industry (Grønnestad, 2002).

Table 03: Retail value of Norwegian record sales 1990-2001 (Million NOK/US\$)

| | | | Total (mill. NOK) Nominal | Total (mill. NOK) Index: 1998=100 | | | | Total (mill. US\$) Nominal | Total (mill. US\$) Index: 1998=100 |
|-------------|---------|--------|---------------------------------|--|-------------|---------|--------|----------------------------------|---|
| | Singles | Albums | | | | Singles | Albums | | |
| 1990 | 16 | 725 | 741 | 885 | 1990 | 1.8 | 80.8 | 82.6 | 98.7 |
| 1991 | 19 | 915 | 934 | 1079 | 1991 | 2.1 | 102.0 | 104.1 | 120.2 |
| 1992 | 29 | 1055 | 1084 | 1223 | 1992 | 3.2 | 117.6 | 120.8 | 136.4 |
| 1993 | 49 | 1160 | 1209 | 1334 | 1993 | 5.5 | 129.3 | 134.7 | 148.7 |
| 1994 | 59 | 1485 | 1544 | 1680 | 1994 | 6.6 | 165.5 | 172.1 | 187.3 |
| 1995 | 74 | 1490 | 1564 | 1660 | 1995 | 8.2 | 166.1 | 174.3 | 185.0 |
| 1996 | 80 | 1376 | 1456 | 1528 | 1996 | 8.9 | 153.4 | 162.3 | 170.3 |
| 1997 | 101 | 1642 | 1743 | 1782 | 1997 | 11.3 | 183.0 | 194.3 | 198.6 |
| 1998 | 87 | 1882 | 1969 | 1969 | 1998 | 9.7 | 209.8 | 2119.5 | 219.5 |
| 1999 | 76 | 1848 | 1924 | 1881 | 1999 | 8.5 | 206.0 | 214.4 | 209.6 |
| 2000 | 52 | 1931 | 1983 | 1880 | 2000 | 5.8 | 215.2 | 221.0 | 209.5 |
| 2001 | 36 | 1804 | 1840 | 1693 | 2001 | 4.0 | 201.1 | 205.1 | 188.7 |

Source: GGF/STEP 2002. Currency converter based on the Federal Reserve Bank of New York rates per 31/12 each year

³⁰ There are many aspects that influence upon the contents of the Norwegian record sales statistics that one should bear in mind when studying these matters:

1. The Norwegian Act of parallel import represents a shift in the Norwegian record sales. Before this Act was introduced, no import outside the major record companies was included in the sales statistics. Therefore, Norwegian record sales were actually larger than it seems in the statistics until the Act was launched.
2. Certain actors operate in a less defined area of the market, i.e. legal imports from abroad, such as the Swedish company NextStop, that are not being included in the Norwegian sales statistics. This similarly emphasises how the Norwegian record market actually is larger than it may seem from the official statistics.
3. There are different rules for measuring the volume of the record sales in different countries. In the USA, for instance, a double album is counted as two separate albums sold, whereas in Norway this is counted as one album.

³¹ The sales statistics from GGF include both record sales from IFPI and FONO members. It should be noted that the Norwegian GGF and the IFPI-Norway figures differ somehow from the IFPI-International numbers, as IFPI-International also includes record sales that exceed the Norwegian GGF/IFPI market coverage. The international IFPI sales figures for Norway are thus higher than the corresponding IFPI-Norway numbers.

The Norwegian royalty income is the fastest expanding globally, with an average increase at 42% annually (Forss, 2002). Norwegian royalties corresponded to 16 million NOK in 2001, whereas the Swedish royalties amounted to 220 million NOK the same year.

The share of domestic music of the national market is low compared to other Nordic and European countries. The share of domestic music in the Norwegian market is decreasing throughout the 1990s. In 1999 the average share of Norwegian music on public radio (NRK P1, P2 and P3) was 23%. The national and independent record labels (within FONONO) represent more than 70% of the Norwegian records published³².

Table 04: Unit record sales in Norway 1990-2001 (Million units).

| | Singles | Albums | Total |
|------|---------|--------|-------|
| 1990 | 0.62 | 8.56 | 9.17 |
| 1991 | 0.64 | 9.49 | 10.13 |
| 1992 | 0.71 | 9.90 | 10.60 |
| 1993 | 1.10 | 10.26 | 11.36 |
| 1994 | 1.22 | 12.40 | 13.62 |
| 1995 | 1.49 | 12.00 | 13.49 |
| 1996 | 1.57 | 11.00 | 12.57 |
| 1997 | 1.82 | 12.01 | 13.84 |
| 1998 | 1.69 | 13.74 | 15.43 |
| 1999 | 1.49 | 13.39 | 14.88 |
| 2000 | 1.02 | 13.46 | 14.47 |
| 2001 | 0.86 | 12.21 | 13.08 |

Source: GGF 2002

The number of albums sold has increased with 43% from 8.5 millions in 1990 to 12.2 millions in 2001. In 2001 music sales in Norway corresponded to a total number of 12212 albums or 1804 million NOK (247.33 million EURO or US\$ 201 million). Of these figures Norwegian music constitutes 18%. The share of singles of the total unit sales amounted to about 7 % in 2001.

Table 05. Norwegian phonogram productions, 1985-2001. Number of releases.

| Norwegian releases | | | | | | | | | | | | | | | | |
|--------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| 159 | 106 | 120 | 146 | 152 | 234 | 168 | 264 | 285 | 290 | 282 | 337 | 365 | 384 | 308 | 362 | 357 |

Source: Norsk Musikkinformasjon

Table 06: Nordic record sales, 2000.

| | Denmark | Finland | Iceland | Norway | Sweden |
|-----------------------------------|---------|---------|---------|--------|--------|
| Per capita sales (US\$) | 43.8 | 22.4 | 54.6 | 52 | 36.5 |
| Per capita sales (units) | 3.7 | 2.2 | 2.7 | 3.3 | 3.2 |
| Total retail value (million US\$) | 233.3 | 115.8 | 15.2 | 232.3 | 322.9 |

Source: IFPI, 2002

³² Norwegian record sales are defined by GGF as publications from Norwegian record labels, and not publications by Norwegian artists per se, as many of these are being published on foreign record labels.

Norway has the second highest expenditure on phonograms per capita among the Nordic countries after Iceland. Norway has the 4th highest consumption of phonograms in the world, after 1) UK, 2) Denmark and 3) USA.

Table 07: Norwegian record sales, 1991-2001, as a percentage of units sold.

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Domestic | 24 | 25 | 24 | 28 | 22 | 25 | 26 | 19 | 19 | 17 | 18 |
| International | 72 | 70 | 70 | 67 | 72 | 68 | 68 | 77 | 75 | 79 | 78 |
| Classical | 4 | 5 | 6 | 5 | 6 | 7 | 6 | 4 | 6 | 4 | 4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: MedieNorge, Grammofonplategrossistenes forening (GGF) / IFPI

Table 08: Value of domestic record sales, 1998-2000, as a percentage of market value.

| | Norway | Sweden | Denmark | Finland | Iceland | UK | France |
|-------------|--------|--------|---------|---------|---------|----|--------|
| 1998 | 19 | 25 | 32 | 42 | 45 | 48 | 44 |
| 1999 | 19 | 36 | 35 | 41 | 42 | 49 | 53 |
| 2000 | 20 | 30 | 31 | 38 | 42 | 51 | 51 |

Source: IFPI, 2001

Table 09: Norwegian phonograms after genres, 1999-2001. Number and percent.

| | Number | | | Percent | | |
|---------------------|--------|------|------|---------|------|------|
| | 1999 | 2000 | 2001 | 1999 | 2000 | 2001 |
| Childrens | 7 | 27 | 10 | 2 | 7 | 3 |
| Folk | 33 | 29 | 47 | 11 | 8 | 13 |
| Jazz | 51 | 42 | 57 | 17 | 12 | 16 |
| Classical | 25 | 35 | 21 | 8 | 10 | 6 |
| Choral | 13 | 14 | 10 | 4 | 4 | 3 |
| Rock/pop | 91 | 130 | 99 | 30 | 36 | 28 |
| Contemporary | 17 | 30 | 21 | 6 | 8 | 6 |
| Ballads | 34 | 25 | 32 | 11 | 7 | 9 |
| Various | 37 | 30 | 60 | 12 | 8 | 17 |
| Total | 308 | 262 | 357 | 100 | 100 | 100 |

Source: MediaNorge/ Musikkinformasjonsenteret

There has been an increased awareness of Norwegian artists and Norwegian music in recent years, both in Norway and abroad. Throughout the latest couple of years there has been a considerable growth of new Norwegian artists going directly into the top sales statistics. These tendencies are reflected through a similar increased attention towards music in the media. Recent international breakthroughs like Röyksopp, Lene Marlin, Turboneger, Satyricon, Sondre Lerche, Jaga Jazzist, Briskeby and Kings of Convenience all contribute to place Norway on the map abroad, and similarly we see a rising awareness about the positive spin-off effects and indirect branding value in promoting national artists abroad.

Market shares

The record companies in Norway may be divided into two main categories; the international companies, that are organised in IFPI, and the Norwegian companies, that are organised in FONO (The Association of Norwegian record companies). There has been a consolidation among the IFPI companies; in 1999 Polygram and Universal merged into one company, and in 2002 EMI and Virgin merged. The Norwegian record companies mainly consist of smaller independent companies. However, among larger Norwegian companies, like Grappa, we might also trace tendencies towards concentration. The Norwegian record companies represent three quarters of the total number of Norwegian record releases (Grønnestad, 2002). More than 100 of the companies are organised in FONO, whereas the number of registered companies is almost the double.

Table 10: Top ten record companies in Norway³³ by turnover 2001 (Millions NOK and US\$) and market share. Percent.

| | Turnover | | Market share % |
|----------------------------|-------------|--------------|----------------|
| | Million NOK | Million US\$ | |
| Universal | 224 | 24.97 | 24 |
| EMI/Norske Gram | 163 | 18.17 | 17.5 |
| Sony | 140 | 15.60 | 15.1 |
| Warner | 96 | 10.70 | 10.4 |
| Virgin | 69 | 7.69 | 7.4 |
| BMG | 61 | 6.80 | 6.6 |
| Playground | 23 | 2.56 | 2.5 |
| Master Music/ Naxos | 21 | 2.34 | 2.3 |
| Edel | 21 | 2.34 | 2.3 |
| MNW | 18 | 2.01 | 1.9 |

Source: GGF, 2002. Currency converter based on the Federal Reserve Bank of New York, 31.12.01

The top ten record companies together constitute about 90% of the total value of the record sales in Norway (2001). Mergers and acquisitions among the major record companies characterise the second half of the 1990s. This has been a period of manifestation of the largest record companies. In 1995 six majors had a market share at 10% or more each, whereas in 2001 this number is reduced to four. This pattern also seems to hold for 2002 (ytd in October), as Universal, EMI Recorded Music, Sony and Warner were the four companies with a market share at more than 10%. The process of mergers and acquisitions among the major record companies makes room for more national, independent labels. Throughout the 1990 the number of members in FONO has grown steadily to somewhat more than 100. This opens up for a focus on how closely the indies and the majors should be linked, and what the premises for the shaping of contracts between them should be like.

Location

Based upon the number of persons employed in the music industry, there are four counties that have a location quotient at one or more: a score above 1 indicates a higher than normal level of activity (if

³³ After having merged into one new company, EMI Recorded Music has had a market share of about 20% YTD in 2002 (FaroJournalen, 2002).

everything was distributed equally); a score lower than 1 means that these industries are underrepresented. These are Oslo, Rogaland, Sør-Trøndelag and Troms. It is no surprise that these four counties that all house a large city qualify for a location quotient at or above the national average. However, what may surprise is that Hordaland (Bergen) does not have a positive location quotient, despite being known for holding a dynamic music milieu. This might serve to strengthen the assumption that such milieu dynamics not so much depend upon the number of persons belonging to it, but rather what persons that constitute it. Some few dedicated persons can have a great influence upon a music milieu in a city like Bergen.

Table 11: Location quotient (GINI) of the Norwegian music industry and share of employment in the music industry, 1999.

| County | Location quotient | | % Share of employment | % Share of no. firms |
|--------------------|-------------------|------------|-----------------------|----------------------|
| | Person | Firms | | |
| Østfold | 0.6 | 0.9 | 1.9 | 4.4 |
| Akershus | 0.8 | 1.0 | 4.2 | 9.1 |
| Oslo | 3.4 | 2.0 | 39.5 | 28.3 |
| Hedmark | 0.5 | 1.0 | 1.1 | 4.2 |
| Oppland | 0.7 | 1.0 | 1.5 | 4.0 |
| Buskerud | 0.6 | 0.7 | 1.6 | 3.9 |
| Vestfold | 0.7 | 0.9 | 1.7 | 4.4 |
| Telemark | 0.6 | 0.7 | 1.2 | 2.6 |
| Aust Agder | 0.4 | 0.5 | 0.4 | 1.2 |
| Vest Agder | 0.8 | 0.9 | 1.5 | 3.0 |
| Rogaland | 1.0 | 0.7 | 5.3 | 5.6 |
| Hordaland | 0.6 | 1.1 | 26.4 | 9.4 |
| Sogn Og Fjordane | 0.5 | 0.5 | 0.7 | 1.3 |
| Møre Og Romsdal | 0.5 | 0.5 | 1.4 | 2.8 |
| Sør Trøndelag | 1.9 | 1.1 | 6.5 | 6.1 |
| Nord Trøndelag | 0.5 | 0.6 | 0.7 | 1.8 |
| Nordland | 0.7 | 0.7 | 1.9 | 3.6 |
| Troms | 1.0 | 0.9 | 2.0 | 3.4 |
| Finnmark | 0.6 | 0.5 | 0.6 | 1.0 |
| Grand Total | 1.0 | 1.0 | 100 | 100 |

Source: Employment Statistics, 1999

Based upon share of companies, there are six counties that have a location quotient at one or more. In addition to the counties mentioned above, also Akershus and Hordaland have a quotient at one or more. When comparing the two types of location quotients, the urban concentration of people seems to be larger than the respective concentration of firms. The distribution of persons within the music industry seems to be dispersed mainly between Oslo (40%) and Bergen (26%). The concentration of persons seems much stronger than do the concentration of companies. Between one third and one fourth of all companies related to the music industry are located in Oslo. This number however rises to about 50% when including the surrounding area (Akershus, Østfold, Vestfold and Buskerud). Furthermore, around 10 % are located in Hordaland, and somewhat more than 5 % in both Sør-Trøndelag and Rogaland.

Public support

Table 12: Public support for Norwegian phonogram production, 1991-2001. (1000 US\$). Currency rates per 31.12.01. Index. 1998=100.

| Public support scheme | 1991 | 1993 | 1995 | 1997 | 1999 | 2001 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Norsk kulturråds produksjonsstøtte | 360 | 394 | 379 | 296 | 338 | 277 |
| Innkjøpsordningen for norske fonogrammer | 515 | 578 | 556 | 547 | 643 | 636 |
| Fond for lyd og bildes produksjonsstøtte | 965 | 898 | 947 | 946 | 937 | 800 |
| Fond for utøvende kunstnere | 360 | 455 | 615 | 524 | 523 | 472 |
| Grand total | 2201 | 2325 | 2496 | 2313 | 2440 | 2184 |

Source: MedieNorge, Norsk Kulturråd, Norsk Musikkinformasjon, Fond for lyd og bilde, Fond for utøvende kunstnere, STEP Currency conversion based on Federal Reserve Bank of New York, 31.12.01
Index: 1998=100

More than half of all Norwegian record publications are released with public support (Grønnestad, Ballade 2002). As Table 12 shows, public support to Norwegian phonogram production has slightly decreased throughout the 90's when processing the numbers according to the consumption price index.

Dominic Power³⁴, Per Lundequist³⁵ and Daniel Hallencreutz³⁶

Executive summary

- The Swedish music industry has emerged as an internationally successful sector, generating export incomes through selling goods (such as CDs, tapes, manufacturing equipment), and services (such as mixing, music video production, music licensing) as well as generating royalties. Forss and Podolieva (2002) estimated the total export earnings of the Swedish music industry in 2001 at around US\$530 million, and the annual growth rates – for the years between 1990 and 2000 – to be around 15%. The music industry's exports amounted to 0.45% of total Swedish exports in 2001.
- The Swedish music industry shares many of the common features characterising an industrial cluster. There exist numerous examples of formal 'buyer-supplier' linkages, particularly different types of project-based, socially embedded linkages. Concerning geographic co-location, almost 50% of firms are located in the Stockholm region, particularly in the central areas of Stockholm.
- A preliminary examination of companies in the music industry-related SIC codes shows that slightly more than 80%) of these firms are SMEs, with less than four employees, A large share are micro enterprises with only one employed, alternatively occupying one individual. Thus, it is important to note though that if sole traders as well as trading companies are included, the number of firms (and consequently individuals that get their income from the industry) are, in reality, probably significantly higher.
- Evidence shows throughout the 1990s and today there has been continuous new firm formation. This has been a feature of Stockholm's scene and that there has been significant growth in the number of independent record companies, professional musicians, publishing companies, production companies, and music-related IT companies.
- Employees of the Swedish music industry account for 0.5% of Sweden's total active workforce.
- The Swedish music industry consists of about 60% men and 40% women.
- The retail value of Swedish record sales amounted to approximately 1.9 billion SEK (US\$220 million) in 2001. The value of domestic record sales has increased by almost 85% between 1990 and 2001. Increases in the value of the domestic sales can only partially be explained by the rise of the Consumer Price Index. A larger consumer interest in music and an increasing release rate (re-releases of old vinyl albums on CD) are also factors that may explain the growth.
- The greater part of phonograms sold, derives from the sale of CDs (over 90% of the retail value and approximately 80% of the number of units (phonograms) sold).
- The main categories include pop/rock (over 50% of total market share), classical/art music (26%), jazz (10%), folk (5.5%), music for children (4.2%), and gospel/religious music (1.3%). The relative market share between these categories has been fairly stable during the last decade. This is

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also the case for the relation between the retail value represented by Swedish versus international artists, which has been approximately 30 and 70% respectively.

- The major record companies represent the majority of total record sales. The ten largest record companies (by turnover) in Sweden are now all owned by foreign majors and all headquartered within walking distance of one another in central Stockholm. Almost 80% of Sweden's IFPI members are located in the Stockholm-region. In contrast SOM members (the organisation for independent record companies in Sweden) are more geographically dispersed with only 36% in the Stockholm region.
- All the majors in the recorded music industry are active in Sweden through fully owned subsidiaries headquartered in Stockholm. Since the early 1980s these corporations have strengthened their position by acquiring most of the large independent companies, including their licensing deals and facilities for distribution. When acquiring the record companies they also acquired the affiliated publishing companies.
- The ten largest record companies (by turnover) in Sweden are all owned by foreign majors. Moreover they are headquartered within walking distance of one another in central Stockholm.
- There are a growing number of independent record companies operating in Sweden, i.e. companies not affiliated to the majors. Independent companies such as Bonnier Music or Reactive Music are just as 'commercial' as any of the majors. Furthermore there exist some 100 smaller independent labels.
- The production of popular music in Sweden is supported by a plethora of institutions. Policy interventions have predominantly been in the form of funding and subsidising cultural and educational institutions rather than supporting popular music production as an economic activity. Though this is changing.

Introduction

The 1990s saw an increased importance of cultural product industries for national economies in the EU in general as well as in particular European countries. One such country is Sweden, where industries such as fashion, music, high-end furniture and new media have been increasingly recognised as important for employment, regional development, and exports.

Table 1: Export incomes of the Swedish music industry 1997-2000 in different categories (million US\$)

| | 1997 | 1998 | 1999 | 2000 |
|--|-------|-------|-------|-------|
| Export of goods | 258.8 | 279.4 | 370.6 | 343.3 |
| Export of services | 49.9 | 45.2 | 47.1 | 76.1 |
| Income of royalties | 83.2 | 84.4 | 90.7 | 116.4 |
| Radio, TV & other public performances (STIM) | 13.6 | 17.2 | 18.2 | 21.9 |
| Radio, TV & other public performances (SAMI) | 2.6 | 2.8 | 2.9 | 3.2 |
| Mechanical rights (NCB) | 28.0 | 28.0 | 30.2 | 29.1 |
| Royalties from sub-publishers | 38.8 | 36.4 | 39.3 | 62.2 |
| TOTAL | 396.2 | 408.9 | 508.4 | 535.8 |

(Source: Export Music Sweden: 2002)

This mapping focuses on the Swedish music industry, which in recent decades has emerged as an internationally successful sector, generating export incomes through selling goods (such as CDs, tapes, manufacturing equipment), and services (such as mixing, music video production, music licensing) as well as generating royalties. This success has resulted in a growing interest in the measurement of the economic effects of these exports. Export Music Sweden has estimated the total export earnings of the Swedish music industry in 2001 to approximately US\$535 million USD, and the annual growth rates – for the years between 1990 and 2000 – to around 15%. Swedish exports of goods and services amounted to approximately 0.45% of the total exports of the Swedish industry.

The present text includes quantitative and descriptive material about the Swedish music industry, collected from various sources. The figures comprise an outline of employment statistics, geographical location patterns, sales figures, market shares and public support towards the music industry.

Defining and delimiting the Swedish music industry

It is very complicated to map the total number of firms in the Swedish music industry: there is no accurate and readily accessible empirical source. This is something Sweden shares with many countries: in the standard for European industrial classification (RSC, 1992, p.4), there is no sector classification directly corresponding to the music industry in general. However, there are a number of specific sectors which, when taken together, seem to capture the Swedish music industry (see Table 2).

Table 2: Industrial sectors related to the music industry – Swedish Standard Industrial Classification codes (SE-SIC 92, 5-digit level).

| SE-SIC 92 | Description |
|------------------|--|
| 22140 | Publishers of sound recordings |
| 22150 | Other publishers |
| 22310 | Industry for the reproduction of sound recording |
| 24650 | Industry for prepared unrecorded media |
| 36300 | Industry for musical instruments |
| 51433 | Wholesale (records, tapes, CDs and videotapes) |
| 52453 | Stores for records and video tapes |
| 52454 | Stores for music, instruments and music scores |
| 52614 | Mail order houses for books and media goods |
| 92310 | Performing artists, producers of artistic and literary works |
| 92320 | Theatre and concert hall companies etc. |
| 92340 | Dancing and other entertainment establishments |

It is important to point out, however, that not all firms should be included in a music industrial mapping exercise: since many firms have either been wrongly classified or are not related to the music industry at all (e.g. painters and writers in SE-SIC 92310 or companies producing talking books in SE-SIC 22140). Even at a disaggregated level (5-digit), however, these two SIC codes tend to comprise a wider spectrum of firms including, for example, producers of talking books in SIC 22140 and

publishing houses focusing on videos in SIC 22150. Another case in point is music-publishing companies of which there are 71 companies according to the Swedish Music Publishers Association (SMFF) – register (January 2002). This corresponds to 10% of the total number of firms included in SIC 22150. Moreover, a number of record companies and publishing companies have been classified as belonging to another SIC-code than 22140 or 22150. Examples of firms in this context are renowned record companies such as Warner Music Sweden and EMI which are classified as belonging to 51430 (Wholesale records, tapes, CDs and videotapes). Furthermore, there are *associated services* such as accounting, marketing, advertising etc., that are not included in the selection of sectors in Table 2, despite the fact that some firms in these sectors work primarily or exclusively within the music industry. In a comprehensive cluster analysis these activities, embracing musical education, specialised entertainment accounting, video production etc., should be included. Furthermore, different supporting institutions should be included in the analysis.

Supporting institutions

In Sweden there exists four main types of supporting institution: 1) public authorities, 2) third sector organisations, 3) public educational institutions and 4) industry and worker’s organisations (see Table 3).

Table 3: Supporting institutions

| | National | Regional | Local |
|--|---|--|---|
| Public authorities | Ministry of Culture Swedish National Council for Cultural Affairs The Federation of Swedish County Councils The Swedish Association of Local Authorities | County administrative board County Councils | Local Authorities |
| Third sector organisations | Kontaktrådet (a national organisation for voluntary culture associations) Swedish National Council of Adult Education | | Local voluntary culture associations Educational associations Folkhögskolor “Folk high-school” |
| Public educational institutions | College of music Departments of musicology College/University programmes in music management | | Municipal school of music Musical education in primary school Aesthetic secondary school programmes |
| Industry and workers’ organisations | E.g. STIM, ExMS and IFPI | | |

Public authorities

The main authority for cultural policy in Sweden is the National Council for Cultural Affairs. One may divide the financial support to musical activities from the National Council for Cultural Affairs into three different categories of grants. Firstly, the Council allocates government grants directly to national cultural institutions, e.g. Royal Swedish Opera and The Royal Dramatic Theatre of Sweden.

Secondly, public bodies such local authorities and county councils receive grants for financial support to musical activities (e.g. 'Länsmusiken'). Thirdly, there are a number of grants targeted towards independent music groups (e.g. audio recording) and concert arrangements. However, Swedish public authorities have traditionally ignored popular music and prioritised other genres such as classical music, folk music, and jazz. This can be exemplified by the fact that the financial support to independent pop and rock groups has accounted for no more than 10% of the Council for Cultural Affairs' total phonogram production/support to independent groups.

Third sector organizations

There are a number of third sector organisations supporting musical activities in Sweden. In general terms, these organisations can be divided into two groups, namely providers of musical education and local cultural associations.

In terms of *providers of musical education* there exists a system of adult educational centres in Sweden called Folkhögskolor or 'folk high schools'. They offer musical education, ranging from short courses in, for example, Afro-Cuban percussion, to longer courses such as two-year cantorial programmes. There exist some 150 Folkhögskolor of which two thirds are run by various popular movements and associations (e.g. NGO's). County councils manage the remaining schools, thus making them a part of the public educational system (see below). Approximately 30% of the folk high schools in Sweden offer different types of music courses. In addition to the 'folk high schools', there exist a dozen study associations in Sweden providing musical education. These study associations provide courses in their local affiliates. In total, 350,000 study circles are arranged annually. Approximately 50% of these are related to cultural activities, e.g. music, art, and dance. The density of affiliates on a local level is high. There are at least a few study associations present in each of the 286 municipalities in Sweden. Thus, a rough estimates indicate that approximately 100,000 'amateur' musicians participate in popular music related study circles.

Local cultural associations are the second type of third sector organisations. It is difficult to estimate the actual number of such organisations since they span from short-term parties to formalised membership organisations. According to the national organisation of voluntary organisations ('Kontakt nätet') there are 155 voluntary associations in Sweden of which a great number are in music related activities, for example arranging music concerts. In addition to these venues, there is a Swedish phenomenon called 'Folkpark' or 'Folkets park' – local amusement parks offering live music, theatre, dancing etc. – with their origins in the Swedish popular labour movement of the 19th century. Until the late 1980s, these parks played an important role as sites for concerts of both professional and non-established artists. However, increased competition in the 1990s with festivals and 'event tours' in which a few popular artists share the bill have made it less attractive for established artists to perform in the 'parks'.

Public educational institutions

There are three different kinds of musical education in Sweden, namely higher educational institutions, musical education in primary and secondary school, and municipal schools of music.

In terms of *higher education* there exist a dozen music related academic departments of which six are colleges of music. In addition to these departments, the late 1990s has witnessed the establishment of a

number of music management programmes at the university level. One case in point is the three-year programme at the University of Kalmar. The purpose of this programme is to educate students interested in pursuing careers as managers, agents, market managers, etc. A second component of the public educational system is *musical education in primary and secondary school*. Besides compulsory education in music, several schools offer aesthetic programmes specialised in music education. The third category of musical education is the '*Municipal schools of music*'. These schools provide subsidised musical education for students up to an age of 18 years. Taking courses at Municipal schools of music is common in Sweden. According to the Swedish Association of Local Authorities, some 340,000 children in primary school (more than 30% of all children in the age group) participate in music education at the Municipal schools. In addition to these three kinds of musical education, there are local labour market programmes providing vocational education and training related to media, music and IT.

Collecting societies, industry and workers' organisations

In Sweden, there exists a wide array of industry organisations and workers' organisations (i.e. unions and professional associations) supporting the music industry (Table 4). In addition to the organisations outlined in Table 4, there are also two bodies promoting Swedish music in general. Export Music Sweden (ExMS) encourages and co-ordinates Swedish participation in international trade fairs, seminars, festivals and other activities for the international promotion of Swedish music. ExMS was formed in 1993 by the major supporting bodies within the Swedish music industry, i.e. IFPI, SOM, SAMI, SMF and STIM (see Table 4). The Swedish Music Information Centre is funded by the Swedish performing rights society (STIM). The purpose of this organisation is to promote copyright-protected music in close collaboration with lyrics writers, composers and music publishers affiliated to STIM.

Concerning collecting societies, two such bodies exist, namely STIM/NCB and SAMI/IFPI. The two major areas that STIM and NCB are in charge of are performance royalties (STIM) and mechanical royalties (NCB). To put it somewhat simply, performances are all music that is broadcast over the airwaves or the Internet, and all music that is performed in public places. Music played on the radio, on TV, over the Internet, at concerts, music played in department stores and at the hairdresser's – these are all examples of musical performances on which STIM collects royalties. STIM strives to reach agreements with parent or sector organisations, so that they do not have to make such agreements with, for example, each individual hairdresser, but with the trade union to which all hairdressers belong. STIM currently maintains more than 30,000 licences in Sweden. The royalties that NCB handles are referred to in general as mechanical royalties. The term is applied to all means of making music accessible, which means that it also covers files that can be downloaded from the Internet and the printing of files containing music onto videotapes or DVDs of films containing music. Music publishing companies are also members of STIM and NCB, and receive via these organisations their share of the royalties on works they control, i.e., works for which they have signed contracts with the originators. SAMI – Svenska Artister och Musikers Intresseorganisation – is the organisation that protects the interests of musicians in Sweden, while IFPI – the International Federation of the Phonogram Industry – protects the interests of record companies. In addition to protecting these interests, SAMI is what is known as a collecting society. This means that the organisation is responsible for collecting and paying royalties to the musicians and artists who contribute to the

making of a recording or concert performances. IFPI is responsible for paying royalties to the record companies. Even though these two organisations represent two groups of rights-holders that actually have conflicting interests, they both share a common administration in charge of collecting and distributing the royalties to which performers (musicians and artists) and producers (record companies) are entitled.

Table 4: Main industry and workers' organisations in Sweden.

| Core sector | Supporting organisations |
|---|---|
| Composers, artists etc. (i.e. speciality inputs) | The Swedish Society of Popular Music Composers (SKAP)* Swedish Performing Rights Society (STIM)* Swedish Musicians' Union (SMF) Swedish Artists' and Musicians' Interest Organisation (SAMI)* Society of Swedish Composers (FST) |
| Record companies, publishers etc. (i.e. producers of primary goods) | International Federation of the Phonographic Industry (IFPI)* Independent Swedish Record Producers' Association (SOM) The Swedish Music Publisher's Association (SMFF) Swedish Impresario's Association (SVIMP) Swedish Music Festivals (SMF) |
| Distribution | The Association of Gramophone Suppliers (GLF) |

*These organisations are also collecting societies.

Moreover, IUC Hultsfred - Industriellt utvecklingscentra (IUC) för svensk musikindustri i Hultsfred AB [Industrial Development Centre for the Swedish Music and Creative Industry in Hultsfred AB] – should be acknowledged. This organisation is active within the Swedish creative industry with focus on the music industry. IUC Hultsfred was formed in April 2000 and acts as a meeting place for the development of Swedish creative industries.

Number of firms and employed

If the analysis takes its point of departure from the aforementioned SIC-codes, the total number of firms connected to the Swedish music industry has increased from 6,724 in 1995 to 14,601 in 1999, i.e. more than 115% (see Table 2). The sector with the most significant increase in terms start-ups from 1995 to 1999 are performing artists, producers of artistic and literary works. A preliminary examination shows that slightly more than 80% of these firms are SMEs, with less than four employees.

Concerning the number of employees, the level has been fairly stable the researched period. A majority of all firms are micro business (one employee). This resonates well with the general picture of the music industry in Sweden, namely that larger record companies (i.e. the majors) are cutting down on personnel and that these individuals start their own companies. Regarding gender structures, the Swedish music industry consists of about 60% men and 40% women. There is more to this picture

than meets the eye though. To a much larger degree, men tend to work as executives and with A&R activities whereas women to a larger extent tend to work as administrators and with promotion.

Table 5: Total number of firms and employed in industrial sectors related to the music industry (SE-SIC 92, 5-digit level) 1995, 1997 and 1999.

| NACE code | 1995 | | 1997 | | 1999 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Total number of firms | Total number of employed | Total number of firms | Total number of employed | Total number of firms | Total number of employed |
| Creators | | | | | | |
| 92310 Performing artists (music) | 3237 | 3206 | 6578 | 3263 | 9884 | 3444 |
| Industrialists | | | | | | |
| 22140 Publishers of sound recordings | 829 | 1002 | 1034 | 1046 | 1171 | 1128 |
| 22150 Other publishers (music) | 515 | 792 | 613 | 945 | 647 | 976 |
| 22310 Industry for the reproduction of sound recording | 35 | 41 | 43 | 40 | 57 | 30 |
| 24650 Industry for prepared unrecorded media | 24 | 27 | 37 | 24 | 42 | 27 |
| 51433 Wholesale (CDs, tapes, records, videotapes) | 177 | 814 | 200 | 920 | 207 | 926 |
| Distributors | | | | | | |
| 52453 Stores for records & videotapes | 499 | 611 | 522 | 586 | 507 | 703 |
| 52454 Stores for music, instruments & music scores | 406 | 441 | 425 | 440 | 412 | 412 |
| 52614 Mail order houses books & media goods (music) | 51 | 116 | 78 | 197 | 87 | 208 |
| 92320 Theatre & concert hall companies etc | 354 | 6133 | 642 | 6461 | 800 | 6581 |
| 92340 Other entertainment establishments (music) | 475 | 480 | 560 | 573 | 632 | 692 |
| Machinery & equipment | | | | | | |
| 36300 Industry for music instruments | 122 | 173 | 146 | 154 | 155 | 137 |
| TOTAL | 6724 | 13836 | 10878 | 14649 | 14601 | 15264 |

Source Statistics Sweden

Record sales

The total Swedish domestic sales of phonograms in 2001 were valued to approximately US\$220 million, of which the greater part derives from the sale of CDs. In 2001 CDs accounted for over 90% of the retail value and approximately 80% of the number of units (phonograms) sold. The main categories include pop/rock (representing over 50% of total market share), classical/art music (26%), jazz (10%), folk (5.5%), music for children (4.2%), and gospel/religious music (1.3%). The relative market share between these categories has been fairly stable during the last decade. This is also the case for the relation between the retail value represented by Swedish versus international artists, which has been approximately 30 and 70% respectively.

Table 6: Swedish record sales 1990-2001 (Billion US\$)

| | Singles | Albums | Total |
|------|---------|--------|-------|
| 1990 | 0.01 | 0.11 | 0.12 |
| 1991 | 0.01 | 0.13 | 0.13 |
| 1992 | 0.01 | 0.14 | 0.15 |
| 1993 | 0.01 | 0.17 | 0.18 |
| 1994 | 0.01 | 0.18 | 0.19 |
| 1995 | 0.01 | 0.19 | 0.20 |
| 1996 | 0.01 | 0.17 | 0.18 |
| 1997 | 0.01 | 0.18 | 0.19 |
| 1998 | 0.01 | 0.20 | 0.21 |
| 1999 | 0.01 | 0.20 | 0.21 |
| 2000 | 0.01 | 0.21 | 0.22 |
| 2001 | 0.01 | 0.21 | 0.22 |

(Source: IFPI 2002)

Table 7: Record sales in Sweden 1990-2001 (Units, millions)

| | Singles | Albums | Total |
|------|---------|--------|-------|
| 1990 | 4.9 | 22.4 | 27.3 |
| 1991 | 4.0 | 21.7 | 25.7 |
| 1992 | 3.4 | 22.0 | 25.4 |
| 1993 | 2.9 | 24.0 | 26.9 |
| 1994 | 2.8 | 24.5 | 27.3 |
| 1995 | 2.4 | 24.1 | 26.5 |
| 1996 | 3.0 | 22.6 | 25.6 |
| 1997 | 3.5 | 23.7 | 27.2 |
| 1998 | 4.3 | 24.8 | 29.1 |
| 1999 | 6.2 | 25.2 | 31.4 |
| 2000 | 5.9 | 27.3 | 33.2 |
| 2001 | 4.5 | 27.7 | 32.2 |

(Source: IFPI 2002)

Locational pattern and economic geography

Almost 70 % of the music industry firms are located in one of the three major urban areas of Sweden, namely Stockholm, Göteborg and Malmö, particularly to the Stockholm region. Almost 50% of all firms are located in the Stockholm region, particularly to the central areas in Stockholm. This confirms the general picture that the music industry is an economic activity with a high proclivity to cluster in major urban areas. It is important to note though that this locational pattern particularly applies for the ‘industrial’ side of the industry, the creative side of the industry shows a more dispersed locational pattern. Moreover, there exist a number of local micro-clusters, the most prominent being Hultsfred.

The Swedish music industry could be defined as an industrial cluster, thus confirming the geographical underpinnings that emphasizes an industrial cluster, namely specialized suppliers, service providers, firms in related industries, and associated institutions. Thus, the Swedish music industry shares many of the common features characterising an industrial cluster. There exist numerous examples of formal ‘buyer-supplier’ linkages, particularly different types of project-based, and socially embedded linkages.

All the majors in the recorded music industry are active in Sweden through fully owned subsidiaries headquartered in Stockholm. Since the early 1980s these corporations have strengthened their position by acquiring most of the large independent companies, including their licensing deals and facilities for distribution. When acquiring the record companies they also acquired the affiliated publishing companies. The remaining independents usually became marginalized and eventually had to restructure their operations, alternatively merge with the majors. One prominent example is the successful Swedish independent Sonet which earned a third of their total income through licensing deals with Island, Chrysalis and Polar. When Polygram acquired Island and Polar and EMI bought

Chrysalis in the late 1980's they terminated their licensing deals with Sonet which forced the company to downsize and restructure (Polygram finally acquired what was left of Sonet in 1991).

Concerning the five majors, at present, dominating the global recorded music industry, Universal Music, to some extent, dates back to the 1950s when Phillips located a subsidiary to Sweden and acquired the Swedish record companies Sonora and Cupol in 1958. Universal Music has a publishing house, Universal Music Publishing Scandinavia. The countries music distribution process is largely a combined effort between Sony Music and EMI. The Swedish subsidiary of Sony Music started when Sony bought the CBS record label and took over the different national subsidiaries in 1988. CBS had started its operations in Sweden during the 1970s when they bought the domestic company Cupol from Phillips. The music department is divided into three different divisions: Sony Music Entertainment Sweden AB, Sony Music Publishing Scandinavia AB and Sony Music Retail AB, the latter is closing down. Warner Music established themselves in Sweden in 1979 when they bought the Swedish independent Metronome. Metronome had started its operations in 1949, focusing mainly on building a roster of Swedish artist. In Sweden Warner also includes Warner/Chappell Publishing. The Swedish subsidiary of EMI consists of a record and publishing division. To some extent EMI Sweden is the major with the longest history in the country, since it can be traced back to 1903 when Skandinaviska Grammophon AB started its operations. This was actually the first record company established in Sweden. Finally, BMG's Swedish subsidiary was set up in 1988 when BMG bought the Swedish record company Record Station. The purchase was made at a time when BMG expanded their interests on the international music market buying local companies on different markets and the Swedish purchase coincided well with the company's strategic plan at the time. BMG Sweden today is the home of some of the most popular and best-selling Swedish artists in recent years like Robyn, Petter, Kent, Backyard Babies, and Sahara Hotnights.

Table 8: The ten largest record companies in Sweden by turnover

| Record company | Turnover (million US\$) | Corporate group |
|--------------------|-------------------------|-------------------------------------|
| Universal Music AB | 38.1 | Vivendi/Universal (France/US) |
| EMI Svenska AB | 32.6 | EMI Group (UK) |
| Sony Music | 31.9 | Sony Corp (Japan) |
| Warner Music | 30.7 | Time-Warner (US) |
| BMG Sweden AB | 24.8 | Bertelsmann AC (Germany) |
| Edel Records | 20.0 | Edel Company (Germany) |
| MNW | 16.4 | MNW Group (Sweden) |
| Zomba Records | 16.0 | Zomba Records Holdings BV (Holland) |
| Stockholm Records | 14.1 | Vivendi/Universal (France/US) |
| Virgin Records | 12.1 | EMI Group (UK) |

Source: Statistics Sweden, Market Manager, UC Select and Affärsdata

The ten largest record companies in Sweden by turnover are all bar one owned by foreign majors. Moreover they are headquartered within walking distance of one another in central Stockholm. Despite the afore-mentioned trend of takeovers by the majors, there are still many independent record

companies operating in Sweden, i.e. companies not affiliated to the majors. Furthermore, it should be noted that being independent has very little to do with musical styles etc. Independent companies such as Bonnier Music or Reactive Music are just as 'commercial' as any of the majors. MNW Records Group is still one of the larger independents. MNW (originally an acronym for MusikNätet Waxholm, today changed to MusicNetWork) was established in the late 1960s as a small local company located in Waxholm, north of Stockholm. The company was originally closely related to the radical alternative music movement in Sweden ("Musikrörelsen"). From the late 1970s and onwards MNW initiated a number of acquisitions and mergers that laid the foundation for the MNW Records Group. Another example of an independent Swedish record company is Bonnier Music Scandinavia which is affiliated with the Bonnier Group: one of northern Europe's larger media corporate groups with stakes in television, radio, publishing, motion picture, magazines, and newspapers. Furthermore there exist some 100 smaller independent labels.

When discussing record companies a general trend in recent decades is that services previously undertaken by the large companies, i.e. the majors, have come to be outsourced. A significant example of this is studio facilities which today are often owned by the production companies rather than by the record companies. Thus, the Swedish majors have been downsizing since the 1980s basically focusing on their core competencies (i.e. exploiting local talents nationally and internationally). Moreover, there is a distinct tendency that record companies in Sweden are cutting down in terms of employees. This is partly a result of changing market conditions but also a result of the above-mentioned downsizing. Hence, a record company today mainly acts as a talent scout and marketing organisation (these changes of course applies for the recorded music industry in general).

Moreover, it should be noted that parallel to this concentration of ownership has been, since the early 1990s, the growth of small, independent, flexible full-service publishing and production companies in the Sweden, most notably in the Stockholm region. A key example amongst these was the firm Cheiron which quickly became a world renowned centre for the writing and producing of pop and rock music. The firm has now broken up but was in essence a collective group of producers who operated a studio in Stockholm aimed at producing global hits. The group was remarkably successful in producing both successful Swedish acts (such as Ace of Base, Robyn and Papa Dee) and international artists (such as The Backstreet Boys, Britney Spears, Bon Jovi, Celine Dion, and N'Sync). There is little doubt that Cheiron and others have been powerful role models to the city's music industry in general and have created a widespread awareness of the success to be had from business areas other than the fostering of new artists most people think of as the core element of a successful music industry. Equally it is only one example of a large number of firms that have functioned as incubation units for new firms and spin-offs. During the firm's lifetime, and in particular after its break up, numerous new firms were formed that built on expertise and contact networks built up by onetime members of the firm.

Evidence shows that throughout the 1990s and today continuous new firm formation has been a feature of the Swedish music industry (particularly the Stockholm scene) and that there has been significant growth in the number of independent record companies, professional musicians, publishing companies, production companies, and music-related IT companies. Music video production firms and music oriented multimedia firms in Stockholm are likewise an example of associated services that are

supportive of both indigenous musical product and employment and export driven music services provision: for example Åkerlund & Pettersson Filmproduktion and Bo Johan Renck who have received international recognition for their videos for the likes of Metallica, U2, Iggy Pop, and Madonna. An interesting feature of this music services environment is not only that these production companies have produced songs, multimedia content, and videos, etc. for international artists but also that international artists have chosen Stockholm as their recording and creative locale. Finally it should be noted that many of the most internationally successful smaller independent publishing/production companies today have the international contacts needed, i.e. they deal directly with Warner Bros Records or some other international actor and so to speak 'skip' the national level (i.e. the majors Swedish affiliates).

The dynamics of the Swedish music cluster

Table 9 outlines mechanisms that can explain the sources of competitive advantage in the Swedish music industry, drawing on the empirical findings presented in the paper. In addition to these findings the mechanisms identified are based on a survey of recurring statements by industry spokesmen, music journalists, researchers on popular music, and policy-makers concerning common explanations for the international success of the music industry in Sweden. The following provides a tentative discussion concerning various mechanisms that appear to have created and/or supported these home-base features.

When considering factor conditions, the music cluster exhibits three prominent home-base features: a high level of human knowledge resources; appropriate infrastructure for musical production; and capital resources. The Swedish music cluster also exhibits appropriate 'infrastructure' supporting potentially professional musicians and artists: there is a good access to rehearsal premises, a high level of instrument provision and accessible new technology. Demand conditions refer to the characteristics of domestic demand for the core sectors composing an industrial cluster. In terms of demand conditions, there are two distinctive home-base features, namely, the presence of sophisticated customers and a stable level of home demand. Turning to related and supporting industries, they include firms supporting the producers of primary goods. As demonstrated, Sweden has numerous internationally competitive supporting activities ranging from CD-plants and packaging to studios and video producers. As concerns firm strategy, structure and rivalry, it refers to the conditions governing how firms are created, organised, and managed, as well as the nature of domestic rivalry. Regarding this key determinant there are a number of mechanisms, which seem to be crucial to consider in order to explain the home-base features contributing to the recent success of the Swedish music industry. Examples of such mechanisms are a high levels of innovative tacit-knowledge exchange and new business formation.

Table 9: Dressing the Swedish music cluster for international success – the Porterian ‘diamond’ at work?

| The four diamond determinants, government, and chance | Home base features | Mechanisms creating/supporting home base features |
|--|---|---|
| <i>Factor conditions</i> | High level of human-knowledge recourses | <ul style="list-style-type: none"> ▪ Educational institutions and non-profit associations (specialised schools, training establishments etc.) ▪ High exposure to English (no subtitling, strong presence of Anglo-American entertainment etc.) ▪ Role models ('the ABBA-effect') ▪ A widespread musical interest (amateur bands, choirs etc.) ▪ Popular labour movement ('folk rörelserna'), i.e. tradition of community corporate practices |
| | Appropriate Infra-structure for musical production | <ul style="list-style-type: none"> ▪ High rehearsal premises density ▪ High level of instrument provision amongst amateurs ▪ High accessibility of new technology |
| <i>Firm strategy, structure and domestic rivalry</i> | Innovative tacit-knowledge exchange | <ul style="list-style-type: none"> ▪ Open labour market and dense social networks facilitating knowledge inter-exchange and other externalities amongst firms |
| | Export capability | <ul style="list-style-type: none"> ▪ Lead firms (majors) providing distribution, finance, and knowledge pools |
| | Learning propensity | <ul style="list-style-type: none"> ▪ Combination of intense competition, collaborative practices, factor attraction, and a capability of adapting and transforming cultural expressions |
| | Design capabilities | <ul style="list-style-type: none"> ▪ Tradition of commercially viable industrial design transferred into the music industry |
| | New business formation | <ul style="list-style-type: none"> ▪ High levels of spin-offs, internal diversification and outsourcing |
| <i>Demand conditions</i> | Sophisticated customers | <ul style="list-style-type: none"> ▪ Anticipatory buyer needs (mass market and business to business) |
| | Stable level of home demand | <ul style="list-style-type: none"> ▪ High per capita consumption |
| <i>Related and supporting industries</i> | Internationally competitive related and supporting industries | <ul style="list-style-type: none"> ▪ Anticipatory buyer needs (mass market and business to business) combined with stable demand and sophisticated customers |
| | Supportive workers' associations | <ul style="list-style-type: none"> ▪ A plethora of industry and workers organisations encompassing the music industry |
| | Extensive music festival activity | <ul style="list-style-type: none"> ▪ Tradition of 'folkparks', public subsidies, local music club activities |
| <i>Government (multilevel)</i> | Supportive state regulations and policies | <ul style="list-style-type: none"> ▪ Long period of economic growth in tandem with the evolvement of the Swedish welfare state. |
| | | <ul style="list-style-type: none"> ▪ Domestic rivalry and export success channelling government policies |
| | | <ul style="list-style-type: none"> ▪ Positive and changing view amongst politicians on cultural-products and design intensive industries as important for the economy |
| <i>Chance</i> | 'Ubiquitification' of music-related technology | <ul style="list-style-type: none"> ▪ Transformation from analogue to digital technology. Increasing accessibility through lowering production costs |
| | New cultural impulses | <ul style="list-style-type: none"> ▪ Migration |
| | New medias and channels, e.g. Internet and MTV | <ul style="list-style-type: none"> ▪ Cross-sectorial impulses |

Introduction to the Case Studies

The research project was not only concerned with the measurement of the music industries in the Nordic countries but also, as mentioned earlier, with conducting research on important themes or trends within the industry. These themes were identified both through discussion with people working in the industry and through an analysis of existing literature and studies of the music industry. In this introduction we briefly summarise the available literature in order to place the case studies, we also introduce some of the key concerns that underpinned the case studies.

Research on the music industry has increasingly been undertaken as part of a dynamic emerging field of industrial research that focuses on the 'cultural industries' or 'creative industries' – industries such as film, design, music, fashion, etc. (see Power 2002). This recent interest in thinking about cultural industries has been fuelled by the widespread observation – by academics and policymakers alike – that in most advanced economies 'traditional' manufacturing-based economic activities have become increasingly less important as sources of employment and revenue. At the same time as manufacturing industries have declined in most European countries (or left for parts of the work with cheaper labour), service and knowledge-intensive industries have become the main employers and income earners. In recent years the realisation that, for instance, the USA's second biggest export earner is the entertainment industry has made governmental and regional policymakers increasingly eager to understand and support cultural industries such as music (see for instance: DCMS 1998; DCMS/DETR 2000; European Commission 1998; Greffe/European Commission 1997; New York and New Jersey Port Authority 1993; NUTEK 1994; UNESCO 1982).

However, whilst much of interest has been written about the links between, for instance, cultural activity and economic redevelopment (Bassett 1993; Bianchini 1993; CLES 1988; Dziembowska-Kowalska and Funck 1999; Firth 1991; Kearns and Philo 1993; Kong 2000; Kunzmann 1997; Landry and Bianchini 1995; O'Connor 1998; Watson 1991; Williams 1997; Wynne 1992) or the effect of mass media on mass culture (Adorno 1991), relatively little rigorous research has been conducted that treats cultural industries, such as the music industry, as integrated industrial sectors, systems or clusters. Indeed many commentators have suggested that there exists a significant lack of systematic studies of these industries and sectors (DiMaggio and Hirsch 1976; Pratt, 1997a; Sadler, 1997; Scott 2000b). Although the music industry has been somewhat better attended to than other cultural products industries, when the volume of literature on more 'traditional' industries (such as the automobile industry) is compared with that on the music industry it is clear to see that there remains a need for studies that take the music industry as a serious commercial endeavour. Indeed far too often economists and policymakers have treated the music industry less as something capable of making profits in the real world and rather more as a worthy charitable cause for arts and culture funding. Bearing in mind the phenomenal growth in the value of the music industry – as mentioned earlier the global industry was worth US\$37 billion in 2000 (IFPI 2001) – it is important to understand that:

“an economic orientation to cultural policy is now needed: cultural industries as industrial strategy” (Pratt 1997a, p.1914).

Viewing the production of musical and cultural products from an industrial perspective is not entirely new (see for instance: Becker 1974; Björkegren 1992; Girard 1982; Hirsch 1972, 2000; Kibbe 1982; Pratt 1997a, 1997b; Scott 1999a, 2000a, 2000b). Working with a stress on the economic actors and actions involved in processes of cultural production has the benefit that it:

“takes the focus of attention away from any single firm or role in the sequence of discovering, producing, and delivering a product, redirecting attention to the interconnections and interdependencies between them in order to get to the final product or outcome” (Hirsch 2000, p.356).

In addition the firms’ systemic environment and local milieus can be important to fostering, and hindering, such things as learning, innovation, and knowledge upgrading processes (see for example: Porter 1998a, 1998b, 1998c). Just as with other cultural products industries, the music industry is one where spatial structure appears to have a direct bearing and constitutive role in processes of creativity and innovation as well as the resulting value chain (see for instance Leyshon et al. 1998; Scott 1999). Understanding the systems of inputs, interconnections, and linkages, etc. that go into producing a product is only a first step in understanding the entire industrial system. What is needed then is to take into account both the spatiality and industrial system through which products are produced and processed, and of course distributed and ultimately consumed. The value of such a perspective when dealing with the music industry, is underlined by the fact that it is incredibly difficult to assign priority to any one step or aspect of a product in explaining its success. As Hennion (1989; see also Scott 1998 p.1973-4) notes commercial success in popular music is impossible to explain by virtue of the original musical text alone. Rather the consumption of sometime like an album or a song is an indeterminate and subjective process with audiences consuming and understanding the same object in ways different ways and manners. Likewise the production of music products involves a variety of inputs and agents all of which are intrinsic parts of the ‘creative’ process which must be understood as essentially rooted in an industry based commercial logic that is often highly spatialised (cf. Firth 1992; Hallencreutz et al. 2000a, 2000b; Leyshon et al. 1998; Negus 1996; Power and Hallencreutz 2002; Scott 1999a).

Taking an industrial systems approach that concentrates on commercially produced and distributed ‘popular’ music is further justified by virtue of the nature of the subject. Although as a concept ‘popular music’ is “riddled with complexities” (Middleton 1990, p.3; see also Hallencreutz et al. 2001, p.4) and encompasses a wide variety of musical forms – including dance, folk, heavy metal, pop, rap, reggae, rock, and soul – the concept is relatively coherent in that it includes musical forms that are recorded, produced and distributed to a mass market on a commercial basis. In line with the research project and the case studies reported below focused on types of ‘popular’ music most often funded by private finance rather than public funds; public funding tends to dominate classical music, opera and to a lesser extent jazz (Burnett 1996, p.37).

In conclusion, the popular music industry has in the last 50 years grown to be an important global industry and a major area of economic activity; and one that operates on a variety of intersecting

geographical scales. Although often a highly localised industry that draws on local creative milieus and cultural forms and one that has a tendency to agglomerate in urban areas (Hesmondhalgh, 1996; Scott 1999a, 1999b, 2000) the business of producing, selling and consuming music is globally dominated by an increasingly concentrated manufacturing and distribution system dominated by a shrinking number of global media ‘majors’ (Alexander 1996; Burnett 1996; Choi and Hilton 1995; Frith 1993; Hirsch 1992; Malm and Wallis 1992; Sadler 1997; Shapiro et al. 1992; Wallis 1990). Whilst many places in the world are home to dynamically creative cultural and musical milieus it is interesting to note that in the history of popular music relatively few have fostered groups or scenes that have gone on to international or global success, whether this be measured in terms of profits or cultural influence. Research that focuses on both regional and urban musical production centres and the links between local production systems and international circuits of capital and distribution is therefore extremely important both to understanding the industry and understanding its future competitiveness.

The research presented below then attempts to fill some of the gaps identified in the literature and took inspiration from the industrial systems approach outlined. All 8 case studies were conducted by the various national teams. In the rest of the report a summary of each case study is presented (for the interested reader longer/more detailed versions of each case study exist). Directly below a brief summary of the themes that characterise and link the various case studies is presented.

The first case presented below is the Danish case on “The organization of Product Innovation in Danish Record Companies: The role of Project Coordinators, Majors and Indies”. This case addresses the central issue of how different types of firms come together to form innovative products. The case argues that the evidence from Denmark is that the potential benefits that cooperation between the majors and independents could bring is not realised. The message here is that if the majors acted as better ‘coordinators’ of the different elements within the Danish music industry and scene they would create a more efficient ‘food-chain’ from which the majors could harvest more innovative products and the independents could receive extra resources and channels to wider markets. Similarly the Norwegian case study – “Independent dependency and the resonance of buzz: creation and coordination of competences in the Norwegian pop music industry” – is largely to do with the relations between different parts of the industry, and again the relations between the majors and independents. Like the Danish case the Norwegian one emphasises how new flexible linkages between various actors of the industry are important to innovation and profitability. The Norwegian case study points out that there are many actors with highly complementary capabilities and competencies but that for various reasons this is not widely understood or acknowledged in the industry. A particularly interesting conclusion of the case is that public policy could play a useful role as a mediator between the different elements of the industry and as a consciousness raiser of the benefits to be had from greater cooperation.

The second of the Swedish case studies – “Are they only in it for the money? Subsidiary strategy and impact on local clusters in the recorded music industry: the case of Sweden” – also addresses the links and complementarities between different types and sizes of firms: mainly the majors and independents. Mainly focused on the Stockholm music industry the case argues that much of the success Swedish artists and firms have enjoyed can be explained by the fact that the industrial and

organisational structure of the city's music industry is at once both highly competitive and highly cooperative. Stockholm seems to be a clear cut case that industrial competitiveness often develops in a clustered or agglomerated manner; that is, it takes a large number of firms that are both competing and cooperating with each other to trigger growth. The case also provides interesting evidence to suggest that strong, if not dominant, local majors need not be a hindrance to local firms and innovation but rather offer such scenes valuable help and support.

Mirroring the last case's observation of the importance of cluster dynamics in providing the basis for a commercially successful industry the second of the Danish case studies – “Here, There, but Not Everywhere: Networks, Clustering, and Policies in the Danish Music Industry” – offers some valuable insights. This study takes its starting point from the idea that value creation and innovation within the Danish music industry largely depends upon network relations between specialised firms and upon the way they coordinate their efforts. The study uses the example of two recent Danish policy initiatives – the Aarhus music management course, and the Musicon Valley project in Roskilde - to show that if such network relations do not already exist, industry-based and/or public sector policies can play a significant role in creating them.

The Finnish case – “Digital delivery of music: the case of Finland” – addresses a key challenge to the future of the music industry: the advent of digital methods of delivering and distributing music. Within the industry the rise of illegal digital file-sharing services (such as Napster) and software (such as Gnutella) have caused almost mass hysteria and the spread of such technologies has been seen as one of the most significant threats the industry has ever encountered. There is little doubt that new digital technology solutions will fundamentally change the way music is delivered and consumed. Thus, the case study argues, to maintain its competitiveness, the music industry needs to be flexible and forward looking and review its traditional business strategies. In order to stay in the game, it needs to adopt and develop viable new business models suitable for the online environment. Evidence from Finland suggests that there are many ways in which this may be achieved but that thus far it is other industries such as telecoms operators that have stolen the lead on the music industry. The third of the Swedish case studies – “The emergence of a post-industrial music economy? Music and ICT synergies in Stockholm, Sweden” – also takes up the theme of ways in which the music industry can positively profit from seeing new technologies as an opportunity rather than a threat. The case examines a range of firms based in Stockholm that are mixing ICT and music in positive ways. In particular, the case points out that an emerging music-related service sector is growing up in Stockholm: developing and selling everything from song writing to ring-signals to specialised software and technology solutions. This sector owes much to the music industry but is far from entirely dependent on the success of Swedish music. Thus the case concludes by suggesting that cities or small countries could do well to investigate how they could build up such a service industry: as these can be profitable in their right and also provide useful services and expertise to record companies and the like.

The Icelandic case study – “Technological and economic competence within the Icelandic music industry: The Icelandic music industry” – picks up on the crucial issue of the extent to which people involved in the music industry have adequate skills, or competences, in areas such as new technology, innovation management and business/economic skills. The case study, importantly, places central emphasis on the role of people and competences in developing the music industry. It is said that the

Icelandic industry is not performing as well as it could, because of a lack of institutional support, strategic thinking, access to capital, and innovative behaviour. Taking its inspiration from systems approaches to economic functioning and innovation the case study argues that for an industry as small as the Icelandic one it is imperative that cooperation with state and institutional actors takes place. However, in order for the industry to be taken seriously it is suggested that actors within the industry need to increase their cooperation, become more professional, and to increase the speed at which they develop their economic and technological competence.

The first of the Swedish case studies presented below – “When the Market Takes Over: global commodity chains, and foreign musical products on US music market” – takes a rather different approach to the other cases. Whilst all the other cases concentrate on how the local or home base dynamics of the industry can effect competitiveness this case looks at the problem from the opposite end: how things happening in key foreign export markets can determine the success or failure of Nordic products aiming at international success. The case study examined the barriers, gatekeepers and processes involved in ‘breaking’ a musical product or act in the US market. Four particularly important areas are highlighted: promotional channels; distribution issues; accessing the retail environment; and the restructuring of the US industry’s priorities in light of a shrinking market for music. The case argues that whilst the US market – accounting for 30% of the global market’s value – is extremely attractive and lucrative there are enormous financial costs involved in breaking into it. Firms and artists from the Nordic countries need substantial financial backing and export support and advice if they are to develop a better market presence in the US.

Finally, all the case studies were carried out with the idea that identifying key challenges and policy agendas was a central part of the research. The individual reports outline many specific suggestions for improving the competitiveness of the music industry: suggestions that are designed to apply to both private firms as well as to public sector bodies.

The organization of Product Innovation in Danish Record Companies: The role of Project Coordinators, Majors and Indies

Danish Case Study 1

Mark Lorenzen³⁷ and Lars Frederiksen³⁸

Summary

With a strong institutional set-up, a large home market, and a growing talent mass and number of Danish releases, but small sales and missing export initiatives, the part of the Danish pop music industry which is represented by record companies has a large unused growth and export potential. The reason that this potential is not used lies in the organization of the industry: A handful major record companies, cutting back on product innovation and marketing of Danish music, in combination with a large number of small independent labels developing products but with limited marketing and distribution power - and a lack of 'food-chains' between these parts of the industry.

Introduction

The case study investigates one type of product innovation in the Danish pop music industry: The release of new music on CDs. Like in the pop music industry elsewhere, releasing CDs with new Danish music encompasses a range of different activities, spanning from invention of musical content (song-writing), performance, production, mixing, marketing, distribution, etc. Because the competences needed for these different activities are very different, product innovation is organized not inside single firms, but in project networks, i.e., temporary networks of agents with different competencies — some of those are independent, other are employed in firms.

The case study presents a stylised picture of how CD project networks are organized in the Danish pop music industry. It pays special attention to the role of those agents that are able to coordinate the different activities related to product innovation inside a project network: Project coordinators. More specifically, the case outlines the degree to which Danish project coordinators work as independent consultants, are employed in small independent record companies, or are employed in the Danish branches of the global major record companies. The case study discusses how the organization of Danish CD project networks influences the nature of product innovation and the current performance

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of the Danish pop music industry, and presents some policy recommendations based on this discussion.

Method

The case study is based upon 20 semi-structured interviews of managers and freelancers, carried out in 2002 and supplemented by web and literature studies 2001-2002.

The following are the main results of the study.

The performance of the Danish pop music industry

The Danish pop music industry creates value from traditional use of property rights (mechanical royalties from CD sales) rather than from supplying international artists with songs, or exploiting music in new media such as movies, games, or ring signals, and the key performance issue for the Danish pop music industry is product innovation in the traditional sense: The release of music on CD.

The institutional set-up of the Danish music scene is thick, with long amateur music traditions; several urban musical milieus; powerful national organizations supporting music performers and clubs; and music education in the abundant local music schools and regional rhythmic music conservatories feeding into the talent mass.

Both national and international markets presently offer the Danish pop music industry increased sales possibilities, and some effort may be needed in order to commercialise the ample supply of local talent and boost sales. Some single artists have enjoyed large-scale sales and exports, but the industry has not experienced a boom as such. Today, even with a general rise in the number of releases of new Danish artists, few of these are marketed abroad and even fewer achieve large-scale market penetration. The Danish pop music industry presently represents a large unused growth potential. Why is this potential not used better?

The organization of product innovation in the Danish pop music industry

The Danish pop music industry is characterized by a handful of dominating major record companies, very few independent project coordinators, and a population of relatively weak independent labels. While the major record companies, due to global strategies, are cutting down on local product development activities in Denmark and marketing of Danish music abroad, they also seem to become less efficient in coordinating new projects (particularly when it comes to spotting new musical content with export potential). On the other hand, there are very few independent Danish labels that are capable of supplying the majors with such musical content in 'food chains'. The result is a modest product innovation rate and loss of opportunities.

The dominance of the five majors has three main consequences for project coordination and product innovation in the Danish music industry. 1) Foreign ownership limits product innovation rates, as local branch offices are forced by the global strategies of their mother companies to focus upon leveraging

their marketing competences rather than developing new products, releasing and reissuing music from their back catalogue on the Danish market rather than signing and marketing Danish music at home or abroad. The fact that the majors represent a still smaller part of the releases of Danish artists is a major reason for the limited marketing of Danish music abroad, even with a high general release rate in Denmark. 2) The majors' project coordination competences related to product innovation are weakening. On one hand, problems are emerging of coordinating music to markets, i.e., coordination problems between A&R personnel and artists. Some competences of the majors' A&R personnel related to successfully spotting, signing, and advising new talent are becoming obsolete, and increasing cutbacks and rationalizations in the majors also make A&R personnel spend less time on updating project coordination competences. On the other hand, the majors' ongoing cutbacks and rationalization dictated by global mother companies create problems of coordinating marketing to music (i.e., coordination problems between A&R personnel and marketing personnel). Increasing compartmentalization inhibits communication between these functions, and the growing focus upon foreign music of course also limits the time marketing departments may spend on coordinating their efforts to ongoing A&R activities related to Danish music. It should also be noted that the success of the majors' marketing efforts also seems to be weakening. 3) The dominance of a few major record companies limits the abundance and diversity of project coordination competences in the industry in the longer run. Virtually all the experienced A&R people and music managers in the industry with project coordination competences are long-term employed by majors (which usually pay so well that there are few incentives for people with project coordination competences to spin off and start up own firms). At the same time, the majors offer few possibilities for upgrading of competences through in-job training or other activities. Hence, the majors appropriate project coordination competences in the Danish pop music industry, but are relatively poor at replenishing them.

The latter years' increase in the number of small independent Danish record companies has not been corresponded by a growth of market shares. The reason is that very few of the independent firms undertake product innovation in shifting projects, through signing and marketing new artists. The majority represents artists having established an exclusive sales channel for their own - or very few artists' - work. They also refrain from functioning as 'external A&R' for major record companies (discovering and signing new talent, and subsequently licensing it to record companies with greater marketing and distribution power). Hence, even if the independents represent creative grassroots and spur music invention, they add only little to product innovation rates.

That most Danish independents are very small and undertake little project coordination also means that positive externalities from earlier music projects are limited. Notably, with so small firms undertaking so few projects, the number of people who may obtain practical project coordination experience through 'apprenticeships' in record companies is limited. Furthermore, the institutions related to the pop music industry are not very thick (industry associations are not very active, and common knowledge and social trust is limited).

However, a new generation of independent record companies, succeeding in combining high-quality A&R; innovative web use; and efficient promotion methods with close contact to both audience and artists, is currently emerging. One such independent in particular is now entering into a food chain, distributing and partly marketing some of its products through two of the Danish majors. However, the

new independents have also been successful in exporting their products with no help from the Danish majors, through direct contacts to markets, or successfully bypassing the Danish branch offices of the majors, and signed licensing agreements directly with their UK or US offices instead.

Policy recommendations

The institutions related to the music scene (i.e., song-writing and performance) are thick, and policies are abundant. The Danish pop music industry does not suffer from lack of creation of musical content - invention -, but from lack of commercialisation. Whereas cultural Danish policy supports musical content creation, there are virtually no industrial policies related to music.

Such policies could seek to make independent labels play a larger role in the industry - as marketers in their own right, and as suppliers to majors in food 'chains'. First, policy could stimulate the creation of new independent labels, through entrepreneurship support, finance, and education. Concerning the latter, a new Music Management course has been created in 2002 in collaboration between the Rhythmic Conservatory and IFPI. Concerning finance and other support for new record labels, policies are still sparse. Second, policy could facilitate professionalization of the many existing independent labels, making some of them play a larger role in developing new products through setting up projects with new participants, and upgrade their marketing efforts (maybe even through alliances with other independents or majors). This can be done through education, technical and other support, and through supporting the creation of joint ventures, networks, and new independent industry associations among small record companies.

Policies could also boost the number of independent project coordinators. A larger number of professional independent labels would of course increase the possibility for single agents learning project coordination competences through experience and apprenticeships, but an increased policy focus upon providing high-quality education (and on-job courses) for music project coordinators is, according to industry observers, central. The Music Management course is an important first step in that direction.

Finally, policies could aim at increasing the positive externalities of geographically clustered music innovation projects ('urban effects'). For example, creation of industry associations, entrepreneurial support and educational activities could take a regional focus, which also makes feasible partnerships with industry, educational institutions, and other stakeholders. For example, policy could seek to emulate some of the positive effects for both invention and innovation rates that can be traced as a result of clustered music activities like the Copenhagen Jazz Festival. Such initiatives are underway in Roskilde, where Roskilde University together with local industrialists and artists has set out to create a 'Musicon Valley' through coordinating local educational and industrial initiatives.

The Danish branch offices of global major record companies may also potentially play a political role. Currently, they pursue a strategy of creating value where marketing matters: Marketing music signed and produced elsewhere, (often exploring it in new media like games and movies through strategic alliances with majors in other entertainment industries). However, rather than neglecting product innovation and focusing upon their back catalogue and promoting foreign music in Denmark, they

may uphold their own innovation rates through externalising A&R competences, using independent project coordinators or independent labels as ‘external laboratories’ for experimentation with Danish music. Such a ‘food chain’ strategy (being innovative within marketing, while outsourcing product innovation) would allow them to focus and leverage their financial strength and global marketing and distribution channels, while positively influencing product innovation rates in the entire industry. Of course, this would necessitate a strategy shift from competence appropriation, acquisitions, and rigid alliances to openness, partnerships, and flexibility. Such a change of strategic focus may be difficult due to their foreign ownership, given the global sales strategies and organizational rigidities of their mother companies.

Hence, there may be a task for public policy for spurring such a shift in how product innovation is organized in a configuration of majors and independents. Contractual law and intellectual property right regimes play an important role for how feasible and attractive ‘food chain’ strategies are for both majors and independents, in terms of how flexible licensing agreements may be made, how profits may be divided, how property rights may be traded, and so forth.

Here, There, but Not Everywhere: Networks, Clustering, and Policies in the Danish Music Industry

Danish Case Study 2

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Summary

Value creation and innovation within the Danish music industry depends upon network relations between specialized firms. However, policies supporting networking within the music industry should take into account the fact that, due to differences in how different network relations are coordinated, there are also significant differences in how these relations are organized and clustered geographically. Policies should address both national-level network relations and relations that depend upon “cluster effects”.

Introduction

The Danish music industry is relatively small with 3057 full-time employed in 1999, distributed across about 1918 firms, and a turnover of US\$856 million— accounting for around 0.37% of total Danish GDP. However, the industry boasts a great economic development potential. The number of firms has grown by 19% since 1995, and the turnover has experienced a larger growth (index 1992 =100, 1999=163) than the general Danish economy (index 1992=100, 1999= 131). Also, the music industry in Denmark accounts for an increasing part of the national turnover from 1992 (0.29%) to 1999 (0.37%). Furthermore, the export growth of the music industry has been outstanding over the last 6-8 years, even related to an increase in the general Danish exports. Total export value of the music industry grew from US\$44.2 million in 1992 to US\$95.7 million in 1995 and further to US\$96.7 million in 1999.

Notably, the size of the Danish market for music is large. Denmark has the third highest expenditure per capita on recorded music globally, and a European barometer survey (2002) finds that Denmark is the nation within the European Union where most people listen to pop and rock music. The Danish market for music (retail value) is by IFPI rated as the 20th largest in the world. The value of the 19.3 million units sold in the 2000 Danish record sales was US\$233 million. With such a relatively large

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home market, the music industry may underpin indigenous growth of Danish employment and industry turnover.

The industry also has great export potential. Recent success experiences with export of Danish music (such as Aqua, Olsen Bros., and Safri Duo) in combination with the growth of international pop music consumer markets has attracted policy attention to the positive trade balance effects a boost of the Danish music industry may have.

However, there is great uncertainty as to which policies are needed in order to promote the industry. This is due to the organization of the industry: In many regards, creative industries like the music industry is complex as compared to other and more traditional industries. Consequently, policy means that are applied to other industries may be of less relevance to the music industry. In this case study, we extract policy advice from an analysis of the organization of the Danish music industry, and discuss the development potential of different current policy attempts of creating "cluster effects" to the benefit for the industry.

Method

The case study is based upon statistics from Statistics Denmark; Danish Music Information Center; IFPI Denmark; KODA; and Danish Musicians' Union; plus 20 semi-structured interviews of managers and freelancers, carried out in 2002-03 and supplemented by web and literature studies 2001-2003.

The following are the main results of the study.

Coordination tasks in the Danish music industry

The music industry is characterized by its disintegration into a range of firms with very different competences. The industry rests upon configurations of, on one hand, competences related to creating artistic product 'content' - i.e., writing and performing music - and, on the other, competences related to the 'humdrum' activities of manufacturing, marketing, and distributing it, plus supporting industries supplying instruments, equipment, and so forth. As such different competence types originate from very different sources and as there are no scale or scope economies of integrating them into single firms, the music industry consists of complex networks of specialized firms. Writing and performance of music is often done by single artists or bands, concert arrangers provide performance venues (festivals or clubs), music production and mixing is done by independent producers, marketing and distribution is undertaken by record companies, property rights are managed by publishing companies, CD artwork and promotion videos are produced by AD companies, software for music production, web distribution of music, or use of music in games is programmed by dedicated IT firms, music instruments and stage equipment (e.g. PA systems and lighting) is produced by specialized firms, and so forth.

The foundation for growth and value creation within the music industry lies *at the interfaces* between different industry sub-sectors, i.e., in the network relations among firms undertaking different activities. For most firms within the music industry, product innovation necessitates efficient coordination to other firms - i.e., mediation of interest conflicts, alignment of information, and sharing

of knowledge. For example, coordination between record companies and artists as well as AD companies is necessary for successful release of new music CDs; coordination between publishing companies and IT firms is necessary for web sales of music or use of music in IT products; and coordination between equipment producers and artists as well as concert arrangers is necessary for product innovations of stage equipment.

The spatial organization of the Danish music industry

As is the case in other Danish industries, the music industry is generally clustered - i.e., firms are co-localized in urban areas. There is a clear concentration of firms connected to the music industry within the Greater Copenhagen area (Copenhagen and Frederiksberg municipality and Copenhagen council) accounting for no less than 46% of all Danish music firms (this is significant, as the general concentration of firms - meaning, Copenhagen's share of all Danish firms - is only 19%). There is also a minor concentration of firms is found around the city of Aarhus (Aarhus Council) accounting for 12% of all firms. Furthermore, the start-up rate of firms is much higher in the Copenhagen region than in other parts of Denmark.

However, not all firms within the Danish music industry are equally clustered. The different coordination tasks related to the different interfaces between activities give rise to different spatial organization forms. Notably, the coordination tasks related to particular network relations between firms depend much more upon spatial proximity than others. We may roughly divide networking relations into two categories, as follows.

First, a range of network relations depends upon clustering in geographical space. Geographical proximity - firms' co-localization within urban areas - eases coordination in these network relations, because of the abundant information, ease of communication, and social trust-building going on in dense networks of agents found in urban areas. The network relations particularly subject to this logic are those related to the release and marketing of music CDs. Because the markets for music are characterized by demand uncertainty and short product cycles, the release of CDs is a process of constant experimentation with artistic content and marketing methods, and this is done in temporary project networks between artists, record companies, AD firms, TV production companies; and media companies. These project networks are supported by longer-term network relations between record companies and IT firms; publishers, financing and accounting firms. In Copenhagen, these networks benefit from the fact that few of their participants are total strangers before they enter into a network relation with each other. Some have met before, through participation to earlier networks; through other professional activities (such as earlier employment; education; conferences; etc); or in social life. This facilitates a higher level of shared knowledge, meaning that the participants to a new network do not start from scratch when they want to coordinate their tasks: Cognitive distances are low, and some networks are built upon personal relations and mutual trust. Personal networks of "friends' friends" facilitate broad information sharing, lowering search costs related to finding new partners. Abundant information also facilitates reputation effects (social sanctions against agents who behave opportunistically) and social trust (a general willingness to trust other local agents)(it should be noted that the level of trust between the major record companies and other agents seems lower than among e.g. independent labels). In Copenhagen, we also find a pool of experienced project coordinators:

Agents with broad experience from earlier networks and projects, playing a central role for coordination of new networks. For example, related to CD production, key agents - e.g. A&R personnel in major record companies or manager-owners of independent labels - hold knowledge of e.g. the different tasks of creating, marketing, and distributing music, in order to foresee the conflicts and communication problems among project participants with each their peculiar competences and interests, related to song writing, marketing, and distribution, respectively. These coordinators are present in Copenhagen (and, to a lesser degree, Aarhus), because these clusters of many firms and networks offer educational opportunities, as well as a broad range of job opportunities within the music industry, allowing some people to “move around” a range of different functions throughout their career, in "industry apprenticeships".

Another category of network relations depends less upon clustering. These network relations are typically longer lasting with fewer shifts of partners, and consequently less dependent upon abundant information, social trust, and project coordinators. Instead of relying upon social “cluster effects”, these network relations depend upon partner-specific traits, such as long-term contracts, mutual knowledge sharing and mutual trust. These traits can be built and managed across geographical distance, if initial partnerships are established. One example of such relationships is the networks between some successful artists, record companies, and publishers: The markets for these artists are less uncertain, and they are hence long-term signed and may reside outside Copenhagen, where the record companies and publishers cluster. Another example is the relationships between suppliers of stage equipment and the concert venues (such as music festivals or clubs) where the equipment is used: As these relationships are long-term and the pace of product innovation slow, these firms do not depend upon geographical proximity to each other in order to coordinate.

Network and cluster policies

The disintegration, the importance of coordination, and the spatial organization of the Danish music industry, make it difficult to implement broad and general policies that benefit the industry. On the contrary, policies should address the central issue in the industry: Network relations between firms holding very different competences. However, albeit widely acclaimed in Denmark and abroad, earlier Danish attempts of “network policies” have been only modestly successful. The general financial support that has been offered for network relations in Danish industry - for example, among SMEs during the 1990s - has been poorly targeted and largely sponsored little profitable networking attempts. Contemporary policies for the music industry should more directly address the coordination problems arising in different types of network relations, and take into account the role of “cluster effects” for coordinating network relations. We may distinguish between two types of such more targeted network policies.

A first category of policies address network relations within clusters. This policy aim at stimulating clustered network relations in urban areas such as Copenhagen and Aarhus. A first task is boosting the number of clustered firms, which may be done through local entrepreneurship support (funding and “incubators”). A second task is improving the competences of local firms, which may be done through targeted educational activities. A third task is lowering the costs of coordination among local firms, which may partly be done through educating project coordinators with general coordination

competences, partly through initiatives directly supporting selected network relations (network support or “industry parks”), or policies aimed at creating a high general interaction and communication level among local agents, by creating and supporting seminars, clubs, associations, etc.

A second category of policies address non-clustered (national) network relations. As search and contract costs are more important to these longer-lasting relations than the information and communication costs associated to temporary network relations, policies addressing national network relations should aim at allowing agents to meet and initiate collaboration (e.g. through public-private partnerships with the public mediating between network partners, or financial support for contract costs or other project costs), partly through initiatives targeted at particular firms, partly through creating a generally higher level of interaction and communication at national level, at trade fairs, conferences, in national associations, etc.

Examples of Danish policies

In conclusion, we shall offer two examples of contemporary Danish policies that explicitly address network relations and clustering.

The first example is the newly established **Music Management** education programs offered in the Rhythmical Conservatories in Copenhagen and Aarhus. This policy, which is funded nationally, is the first educational initiative related to the music industry that does not focus narrowly upon upgrading artistic competences, but rather upon educating persons who, while not being experts, are able to *coordinate* experts, i.e., agents and firms in possession of different (artistic and “humdrum”) competences. The programs, initiated in 2002 and 2003, respectively, are partly a result of a initiative taken by the conservatories themselves to expand upon their portfolio of activities at a time when the music industry enjoys increased national policy attention and, consequently, funding opportunities. Partly, the programs are also a result of a demand pull from the Danish record companies for better educated staff (as these companies offer only few in-job courses themselves). The programs are designed in cooperation with representatives from The Danish industrial body IFPI (representing the largest record companies), and with various concert arrangers. The programs are nested at the conservatories, and teaching is undertaken by their own staff; staff from the Business Schools in Copenhagen and Aarhus; plus industry representatives. Whereas the three-year full-time program offered in Copenhagen is a bachelor program aimed at introducing newcomers to the music industry, the two-year part-time program offered in Aarhus is a diploma program aimed at upgrading skills of persons already working within the industry. The primary outlets for those completing the programs are record companies (e.g., in A&R functions), or, to a lesser extent, concert arrangers (e.g., in music booking functions in clubs or festivals). Hence, these policy initiatives mainly address clustered network relations related to CD production and performance, as they aim at improve directly upon coordination between music marketing/distribution and song-writing/music performance in the Copenhagen and Aarhus clusters. Focusing upon teaching the skills to coordinate competencies of different agents, the Music Management programs are bound to have a larger positive effect upon networks and coordination than other educational initiatives related to the music industry, as these focus upon creating narrow artistic competencies. Nevertheless, the programs may be expected to have a limited impact for the music industry generally, as they are relevant mostly for a small industry

segment - the record companies (and predominantly for the major companies which can afford to employ those with a bachelor degree or diploma in Music Management) -, and take in very few students (6 in Copenhagen and 7 in Aarhus). Increasing the number of students, addressing a broader range of coordination problems related to the music industry in the courses, and supplementing with entrepreneurship training (increasing the spin-off potential of the programs) would arguably increase the future positive impacts of the Music Management educational programs.

The second example of Danish policies addressing networks and clusters is the **Musicon Valley** cluster initiative in Roskilde. Rather than targeting musical content and artistic activities in a narrow sense, this initiative is directed at the humdrum activities and supporting industries surrounding them. Created in 2001 as an alliance between local entrepreneurs originating from the Roskilde Festival, Roskilde county, Roskilde municipality, and local banks and educational institutions (notably, Roskilde University and Roskilde Technical School), the initiative spans broadly. It has four main pillars of activity. The first is establishing education related to the music industry, mainly, through a new media course at Roskilde University). The second is boosting local music industry, through offering courses, seminars, and technological services in collaboration with the local institutions CAT Science Park, Roskilde University, and Risø National Laboratory; and stimulating entrepreneurship through courses and the establishment of a local incubator for the music industry and related creative industries. The third pillar is propagating the development of Roskilde as a tourist attraction related to music, in collaboration with e.g. Roskilde Festival and Roskilde Museum. The last pillar of activity of Musicon Valley is raising the general level of cultural services in the Roskilde region, increasing the quality of music education at all levels and supporting concert venues, thus putting music “in the air”. Raising local funds and coordinating local firms and other agents, the Musicon Valley initiatives clearly aims at creating “cluster effects” within the music industry. The number of local artists as well as firms within the music industry, such as record companies or equipment producers is very limited, the Roskilde Festival being the major local player. Consequently, the impact of Musicon Valley upon clustered network relations is still, at this very early stage of development, modest. However, the initiative has already succeeded in influencing non-clustered (national) network relations positively: It has mediated a network relation between a non-local leading Danish producer of stage equipment (Martin, specialized in lighting and localized in Aarhus), the local Roskilde Festival, and the local Risø National Laboratory. The Musicon Valley secretariat attracted the interest of Martin on account of the participation of both the Festival (being a main national critical customer of stage equipment) and Risø (a leading research institution, with relevant competencies in e.g. optics and materials technology). Hence, it was the ability to mediate a network relation within the *local* cluster that made Musicon Valley able to create a *national* network relation with great commercial potential. Contrary to other Danish cluster initiatives targeting the creative industries (such as Louiz in Copenhagen), Musicon Valley hence facilitates national-level coordination between firms within the supporting industries, rather than addressing only the interface between artistic and “humdrum” activities. It should be noted, however, that where Musicon Valley does address this coordination interface between artistic competencies (the Festival) and non-artistic competencies (Risø), the network relation, depending upon clustering, is still local. While still in its infancy, the Musicon Valley initiative thus addresses network relations directly, and paradoxically, its impact may not only be local, but also national in scope, because it, apart from local network relations, also addresses networks that do not predominantly cluster.

Digital Delivery of Popular Music: The Case of Finland

Finnish Case Study

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Introduction

One of the greatest opportunities, but simultaneously also challenges, that the music industry is facing concerns the development of new technology applications, which enable the delivery of music digitally, without any physical product. Music is spreading widely via the Internet and as the technology used by consumers evolves (diffusion of broadband connections etc.) it may become the most important channel for music consumption. However, most of the music files currently available online are illegal and the popular file sharing creates no revenues for copyright holders of music. IFPI (International Federation of the Phonographic Industry) estimates that in 2001 approximately 99% of all music files available online were unauthorised. Besides being an indication of large numbers of illegal music files, this also reflects the slowness and reluctance of the music industry to provide licensed alternatives for consuming music via the Internet.

The creation and production of music also needs to be remunerative in the future, so that the attractiveness of making music is maintained; and thus, the emergence of new music and professional musicians will be ensured. If, indeed, the way music is consumed is fundamentally changing, new business models and strategies have to be established to attract consumers to the digital content market. That is, the profitability of the music business can be preserved only if consumers are also willing to pay for the music product in the future. The development of licensed alternatives for consumers to download music offers not only a key mode for fighting net piracy, but also an opportunity to create new sources of income. If copyrights can be protected efficiently in the future, online sales of music can potentially grow into an enormous business.

At the turn of the century, the enthusiasm to start commercial music online stores was apparent in Finland and many companies from both the ICT and the music sector expressed their interest in the new business area. The advanced ICT cluster and high-grade technology production in Finland created high expectations regarding the development of a competitive Finnish digital music market. Despite these high expectations, the development of music online services has been slow and difficult. So far, music online stores have been unsuccessful and creating a digital music market remains

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unaccomplished. Even according to the most optimistic estimations, the revenue from the digital delivery of music is still less than 1% of the total value of sound recording sales in Finland.

This study aims at examining the barriers and problems with regard to the development and describing the factors impeding the process. The purpose is to explore the emerging business area in Finland, its weaknesses and strengths, in order to produce background information essential for promoting, supporting and facilitating the development of a domestic digital music market. The study represents one of the first attempts to examine this new business area for Finland. Therefore, the emphasis is on raising the issues worth particular attention rather than on providing any precise recommendations.

Focus, method and theoretical background

In this paper, the development of the digital delivery of music is explored by studying the decision-making process of record companies when it comes to making music available on the Internet. This sub-sector of the music industry possesses licensing rights to extensive music catalogues; and thus, it has an essential role in the progress of music online stores. Record companies have also been broadly accused of detaining the process and so it is essential to examine the factors influencing their decision.

The theoretical background is in innovation adoption theories. Particularly, the contributions to these theories by Reid (1981), Karshenas & Stoneman (1993), and Lautanen (2000) have been used as theoretical tools. In this study, the innovation is defined as the new way to deliver music via the Internet in digital format and adoption denotes an acceptance of e-business strategies. These innovation adoption theories offer a framework for analysing the establishment of online stores from the company perspective and also for identifying crucial factors influencing this process. Hence, the usage of these theories aids in finding the issues promoting and delaying the process.

To describe the development of music online stores in Finland and examine the relevant market conditions, the trials to deliver music digitally, which have taken place in Finland, have been analysed in-depth. For this purpose, record companies involved in these trials have been interviewed. Furthermore, in order to explore the underlying decision-making process, the interviews focus on record companies in different stages of the adoption process and with different characteristics (size, ownership structure etc.). The interview material was complemented with an extensive amount of secondary sources, such as press releases, articles, and interviews given in newspapers and on the radio.

While analysing a relatively unstudied new industry, this research takes the form of an explorative case study. This approach provides good tools for producing an overview of the development and key factors involved. However, a more thorough, quantitative examination of the scope of the financial aspects involved in online music stores, such as expenses and revenue allocation, is especially recommended for further studies.

Key findings

Exploring the emerging business area

It appears to be unfeasible to establish high profile music online stores rapidly. Instead, the development of music online stores has proved to be a slow process, and trials and learning experiences have been crucial ingredients of this process. Major obstacles are inadequate information on consumer behaviour and preferences and, thus, the absence of viable business models and strategies in the online environment. Moreover, there has been uncertainty about the roles of the various participants in this new industry, and the cooperation across sector borders between companies from the ICT and music sectors has been difficult, not least, due to different company cultures and operations models. In addition, new business environments and favourable market conditions have not advanced as rapidly as was first expected.

The first attempts to deliver music digitally in Finland were mainly initiated by minor players of the ICT and music industries. However, the long periods of maintaining unprofitable pilots have been too expensive and required too much risk-carrying capacity with respect to the resources of the small companies engaged in the field. At the turn of the century, when the first trials were launched in Finland, many record companies were also planning to establish online stores of their own. With improved knowledge about the emerging business, it has become more appreciated that to succeed, an online store needs a broad content, for which reason much cooperation between the different players is required.

Domestic record companies, even the subsidiaries of the five 'majors', BMG, EMI, Universal, Warner and Sony, are rather small. Hence, the resources of record companies have not allowed experimenting with digital delivery without broad cooperation. The tradition and willingness to cooperate, however, appears to have been lacking in the industry. In addition, the growing costs of the production and marketing of music, coupled with a weakening financial standing, have dampened the enthusiasm of record companies to invest in exploring new areas.

The telecommunications companies operating in Finland, in contrast, are large and few in number. Apart from the required resources, they also have the needed flexibility to adopt and make innovations and explore new business opportunities. Therefore, teleoperators have commonly taken over the online music services starting with content aggregation, encoding and compression to clearing house functions, and retailing. However, telecommunications companies have shown no interest in diversifying into music production. Due to the extensive amount of music available on the Internet, there appears to be an urgent need for utilising the special know-how of record companies in R&D and marketing.

The development of music online stores in Finland seems to have been dependent on the motivation and enthusiasm of telecommunications companies to invest in experiments in this field. Teleoperators, being in charge of the trials, have, however, allowed record companies and other music industry players to have little influence on the business models and revenue allocation structures used, for instance. Furthermore, although appearing to be a tempting opportunity, digital delivery of music

represents only one potential area for teleoperators to expand their business activities. Hence, if the process proves to be too difficult and time consuming, it may well be that these companies will withdraw from the projects. This could be a crucial blow to the advancement of the digital music market in Finland. Moreover, telecommunications companies may not have the required interest in cherishing the value of the music product as such.

Decision making of record companies

Company characteristics appear to influence the expectancy, motivation, and flexibility of a record company to take part in the digital delivery of music. Small, independent labels have been more enthusiastic to start selling their music production via the Internet and have seen the technological development as a great opportunity rather than a threat. For companies with high costs and limited access to the traditional distribution channels of sound recordings, the Internet has represented a potential, new way to reach consumers more widely. However, the financial opportunities for small companies to establish online music stores on their own are meagre. They have also faced more difficulties in finding partners interested in cooperation due to the less significant marketing value of their narrow music catalogues when enticing consumers.

Small, independent labels have been more flexible to adopt the new models and strategies required for pursuing a digital music market. Finnish subsidiary companies have, in most cases, needed the approval of the parent company before they have been able to start digital delivery of their music production. Hence, their decision-making process has been slow and troublesome. Moreover, both the understanding of the special characteristics of Finland, and the interest towards the small market that the country offers, seem to have been less the farther away the decision maker is. The broad music catalogues of big companies is another feature that tends to decrease their flexibility. More time is devoted to updating artists' contracts, and to encoding and compression of great numbers of music files. In addition, the financial risk involved in engaging in online delivery of music is a lot greater for companies with substantial catalogues than for companies with a small music production.

Another important factor determining the interest and the motivation of a record company to get involved in e-commerce relates to its managerial goals. Many record companies appear to consider the unprofitable pilot period as a necessity for constructing viable strategies for the future and also for providing a legal alternative for those willing to consume music digitally via the Internet. On the other hand, the reluctance of some companies to involve in the digital delivery of music can be seen as an attempt to take advantage of their dominant market position.

The Finnish record industry seems to be characterised by structural factors that diminish its capability to adopt innovations (ownership structure, inability to cooperate etc.). Simultaneously, the ability to adopt and implement innovations is becoming increasingly important as the industry is confronted with digital technology solutions. By delaying their involvement in trials to sell music digitally, record companies are weakening their own chances of success in the future music market and endangering the advancement of the Finnish popular music industry. Global companies, which are gaining from scale advantages, will most likely pursue the domination of the digital delivery of music in Finland, too. Moreover, dawdling in this matter is also likely to impact the consumer attitude and willingness to purchase chargeable music services.

Acceptance of the e-business strategy

The piloting process has persisted for a couple of years and even today no decision committing to the e-commerce of music has been made in Finland. Instead, the music catalogues available online are still very narrow and there has been hardly any marketing done to promote either of the two online stores currently open. Marketing requires a lot of resources and the participants have been reluctant to make this investment before an expectation of profits.

The entrepreneurship in e-commerce is even less now than it was a few years ago. It appears that the current market conditions and the confused business environment create uncertainty and anticipation of unprofitable business in the online environment, and, thus, committing to e-business is not tempting. Despite the trials and experiments, there appear to remain several unresolved issues. Viable business models are still under development and the cooperation of the various participants is insufficient. Experimenting with different business models and strategies has been impeded due to the narrow music catalogues available for these trials. In addition, cost-effective services for the delivery of music digitally have not been achieved.

The costs of creating and running music online stores have continuously remained high. The lack of viable methods of payment for small remittances, and the incoherent field of DRM (Digital Rights Management) technologies, for example, has made it expensive to establish online music services. Finland is the leading country in the use of e-banking services per population and Internet banking is also cost-effective in online payments. However, online bank accounts are not sufficiently distributed among the target group of young people. Simultaneously, mobile payment, which reaches the masses in Finland, is currently too expensive for small transactions. A multitude of various DRM technologies and their licensing costs have also distinctly increased the costs and diminished the feasibility of online services. Selling music tracks via the Internet without the DRM technology includes a great risk of increasing net piracy and, therefore, many record companies have insisted on its use in the trials. Excessive supervision of one's own interests and inflexibility of some participants are additional features keeping costs high.

Due to the high costs, online music stores need to be in strong demand to be profitable. However, Finland has a very small domestic market and the potential target group of online stores is currently extremely narrow. Moreover, it is not feasible to purchase music tracks via the Internet without a broadband connection due to the cost and slowness of the modem and ISDN connections. But the adoption of broadband connections has been very slow in Finland. In autumn 2002, the Ministry of Transport and Communications estimated that there were some 170,000 broadband connections in Finland, including those in companies. Domestic consumers have overall also been extremely slow in learning and accepting the new way of consuming via the Internet. Lack of standards and continuous product development of devices suitable for music are also reducing the willingness of consumers to purchase music digitally.

Digital delivery services require plenty of different skills and getting music available on the Internet requires the cooperation of many participants. So far, the division of roles has been ineffective in Finland and there has been a lack of retailers, for example, in the online environment,. In addition, the

revenue allocation structure has evolved poorly. This underdevelopment of the infrastructure has increased the confusion and reduced the willingness to participate in e-business.

Engaging in the digital delivery of music via the Internet carries great risks and high uncertainty. There are no guarantees that consumers are willing to pay for music in the Internet as long as they can also get large numbers of music tracks free. So far all that has been done is pilot schemes. No online services with extensive music catalogues and a real marketing effort have been launched in Finland and, thus, consumers' reactions are still unexplored.

Industry and policy challenges

Industry challenges

Digital technology solutions may change fundamentally the way music is delivered and consumed. To maintain its competitiveness, the music industry needs to be flexible and forward looking. In view of recent trends of diminishing sound recording sales and the decreasing willingness of consumers to pay for music, the industry would be inconsiderate not to review its traditional business strategies. In order to stay in the game, it needs to adopt and develop new viable business models suitable for the online environment. How to attract consumers to the digital content market and protect the music content should be high priority concerns. Efforts should be made to establish high quality, flexible and secured online services that satisfy consumer demand. The pricing strategies are also essential when trying to succeed in the digital delivery of music. The Internet also provides great opportunities that should be utilised efficiently, such as the better exploitation of back catalogues. However, investments in exploring this new emerging business area should be made cautiously, keeping in mind the risks involved and the high uncertainty of the future.

Recent development has shown that the music industry cannot rely on the superior position of the music product, when substitute products, such as DVDs and video games, are flooding the market. Hence, the music industry should be more actively involved in the development of the digital content market. By letting the telecommunications companies take full charge of various trials to deliver music via the Internet, the music industry might be jeopardising the position of music in the future market. Moreover, development processes lead by companies from the ICT sector may be too slow and inauspicious for the advancement of the music commodity. After all, it is not the ICT sector whose survival depends on the success of music.

In addition, the music industry should not postpone its involvement in the digital content market because of its high expectations for the mobile dimension. It still might take years before the mobile, Internet and wireless solutions are so advanced that music tracks can be transferred cost-effectively. The recent events in this field (retreat of companies developing UMTS etc.) do not bode well. In addition, the business models, strategies, and alliances established for e-business on the Internet are most likely viable for the mobile dimension as well, when the time arrives. Failure to act now will diminish the chances of domestic companies to increase their revenues later, when global participants, that are achieving a leading position, are looking to enter the Finnish market. Domestic companies should try to take advantage of the special characteristics (mobile dimension, payment methods used,

demand for domestic music etc.), when competing against the global firms. The technological knowledge to establish high-grade music online stores should also be better exploited.

Due to the high risks and scarce resources available, the music industry participants have no other option but to cooperate with each other and consider alliances and partnerships with companies from other sectors. In addition, instead of learning everything merely from their own experiments, the music industry participants should hire new employees who are able to comprehend the technology and appreciate the opportunities, as well as the limitations, of it. Overall, new know-how will be required and having competent people in a company will increase the probability of success. Likewise, examining trials that have been made abroad may provide additional valuable information and aid the domestic process.

Independent labels should consider joining forces with each other. The managerial goals and operations models among them have more in common and, thus, a strategic alliance stands out as a natural option. There may also be alternative types of online services that will turn out to be successful in the future, not merely the high profile services devised by big companies. For instance, many independent labels appear to be willing to participate in trials using the mp3 format despite the risks involved. Teaming up could also be a potential way to maintain more of their independence and decision-making power in the online environment.

Record companies should be licensing their content to several online stores to boost competition and, thus, create premises for business activity. This might increase the willingness to market online stores and improve consumer awareness. Promoting competition in the digital delivery of music benefits everyone looking to succeed in the business.

National policy challenges

The music industry is going through a profound transitional period and its survival will require plenty of support and help. E-commerce in music will not develop without favourable market conditions and a supportive legal environment. Besides establishing a clear and profitable business environment, public policy measures should also aim at encouraging experimentation within the emerging digital music industry. Therefore it is essential to provide research and development financing and support to reduce the risks involved in engaging in the digital delivery of music.

Many companies abroad, particularly in the USA, have accepted the e-business strategy, despite the expectations of unprofitable business in the near future. In order for domestic companies to gain a competitive advantage over these global participants, it is crucial that domestic pilots are encouraged and aided and domestic consumers educated. Letting foreign companies take over the digital delivery of music in Finland would put the visibility of domestic music on the Internet in danger and thus, jeopardise the future of domestic popular music. Moreover, several advantages can be gained by getting domestic participants into the forefront in the digital music market. In particular, this can be expected to improve the chances for Finnish companies to expand their business into foreign markets and also provide opportunities for exporting domestic music. The Finnish government has persistently stated that its aim is for Finland to become one of the leading countries in digital content production, delivery and consumption. However, so far very little has been done to aid the advancement of the

digital economy. Regarding the statements of the government about accomplishing a successful domestic digital content market and ensuring the survival of the diversified Finnish music culture, the following actions should be considered.

Music has been one of the first cultural commodities to face the impacts of the digital technology, but it will certainly not be the only one. The foundations that are established for the music sector will also help the development of the whole digital content market. Furthermore, many of the issues that need to be solved in order to establish music online stores will also be crucial when considering other e-commerce activities (development of cost-effective payment methods, diffusion of broadband connections etc.). Hence, the promotion and facilitation by the government of the digital content market should be centralised and administered by one single organisation. This would intensify and strengthen the coordination, funding and channelling of cooperation, for instance. One potential option is the suggestion made recently by the Minister of Transport and Communications, Kimmo Sasi, to establish the appointment of a Minister of the Information Society. This might also help the digital music sector get the attention and support it deserves. Moreover, the digital delivery of music should be regarded as part of the R&D strategies and national innovation system, and, thus, of public innovation policies.

Exploring new business models and developing viable strategies to sell music via the Internet require plenty of resources. However, trials are necessary to obtain the required information and knowledge and, thus, establish competitive online music services. In addition, constructing and maintaining pilots will create a demand for the digital delivery of music. The resources of the mostly small domestic participants are, however, insufficient for this purpose, for which reason supportive financial mechanisms are needed to enable experimentation and product development. Risk financing and funding should be channelled to these trials more effectively. Furthermore, different pilots must be encouraged and promoted to ensure the survival of a diversified Finnish music culture.

Inadequate information and understanding of the emerging music industry has restrained its development. Besides providing financing for experiments, the government should also commission studies and research on key factors impacting on the digital delivery market. Moreover, the information obtained should be widely disseminated via seminars, for example. In addition, the new industry requires new skills and know-how. This should also be considered in the planning of education programmes.

Digital delivery of music requires the cooperation of various participants across sector borders. This has not been accomplished and the value-added chain of the emerging business is still very poorly evolved. However, developing the infrastructure of the music industry and the cluster surrounding it is essential in order to create a competitive digital content industry. Hence, public policy should try to coordinate and improve the cooperation and networking of the companies involved. In addition, specialisation in the digital content market should be encouraged. Furthermore, market access issues and dominant market positions should be more closely examined and necessary measures undertaken. Excessive supervision of one's own interest that restrains the development and inhibits the emergence of the digital music market must be prevented and eliminated.

It is also highly recommended that the value added tax (VAT) on digital music be reduced from the current level of 22%. Digital music delivery has plenty of intermediaries and is desperately struggling with the issue of profitability. The current VAT distinctly decreases the chances of successful online music stores.

Without a clear and predictable legal environment, successful development of the digital delivery of music is impossible. Creating a favourable legislative and regulatory environment must be a high priority concern of public policy. The Internet is a new environment for business activities and there are several regulatory issues that need to be resolved, in order to create real potential for e-commerce business to evolve.

Copyrights lay the foundation of the music industry and their purpose is to protect the creative work undertaken. Exploitation of copyrights makes up an important part of the revenues in the music business and they, in turn, are essential for encouraging investments in the creation and production of music. The development of digital technology applications has created new requirements for copyrights, and updating the Copyright Act to deal with them is a crucial prerequisite for the advancement of the digital delivery of music. Moreover, the ability to protect copyrights will be necessary for establishing entrepreneurship in e-commerce of music. It is not feasible for music online services to compete against solutions that are illegally providing large numbers of music tracks for free. Protecting the copyrights will be crucial for ensuring creative work in the digital economy.

More security and clarity in the digital market is also required for building trust and confidence among consumers. Furthermore, the required technologies and equipment for purchasing digital content from e-commerce must also be more efficiently distributed among consumers. Market forces have thus far failed to accomplish an extensive spread of broadband connections, for example. The government should more effectively intervene when it comes to both competition-related and financing-related market failures of the digital market, of which the unprofitability of extending broadband connections to sparsely inhabited areas is one major aspect.

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Technological and economic competence within the Icelandic music industry: The Icelandic music industry

Icelandic Case Study

Gylfi Dalmann Adalsteinsson⁴² and Helga Bjorg Ragnarsdottir⁴³

The industry

The music industry in Iceland is very small. In 2001 approximately 740,000 copies of sound recordings were sold at distributor level.

The market is divided between one large record company and 3-4 small ones. Skífan, the largest, has distributing rights for EMI-Virgin, Sony, Universal, BMG and Warner Music, which together with Skífan's domestic labels held approximately a 80% market share in the year 2001.

The value of domestic record sales at retail level increased by almost 50% between 1991 and 2001. At the same time the value of domestic sales at distributor level has increased by almost 85%, and the value of foreign sales by only 40%. The explanation is partly due to robust sales of local compilations including mainly international repertoire but categorized as local releases. The increase in domestic market share has resulted in the market being split equally between foreign and domestic releases.

Statistical information regarding the Icelandic music industry is scarce, which makes it hard to estimate the size of the industry. In 1997 the Ministry of Industry and Commerce founded a committee to evaluate the Icelandic music industry's possibilities of increasing its exports. The committee estimated that the industry employed at that time 750-1000 people, making it an important industry in Iceland's small economy.

Recent developments

In 1993 Björk released her hit album *Debut*. In many ways her success served as an wake up call to the Icelandic music industry. Following her success the people of Iceland, as well as the government, began to realize that the music industry could hold great potential.

An awareness of the importance of the cultural industries is growing around the world. The increased interest in cultural industries, along with Björk's success, helped create a forum for discussions

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regarding the industry in Iceland. Actors within the industry insisted that popular music should receive more support than it had in the past, and that the music industry should be acknowledged as an industry equal to other industries and with the same access to support as other cultural industries, i.e. films and literature. At the same time as awareness has been growing for the potentials of the music industry, artists have become more ambitious than before knowing that their music can reach a larger audience than ever. Actors within the industry do not agree on what the industry needs to do to improve its performance, which makes the campaign for improved working conditions and governmental support very hard.

In spite of increased awareness of the importance of the music industry in the last decade, it has received little governmental support through the years.

The industry has been waiting for new legislation for years. A new legislation is expected to clarify how governmental support can provide a better environment and working conditions for the artist, as well as for companies within the industry. Also this should encourage possibilities and participation of involvement and funding from other institutions. The legislation has been in the making for a long time, which has made it difficult for industry representatives to plan for the future.

Value-added tax on musical products is 24.5%. Actors within the industry have demanded that the tax applied to both recorded and live music should be brought into line with the tax rates applied to books and magazines, which are liable to 14.5 % VAT

There are signs that increased governmental support is on the way, as the Ministries of Commerce and of Education and Culture are increasing their cooperation in music industry affairs. This has in turn caused the Trade Council of Iceland to decide to devote considerable attention to the industry in the nearest future.

The method

In this case study an attempt was made to identify the characteristics of the music industry, in order better to understand its nature. The economic development of the Icelandic music industry will be addressed from the viewpoint of technological impact, institutional support, innovation and knowledge creation. In order to do so a systems approach will be used.

Systems approach

Blanchard and Fabycky (1998) use three fundamental elements to define a system:

a) Components are the operating parts, b) Attributes are the properties of the components, c) Relationships connect the components and attributes.

A system can be described as a set of interrelated components working together. Each component's behaviour or condition has an effect on the others, but not necessarily on all of them. The components can neither be separated from the set nor act independently, since that would affect the function of the system. If a component is removed from the system, the system may collapse if it is non-robust, but a robust system will change. Relationships involve links between components via markets as well as via

non-markets. In an innovation system, one of the most important relationships involves technology transfer and technology acquisition, whether intentional or unintentional transfer of technology. In both cases competence in receiving the technology is needed. The components of systems interact. In these interactions lie the characteristics (or attributes) of the system including the capabilities (competence) of the system to perform its function. The sole function of an innovation system is to generate, diffuse and utilize technology. Thus the main features of the system are the capabilities of the actors to generate, diffuse and utilize technologies that have economic value (Carlsson et al. 1999).

Technological system

The defining character of the technological system is that it defines technology or technological possibilities as the core of the system, thus viewing the innovation process from the supply side. In the music industry this would mean, for example, focussing on the development of digital technology and its impact on the industry. However, when looking at the industry's competence to exploit this technological development and create business opportunities, the approach is from the demand side.

Carlsson et al. (2001) speak of three dimensions of technological systems:

- 1) The cognitive dimension, which refers to the structuring of technological development leading to innovation.
- 2) The organizational and institutional dimension, which refers to the network of actors who embody the system. It consists of all individuals such as inventors, researchers, engineers, managers and bureaucrats, who support the formation of problem-solving networks and therefore innovation.
- 3) The economic dimension refers to the actors who convert technical possibilities into business opportunities. Each set of business opportunities can be exploited in different markets, For example digital technology provided business opportunities in the music industry and the film industry and more. These economic actors form a competence bloc. Here that the technological system and competence bloc overlap; they have the economic actors in common.

The competence bloc theory

The competence bloc theory (Eliasson & Eliasson, 1996) states that a competence bloc defines the minimum set of actors needed to develop an industry. The competence bloc consists of six actors:

- a) The competent and active customer
- b) Innovators who integrate technologies in new ways
- c) Entrepreneurs who identify profitable innovations
- d) Competent venture capitalists who recognize and finance the entrepreneurs
- e) Exit markets that facilitate ownership change
- f) Industrialists who take successful innovations to industrial scale production.

The main purpose of the competence bloc is to identify the winners and find external financing and move them on to the industrial scale production and distribution. All actors in the competence bloc are important. If the competence bloc is not vertically complete there is a great risk that winners may be lost.

The development of the industry will mainly be viewed through the technological system theory. Carlsson and Eliasson (1999) state that the primary function of a technological system is to organize technical knowledge within a system. Also to organize the actors who possess this knowledge, and the organizations and institutions supporting the creation and diffusion of knowledge, in a way that promotes the conversion of technical possibilities into business opportunities. The efficiency and effectiveness of this conversion process depends on the economic actors in a particular arena as a competence bloc.

Data collection

Data collection of case studies can rely on many sources of evidence. In this case study, the sources of evidence were twofold: documentation, which includes letters, minutes of meetings, unpublished and published reports, statistical reports and articles appearing in the mass media; and interviews with people from the record companies, from industry organizations, artists organizations, collecting societies, journalists, and others that could provide useful information.

The importance of the case study

The case study is rather vast, and less detailed than it would be if a more specific topic had been chosen. Due to the unstable environment within the music industry in Iceland, as well as uncertainty in the technological environment, it was decided to approach the music industry from a broad perspective in order to provide policy makers and decision makers within the industry as well as within the government with extensive knowledge of the characteristics of the industry.

Key findings

The Icelandic music industry can be said to be standing at a crossroads. The long-term consequences of the impact of digital technology on the music industry are unpredictable at this moment. Furthermore the music industry has been undergoing some changes over the last few months. Actors within the industry are increasing their cooperation, in order for the industry to be taken seriously. Icelandic artists are becoming more professional than ever, the industrialists are improving their performance and expanding their view on the industry. Still the industry is not performing as well as it could, because of a lack of institutional support, strategic thinking, access to capital, and innovative behaviour. The future of the industry may very well rest on how quickly the industry can increase its economic and technological competence. However, it is important to keep in mind that the music industry's core competence is its musical competence. This case study has not addressed the issue of musical competence within the industry. It is assumed that the industry is musically skilled and competent, based on the growing interest taken in Icelandic music around the world.

Björk has become famous for her creative and innovative music and can without a doubt be termed an innovator in a musical sense. The bands *Sigurrós* and *Múm* are further examples of artists who are innovative in their music, and have been able to make impact and their music around the world. These bands are not afraid of experimenting in their music, and they make music that is unlike any other. At the same time Icelandic artists that are characterized as more mainstream have not been as successful. In spite of big international agreements with Majors, artists like Selma (Eurovision runner up), Svala and Streamer have not come through to international audience. That has partly to do with changes

within the music industry where labels have merged or have become non-operational. Another explanation could be that they are entering a very difficult market going up against major names such as Britney Spears, Madonna, Destiny's Child and more. It is also possible that because Icelandic music has become known for being creative and unique mainstream music, however good it may be does not receive the attention it deserves. Whether referring to innovative or mainstream music it is the music that is the core of the music industry; thus it is important to ensure that all artists, regardless of whether they are said to be avant-garde or mainstream, are able to work on their music and develop it.

The technological and economic competence of the Icelandic music industry

The economic competence of the music industry was analysed using the criteria presented above (see also Eliasson & Eliasson 2001, Carlsson et al 2001).

Technological competence

When considering the Icelandic music industry as a technological system, the emphasis is on the receiving or learning capabilities of components within the industry. The technology that has caused the music industry world-wide to tremble for the last few years is, on one hand, digital technology, and on the other the Internet. Through the Internet and digital technology it is possible to copy files containing recorded music onto web or FTP (File Transfer Protocol) servers and download musical files from the web.

The global pirate music market totalled 1.9 billion units in 2001, which means that almost 40% of all CDs sold around the world are pirated copies. This development has required the music industry to find ways to adopt the new technology and exploit it. Important developments in the move from a largely pirate Internet market for music to a true digital music market have been happening recently. Several legitimate online music services have been launched, such as Music Net, Pressplay and Rhapsody. The Icelandic record companies have not gone in that direction. Skifan.is, the only on-line record shop offering a selection of local and international product is mainly aimed towards the local market. Sales via Skifan.is do not generate a substantial part of the income of Skifan. In fact sales via the Internet through mail-order type systems or on-line services have not yet become a substantial part of the income of any of the record companies with one exception. Approximately 15-17% of all sales at Smekkleysa are generated through the Internet. Their Internet mail-order service targets customers outside Iceland and is in fact not well known in domestically.

It is evident that actors within the music industry in Iceland have not actively taking part in the reshaping of their technological environment in the past. However there are signs of changes. Samtónn the, newly founded, music industry umbrella organization is preparing a digital database aimed to store all Icelandic music. Access to the database will not be exclusive in order for more than one company to be able to exploit it. A new company has already made plans to set up an on-line retail service based on the database. By keeping the database open to more than one company more business models may be developed aimed to exploiting Icelandic music for international and local markets. In order to further improve the industries technological competence and to be able to impact the transformation of its environment the industry should increase its R&D work, for example by joining forces and collaborate with people from the ICT industry.

Economic competence

In order for entrepreneurs to be able to identify profitable technological innovations, innovative capabilities must be improved. Entrepreneurs are also important to innovation that is not based on technology. The people behind the *Iceland Airwaves* festival could be considered entrepreneurs. They identified the demand for Icelandic music abroad, and the possibilities of marketing Iceland as a place for hosting a music festival. They recognized that Iceland was considered a 'cool' place to visit by bands and celebrities, especially in the UK, and utilized it. They have been successful in identifying potential winners, or talents, and introducing them to venture capitalists through the *Iceland Airwaves* festival. Their initiative can also be considered innovative in the sense that they have by organizing these festivals introduced a new phenomenon to the Icelandic music industry; an international music festival that attracts reporters, artists and fans from several countries. The *Iceland Airwaves* festival has become the high point of the music life in Iceland each year.

In Iceland's small music industry there are few competent venture capitalists, who recognize and finance the entrepreneurs. Thus a music fund for pop music artists and their producers is much needed. Such a fund could help finance creative development within the industry, broaden the knowledge base within the industry and strengthen the ties to the international music business. However, more and more Icelandic artists are signing up with the major labels, where they receive the resources to develop their music and make records. One of the great challenges of the music industry and the government alike is to create an environment that fosters innovation and creativity. It is important that both the people and the intellectual rights originating in the Icelandic music industry remain strong links to Iceland for future development of the industry.

Institutional support

The Icelandic music industry has not received much governmental support in the past. The Ministry of Education, Science and Culture has in the years 1995 to 2002 allocated approximately US\$100,000⁴⁴ to actors within the music industry. At the same time the Ministry of Industry and Commerce allocated approximately US\$500,000⁴⁵ to the music industry. Actors within the industry, artists as well as industrialists, lack competence in accessing resources. In fact there are only a few actors within the industry who have actively sought increased capital or support from industry organizations, institutions or venture capitalists. It seems that lack of competence in accessing capital or other support, as well as lack of financial resources and supportive institutions, explains why actors within the industry have not reached a higher level of professionalism. Over the last few years institutions such as the New Business Venture Fund and the Trade Council of Iceland have involved themselves in music industry affairs by consulting them in matters of export, raising capital and marketing their products. With clearer rules and governmental funding their input is likely to increase.

In May 2002 the Trade Council of Iceland hosted a conference devoted to music industry affairs. Participants were actors within the music industry, representatives from the Ministries of Industry and Commerce and of Education, Science and Culture, as well as people from industry organizations.

⁴⁴ 8 million ISK

⁴⁵ 41 million ISK

One of the main findings of the conference was that by increasing cooperation with other industries, perhaps through participation in the Federation of Icelandic Industries, the industry might receive support in trying to promote legislation and industrial policies that are beneficial for the music industry.

The conference initiated the formation of an organization, Samtónn, within the industry, that is meant to unite the divided industry into one organization. Samtónn is expected to be the voice of the industry vis-à-vis the government and institutions. In March 2003 the Trade Council is going a step further and initiating a seminar with key actors within the industry. Participants will be from Samtónn, the record companies, artist societies, the ministries mentioned above and the Federation of Icelandic Industries. The purpose of this meeting is to reach a common ground in the matters of the industry, to make it more strategic.

It is likely that paralleled to increase support from institutions as well as venture capitalists, the music industry will become more professional. A more professional music industry requires a clear policy, both cultural and industrial, in order for it to perform as well as possible.

Policy challenges to improve the performance of the music industry in Iceland

The music industry around the world has grown rapidly over the last 10 years. In Iceland there has been a growing awareness of its possibilities and limitations. It is essential that the music industry be supported by a well-formulated industry policy as well as cultural policy. In order to design a useful policy, some groundwork has to be done.

Governmental as well as industry effort is needed to improve the gathering of statistical data regarding the music industry. More accurate yardsticks of the structure and performance of the music industry are needed.

Competition authorities should be encouraged to look carefully at the structures and practices of wholesale and retail sales of music.

Value-added tax on musical products should be brought into line with the VAT rate on books and magazines.

Industry development

The industry should increase its cooperation through an umbrella organization (Samtónn) which links together all actors within the industry and provides a shared forum for the industry. Such an organization should be responsible for lobbying on common issues, be capable of applying for funding from governmental bodies and be capable of coordinating the delivery of funding where needed. Such an organization should coordinate efforts to counter music piracy. It should be officially recognized by the industry and governmental organizations.

It is suggested that funds available to other industries be made accessible to the music industry. In order for the industry to be able to foster innovative behaviour, it is essential that it be able to receive

funding for various projects, both for export of Icelandic music and for activities that are intended for the domestic market.

Competence development

In order to improve the competences of the industry it is suggested that the government, as well as the industry, support the development of educational programmes for the music industry, for example regarding matters of management, marketing and finances. For the industry to become more professional, it is essential that actors within it increase their knowledge and skills.

Research within the field of technology and industry management should be supported. Collaboration between the music industry and ICT will support such research, and should be encouraged.

Actors within the industry should look carefully at the development of new technologies and try to increase their receiver competence

An effort should be made to join international exchange programmes and work placements.

Women should be encouraged to join the music industry. The industry is very male-dominated. The R&D work done by males targets only 50% of the market. By recruiting women, record companies could expand their market.

The industry is small and is likely to benefit from Nordic or Scandinavian cooperation. Such cooperation could include music industry gatherings or events in order to support information exchange, joint export promotion, cross-border cooperative ventures and cross-border linking of educational programmes.

Independent Dependency & the Resonance of Buzz: Creation & Coordination of Competencies in the Norwegian Pop Music Industry

Norwegian Case Study

Markus M. Bugge⁴⁶

Introduction

“Cultural activities are perfect hybrids mutually shaped by economy, society and politics, in and between market and the state. By contrast cultural policies have become stuck in a public subsidy mode which has been positioned against the free market.”⁴⁷

There has been an 80% growth in music expenditure per capita in Norway from 1990-2001⁴⁸. Throughout the same period the share of domestic music of the total music sales has decreased. In a Nordic context, Norway has the highest growth in expenditure per capita on music, and also the lowest share of domestic music of the total music sales. These parallel tendencies represent a clear challenge for supporting and promoting the development and sales of Norwegian music.

In recent years the Norwegian music industry has gone, and is still going through, significant changes. In the wake of international successful Norwegian bands such as Lene Marlin, Røyksopp, Turboneger, Madrugada, Satyricon, Cato Salsa Experience, Kaizers Orchestra, Sondre Lerche, Jaga Jazzist and Kings of Convenience Norwegian music has received increasing attention both nationally and internationally. Accompanying this pattern there has been a polarization of record companies that reflects an increasing division of labour between them. A growing number of small niche oriented national labels are supplemented by fewer and stronger multinationals. The two sets of actors have developed towards separate musical markets and orientations. Whereas the international record companies (majors) tend to orient themselves towards catalogue sales and distribution of (fewer) international artists, the smaller national record labels (indies) focus upon the development and sales of domestic music. The competition between the two sets of actors has thus been reduced, which might represent potential synergy effects between their respective divergent sets of capabilities and characteristics.

⁴⁶ STEP – Centre for Innovation Research/SINTEF Industrial Management, Oslo, Norway.

⁴⁷ Pratt, Andy C. (1998) The state and the market, the economy and culture: Toward the strategic governance of cultural activities

⁴⁸ Source: IFPI, STEP, Statistics Norway. Index: 1998=100.

The present study thus addresses the dynamics and interdependency between the indies and the majors, and how this influence upon the profitability of the Norwegian popular music industry. In regards to industrial functionality, competencies, capabilities and organisational and institutional characteristics will all be considered as central input factors, along which the following discussion will take place. The paper emphasises how new flexible linkages between various actors of the industry are emerging as they become aware of their complementary capabilities and competencies. Further it is addressed what implications this may have for the processes of innovation, learning and knowledge creation and diffusion, and thereby for the profitability of the industry.

Method

The present text builds upon a collection of information from a selection of representatives from the Norwegian popular music industry. The analysis draws upon both quantitative and qualitative information about the Norwegian music industry. The qualitative data material has been gathered through a selection of case studies and a number of semi-structured interviews carried out in Autumn 2002⁴⁹. The selection of case studies serves as a point of entry into the dynamics of the industry, and may not be representative for the industry as such. The text does not aim to provide an exhaustive picture of the music industry in Norway, but rather it addresses some aspects of the dynamics of the industry. The applied research focus implies a set of research questions that can be summarized as follows:

- What characterizes the various record labels and companies in the pop music industry?
- How do these various actors constitute an industrial system of complementary and interdependent actors?
- To what extent will exploitation of complementary capabilities influence upon the profitability of the Norwegian music industry?

Key Findings

Norway has had a slow development of an independent underground music culture compared to other countries like Sweden and the UK. The emergence of an underground niche orientation throughout the second half of the 1990's seems to be resulting in a vigorous boost of new Norwegian artists and publications. A number of high quality bands have slowly arisen and are now being introduced to the Norwegian and international audience. The development of a vibrant underground music movement is a slow process characterised by idealism and experimentation, but all the same it needs to be acknowledged as being of paramount importance for the creation of high quality national artists and industrial profits.

The development of a dynamic underground movement in recent years consists of parallel trends and characteristics: During the 1990's there has been considerable growth in the number of firms and individuals in the music industry. This largely exceeds the growth rates for Norwegian industry on the whole. Parallel to this development, there has been a period of acquisitions and mergers among the larger record companies that has enabled the development and growth of a number of small niche

⁴⁹ The interviews cover representatives from both independent labels and majors in Norway, a branch magazine, the Norwegian rock promoters and users and designers of policy instruments.

oriented independent labels and actors. Between the two company types there has similarly been a growing division of labour regarding focus on and development of national music. There has also been an emergence of interrelations and constellations among smaller independent actors (record labels, managers, publishers, booking agents) that have resulted in a number of joint activities such as compilations, festivals, gigs and acts. Such consolidations and interrelations among the independents might suggest that a growing music underground is unfolding as an alternative to the established music majors. On the other hand one might see these divergent realms as complementary elements that together constitute (the potential of) a complementary industrial totality.

The music underground can be described as a creative pool of loosely tied actors that allows for new combinations across genres and sectors. Another feature of the development of the music underground is the role of key persons that establish and run related musical services, such as clubs, record labels and music stores. This entrepreneurial activity seems to be characterized by horizontal diversification of the musical product. Together these tendencies constitute the urban buzz, i.e. the agglomeration effects of musical entrepreneurialism and dynamics.

There are signs that traditional album sales constitutes a decreasing share of the total sales from the industry, as sales from related services and spin-off products (song-writing, video production, post-production, light, sound, management, advertising, festivals, clubs and venues, software, graphic design etc.) are rising. However, independent of technological development and changes to the end products of the industry, the A&R process remains a crucial input factor to the music industry production system. The traditional core product of the music industry can be termed as intellectual property. No matter what format or what technology is used to distribute music, the intellectual property remains the origin and the core of the entire industry. The intangible nature of music however represents difficulties when ascribing a value to a catalogue or business. The A&R function has tended to be objected to a cyclical phenomenon of acquisitions and mergers by the majors. However, when multinational record companies co-opt small niche oriented labels, the original avant-garde competence and capabilities is often diluted within the organisational body of the MNE's. Therefore, there now seems to be a tendency among certain Norwegian majors that one aims at maintaining the indies as independent units within flexible distribution deals.

Competencies and capabilities

The music industry is a competence driven industry that relies upon interdependencies between divergent competencies and agents. Many independent record labels have developed strong personal distribution networks both nationally and internationally. These kinds of personal networks are to a large extent based on trust, and represent great value for entering distribution deals and organisation of activities as basic elements of music promotion. The importance of such individual networks seems to be of great value in the music industry, perhaps even more important than employment positions or institutional belonging.

The popular music industry is widely dependent on social and cultural capital. The ability to promote an artist abroad largely depends upon personal networks and contacts, as well as ambitions and commitment. This may imply a significant strength for singular persons with valuable contacts, even if they run a small-scale hobby-based company. The personal contacts are to a large extent based upon

musical integrity and credibility, which cannot be replaced by another person in the same position. These power structures thus follow singular persons rather than it follows certain positions. What makes the independent companies and the persons running them interesting to the major record companies is both the social and cultural capital that they possess, and the potential economic value this represents.

Organisational Issues

The independent labels exist in a close dependency of each other, being part of local networks that together constitute 'the buzz' of the urban music scene. Independent labels tend to work with their artists within a local setting, in close relation to various actors that constitute the actual local music milieu, whereas the majors might not have the possibility to work as closely with their artists as the independents do. Indies might similarly have more time to develop their artists than the majors do. This paradox might be explained by looking at the organisational company structures that govern the activities within the record companies. The majors need to report their revenues to their corporate bodies on a regular basis, which bears indirect implications for the amount of time they are able to invest in the development of an artist. Furthermore, major record companies are subject to expectations for annual earnings and usage of the formalized distribution channels from their international corporate companies.

The independents' networks, collaboration projects and partners are to a large extent based upon personal contacts and loosely and locally anchored alliances. Such networks allow for a number of actors to participate in the A&R activities, including the artists themselves or friends of the employees in the record label. The strong position of informal ties and trust in many indies is supplemented by weak formal ties, which often results in poor practice of contracts. This normally doesn't represent any problem until the company starts earning money. Examples from indies abroad shows how such 'handshake contracts' might easily result in unfair deals or problems for the parties involved. At the same time the absence of bindings allows for flexibility and an ability to collaborate with other companies or artists. Another feature of the urban local network of artists, indie labels, publishers and production companies is that the artists are often playing in more than one band, and this may have positive effects on the artistic and creative production and distribution within the music 'cluster'.

In some cases (e.g. Röyksopp and Kings of Convenience) Norwegian artists having been brought forth by Norwegian independent record labels sign directly to international labels without going through a Norwegian major. This might be a growing tendency, due to a lack of sufficient and effective distribution channels among national indies. Also, majors in Norway may not always have the required cultural credibility to attract or promote indie artists abroad through their own international company structures. In addition they do not possess the financial attitude or resources to 'gamble' on undeveloped or innovative artists, but are rather forced to invest in more 'mature' artists and projects with lesser risk. What implications might such a pattern have on the industry? Does this represent a two-way innovation barrier to the industry? Is signing to foreign record companies a necessary part of an internationalised business sector, that may give positive indirect returns? To what extent do public institutional support schemes take these aspects into account?

Industrial functionality

Whereas the organisational work methods of the independents can be understood within a business milieu framework or from a cluster perspective, the production behaviour of the major record companies might be understood in terms of ownership and in-house production without the same degree of flourishing and dependency on other actors within the production system. Such differences implicate various levels of collaboration and learning between the actors within the different production systems or 'regimes'.

Related to organisational appliance of the music industry, the branch organisations might influence upon the overall functionality of the industry on the whole. Most record labels and companies in Norway are institutionally 'embedded', belonging to either IFPI or FONO. These branch organisations constitute different business cultures and a dyadic split that might contribute to a strengthening of the respective 'milieus' internally, and similarly a polarisation between them. Such an institutional structuring of attitude and behaviour within the music industry might prevent a fruitful dialogue across the two spheres, and may represent a barrier to innovation, knowledge diffusion and synergies across the sectors.

Some Norwegian majors have recently established deals for distribution in Norway with several indies. These distribution deals are comprised of a large degree of flexibility for the individual participants and they are accompanied by independent distribution deals internationally. This may be an indicator that the majors are realizing the importance and value of the cultural credibility and 'Fingerspitzengefühl' that the independent labels possess and similarly acknowledge that they cannot manage to maintain control over the entire musical horizon. The majors are thus outsourcing the A&R activity to 'underground actors' and the indies are buying national distribution competencies and services from the majors. These distribution deals seem to arouse complementary competencies between both majors and indies. The intersection of both administrative, economic and cultural competencies seem valuable for both parts, and may prove a profitable way to organise the development and distribution of Norwegian popular music.

Innovation capabilities

The experimental activities among independent record labels, publishers and artists; i.e. the alliances, networks, compilation albums, promotion acts and gigs abroad, all contribute to an innovative milieu with an ability to arrange for new combinations of artists, scenes, labels, musical styles or other related services. The various kinds of actors seem to hold different capabilities that serve as premises for innovative production milieus.

Majors lack various innovation capabilities: Firstly the resources or the ability to grasp the musical and cultural Zeitgeist, and secondly the freedom to cooperate with whom they want internationally. They are forced to distribute their music internationally through their corporate channels. If these channels aren't interested in distributing their music, their parent companies do not allow them to go to other companies to promote their artists internationally. In this sense the small independent companies possess much more freedom than the international majors in that they may sign their artists to whoever they wish or cooperate with any company nationally or internationally. Despite the

extensive distribution networks of the majors, the independent record companies thus represent a larger degree of flexibility and a wider set of possibilities regarding the distribution of music. In addition to this, the regular economic reporting further limits the major's ability to work on a long-term basis in the development of new talent.

Creativity, flexibility, employment structures, entrepreneurship mentality, personal networks, organisational structures and cultural capital all represent capabilities that allows for experimentation and innovation. The independents thus have better innovative capabilities for the development of new music, whereas the majors seem to have their traditional strengths in process innovation; i.e. (national) distribution networks, administration and marketing apparatus. Both the formation of alliances among the independents and the rapprochement between the indies and the majors might suggest that the allocation of these capabilities are object to alteration.

Independent dependency

The rapprochement between independent and majors reflects how there is an increasing awareness around the complementary nature of the various actors that constitute the music industry. Similarly, it is important to maintain the independent actors as independent underground actors without turning them into big and rigid actors. Eventually one might lose the dynamic, avant-garde function that many of them serve in the industry. The knowledge diffusion that succeeds the rapprochement between the indies and the majors might prove profitable to the industry. It seems that the independent actors are inheriting certain features from the majors in exploiting their back catalogue better. This may be a sign that the small, independent actors are becoming more professional or more 'commercial' in their ways of presenting their music to the audience, making the music available and interesting by following the same principles as the majors traditionally do when profiting on their back catalogue.

The pattern of a few large corporations being supplemented by several smaller independent actors holds close parallels to other industries, such as the pharmaceutical industry or the food industry. On one side these sets of actors hold different strengths and innovation capabilities, reflecting their divergent business rationales and forms of activities. There are, however, signs that the two are approaching each other, both through marketing strategies and through the establishment of licensing and distribution deals. By moving away from each other in size and functionality, they seem to have reached a distance where they no longer regard each other as competitors, but rather as actors with a complementary focus for their activities. This shift towards common visions and closer ties must be seen as promising for the industry as a whole. This is provided the two continue to supplement and learn from each other. The indies and the majors thus constitute an industrial system of mutually interdependent actors, both holding complementary competencies and capabilities. However, neither the industry itself, nor the public policy directed towards the music industry seem to be sufficiently aware or directed towards a coupling of these complementary features. This may limit the potential synergy effects of a more comprehensive interplay and intersection between different actors and sectors, and thereby function as barriers to innovation in the Norwegian popular music industry.

Policy Challenges

The musical underground, constituted by various independent actors and companies, serve as subcontractors, entrepreneurs or research and development departments for the development of Norwegian popular music. However, their role as developers of Norwegian music, both as cultural and industrial entrepreneurs, is not reflected in the appliance of public policy instruments. There is a need to emphasise the functions that these actors serve in the intersection of cultural diversity and industrial profitability.

The public policy directed at the music industry is characterised by a pronounced sectoral approach that leaves us with an artificial gap between trade and culture. It does not reflect the interconnectedness of cultural and business activities that constitute the actual functionality of the industry. This illustrates a need for an innovation policy towards this industry that transcends traditional sectors. Such a priority may be legitimised both as cultural policy, business policy, social policy and research policy. The recently established Forum for Culture and Trade is temporarily the only public body that aims at bridging this gap, meant to cover all cultural sectors. The intentions behind this approach are good, but the ambitions and the grants are rather meagre. Culture and trade might become more interconnected, but at a very slow pace.

Public support for Norwegian phonogram production has slightly decreased throughout the 1990's⁵⁰. Throughout the same period the Norwegian music industry has experienced a considerable growth in employment, companies, artists, events, concerts and media attention both nationally and internationally. Today there is no public body in Oslo that has control or an overview over the offer of localities for band practice in Oslo. Similarly there are various band practice localities that are being shut down in the capital or are threatened by shutdowns. This reflects how this field is being neglected as a prioritised area. These parallel tendencies leave us with a mismatch between the actual situation in the industry and the public awareness and attitude towards this sector.

To the degree that policy instruments are directed towards the popular music segment within the cultural sphere, it is characterized by the favouring of established and big actors. The public support schemes thus seem to be directed towards the winning team; either it is the biggest music festivals or the most promising artists. This pattern is actual for both *the purchasing system* and *the grant for music festivals*. The purchasing system is a support scheme that has little significance for what record productions are initiated, but instead awards the successful productions subsequent to the release of an album. This public support scheme is thus no incitement for innovation nor experimentation within music. The scope of music that is being collected is further narrowed by the fact that the system does not cover publications of Norwegian artists signed to foreign labels. The public support system is still nationally oriented in an international industry. Anthologies and compilations are also exempt from the system, which further limits the artistic and historic value and circumference of the system. The size of the public purchase system of music is more than ten times less than the corresponding system towards literature. This imbalance reflects how traditional barriers between high and low cultural expressions still characterize the institutional arrangements of public policy.

⁵⁰ Running prices. Index 1998 = 100.

The target group of '*The grant for music festivals*' is bigger festivals on a high artistic and professional level. Similarly, the TONO/GRAMO taxes function in favour of the most famous and established artists. The exception from this pattern is *the tour, transport and festival grant*, which is directed towards the promotion of new artists, and to promote stability and quality within the rhythmic music genres.

The ambitions to support entrepreneurialism and innovation in this sector are unconvincing. Public policy towards popular music thus contributes to maintain the vulnerability of the recruitment function of Norwegian music, where the prosperity and maintenance of content providers becomes occasional. Such a policy contradicts the ability to boost entrepreneurship and businesses through the vulnerable first years of existence.

Public policy should contribute to the creation of better frame conditions for exploitation and coordination of the complementary competencies and characteristics of the various actors that constitute the popular music industry. This is a challenge for both the music industry and for public policy formulation. Public policy should support the creation of arenas for the development and unfolding of independent activities and actors. Such arenas need to be supported by a coupling and synchronisation of cultural and business policy. Examples of such initiatives could be:

- To establish support channels for competence development, visibility and diffusion across the various actors and 'production regimes' of the industry
- To reconsider the allocation of cultural policy support between different cultural expressions
- To establish a forum for culture and trade within music
- To create larger visibility of the public support system across institutional and organisational arrangements
- Learning from international best practice in domestic music development, addressing the role of the agents that constitute the musical underground
- To arrange for musical entrepreneurship as business policy
- To attend to better access to practice localities and studios for recording
- A process of increasing awareness and further exploitation of the strengths of Norway's music industry regarding the development and sales of national music

When the Market Takes Over: global commodity chains, and foreign musical products on US music market

Swedish Case Study 1

Dominic Power⁵¹ and Daniel Hallencreutz⁵²

Introduction and rationale

Given that there are a multitude of high quality and potentially super-hit musical acts and products produced around the world it is thus extremely important to export oriented musicians and firms to understand the channels, pipelines, and problems that are associated with getting access to their target markets. In this case study we set out to examine the processes and associated problems with 'breaking' and selling a foreign musical product in the USA.

In 2000 the retail value of the global music market was worth US\$37 billion; of this the US market accounted for 38% of retail value (30% of volume) or almost US\$14 billion (IFPI, 2001). In addition to being the world's largest market the US has historically dominated the global music market by producing and exporting some of the biggest selling stars and stylistic innovations. Despite being by far the world's largest and most influential music market it is also one of the least internationally oriented markets. In 2000, 92% of sales in the US were of domestic repertoire (IFPI 2001: 24). A further 3% was of classical music, leaving only 5% of the total market accounted for by foreign repertoire. With only 5% of the market accounted for by foreign popular music the USA stands as the third least internationalised music market in the world: with only Pakistan and Egypt importing less international music (IFPI 2001: 174-175). However, the sheer size of the market and combined with the fact that artistes that are successful in the US tend to become successful around the world means that for countries with export oriented music industries expanding their share of the US market is a very attractive proposition.

The results reported below mainly draw on material collected during a series of face-to-face interviews carried out with music industry actors in New York during October 2002. Executives from major record labels and companies, several of highest grossing independents, smaller labels, the largest distribution firms, several of the biggest music retail chains, and New York based foreign trade promotion authorities were interviewed. Telephone and email interviews were also carried out with companies and industry organizations located outside New York: principally Los Angeles.

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Additionally music industry actors in Sweden and trade promotion bodies in France were interviewed. In all over 30 interviews were carried out.

Four key themes emerged as of especial importance to the success of a musical product that is attempting to enter, or already has, the US music market. The rest of this report is divided between these four aspects.

1. Getting it to people's ears: breaking and promoting music

The market for music is one characterized by almost infinite choice as each year in well over 10,000 new albums are released. Both sides of the industry the sellers and buyers thus operate in a world of infinite choices and thereby uncertainty. Faced with such daunting information problems it is therefore little surprise that both consumers and the music industry rely heavily on the powers of the media to filter and disseminate information on what is available.

Whilst there exist a growing number of channels for the promotion of music it is radio (principally FM-radio) that remains the predominant promotional channel for music in the USA. Getting your songs on radio is the essential ingredient for entry into the market. However, radio play must be intensive for the song to get onto the agendas of potential consumers. Estimates of how many times a record needed to be played in order to be picked up by the public varied between those interviewed but these estimates all fell into the range of between 50 and 200 times a month on a single station. Furthermore they suggested that these 50-200 plays per month needed to be at certain peak times of the day; though these 'peak' times varied somewhat depending on the type of record and target audience.

America is a large country and a correspondingly large number of radio stations: there were 10,983 commercial radio stations in March 2001. But a period of restructuring after regulatory changes in 1996 has meant that ownership has become highly concentrated. Clear Channel Communications, for example, owns over 1000 radio stations and accounted for 26% of the industry's revenue for 2001. In general, it is these large radio concerns and networks that are the most important to record companies but consolidation in the industry has made stations even more eager than before to garner extra revenue sources such as payments from the record industry.

Getting songs onto the stations' play-lists has always been a costly procedure for record companies. Historically what appeared on US radio arrived there through a system dubbed 'payola' which basically involved the bribing of radio programmers to place a song on the airwaves. In different forms payola lives on. The principal form in which it survives is the trend since the 1980s of having independent 'promoters' working as intermediaries between the music and the radio industries and tend to have exclusive control over stations play lists. These promoters are in turn hired by record companies interested in having a song on the promoters' stations. Fees for placing a song on a large station can reach US\$10,000. Though in retreat record company executives we spoke to suggested that in various forms these practices were still commonplace. Tom Silverman, founder/CEO of Tommy Boy Music, stated that on many occasions he has even received demands/invoices from promoters he had never had contact with or even heard of.

Notwithstanding the various systems of payola in operation placing a new release on a station with good coverage was said by those interviewed to be as especially difficult and doubly difficult for songs from outside the US. In an interview Lynne Leger, Vice President of Retail Marketing for EMI Music Distribution (EMD), suggested that the recent restructuring of radio had greatly decreased the opportunities to get new music to the consumer. Furthermore, she echoed the complaint of other respondents that US radio does not back ‘announce artists’ (those just released or about to be released) meaning that it can take a long time for a single to become associated with an artiste’s other products (albums, tours, etc.).

In addition to the above difficulties getting the right type of airplay to back a new product also depends on understanding a product’s evolving geography. It is common for new artistes and genres to be tested on certain urban areas: e.g. Nashville for country music; New York and to a lesser extent Los Angeles and San Francisco for alternative, rock and dance music. It is often only after success in test markets that financing will be found for further promotion. This has specific implications for the promotional efforts of the record companies. As the diffusion process continues they coordinate staggered releases of the product, appearances and performances, and crucially their attempts to influence radio play.

The initial testing process is often referred to by industry actors as ‘creating a buzz’ and it is common for both domestic and foreign record companies to turn to independent US record companies to help with this task. When interviewed Danny Goldberg – CEO/co-owner of Artemis Records and formerly CEO of Polygram-Mercury Records and Warner Brothers Records and President of Atlantic Records – said that it was not uncommon for independents, such as his, to receive several hundred thousand dollars from a major to “see if a buzz can be created”. Other respondents suggested that it was generally accepted that at present US\$500,000 was required to ‘test’ a record. Such testing can take many forms depending on the products genre but for rock and pop testing involves hiring a team to organize a targeted press campaign, a set of performances, and above all organizing/paying for airplay. The initial testing or attempt to create a ‘buzz’ is most often a strategy to get a larger record company, or sometimes a distributor, to take an interest in the product/act and promise to fund a larger coordinated promotional and sales campaign. A larger campaign includes a wider variety of promotional techniques: including recording a video and organizing its airplay, travelling sales teams, tours and performances, a costly nationwide radio offensive, and (to be dealt with later) a budget for store level promotions. Industry actors interviewed said that such larger campaigns were estimated by to cost, for a pop or rock act, from a minimum of US\$2 million to a maximum of around US\$10 million. Respondents suggested that on average most Top 10 hits on the US charts were backed by a sales and promotions budget of around US\$5-6 million.

2. Getting it into people’s hands: labels and distribution

Whilst heavy radio play is the core element of a promotional effort to break a record in the US this is of little use if the single or album is not readily available to consumers. In general, there are two main reasons for why foreign musicians and firms seek US distribution deals: the system of territories; cost

advantages US manufactured products enjoy over imports. However, a third reason lies with the structure of the US distribution market and the central role distribution firms play in placing products on the retail market in the right way and in the right place (this is esp. important for breaking acts).

The US distribution system is dominated by major-owned distributors which are responsible for around 85% of music distributed. All of the majors directly own distribution companies that are more or less vertically integrated into their operations. These distribution arms provide the parents with much of their profits, often employ far more people (Warner's distributor WEA employs three times as many as Warner Music itself), and are strategically important sales and marketing tools.

It is commonly said within record companies that distributors have no real marketing power and are thus relatively powerless to do anything to help break an act. Interviews with distributors and retailers suggested this not to be entirely true. Firstly, distributors have an effect on prices. The larger the distributor the larger the economies of scale that apply to their operations: in particular in the areas of warehousing and shipping/logistics. Furthermore their control over the supply of the titles that sell the highest volumes means that they have the power to demand from retailers higher prices and lower discounts for the products they represent. This is important as music sales are, in general, highly price sensitive. Music is also characterized by high levels of 'discounting': 'normal distributor free goods' account for 15% of shipped units; 'special campaign free goods' can account for a further 5-10%. Pricing and discounting – and related practices such as bundling – are an important placement and pricing tools and ones that only the majors' distributors have the power to most effectively use.

Secondly, research revealed that distributors act as key promoters of products. Whilst they have no direct contact with the record buying public they have direct and long-term relationships with the record stores' 'buyers'. The major distributors all employ large numbers of people engaged in sales and promotions: e.g. WEA USA employ over 70 specialized retail marketing teams across the country. These teams mainly target particular regions but the big distributors also have offices/teams dedicated to particularly large buyers: e.g. WEA have teams in Minneapolis to serve Best Buy and in Arkansas to serve Wal-Mart.

The main way in which distributors influence the promotion/breaking of a product is through their 'priority lists'. Due to the fact that every month they receive many lists of priority products (and associated sales and promotions budgets) from labels the distributors have considerable leeway in 'prioritising the priorities'. Distributors have the power to say no to a title: they are after all profit seeking commercial firms that earn fees on per unit sales. In order to maximize these fees they conduct their own cycle of product profiling and assessment in order to ascertain which products it will prioritise and where sales and promotions budgets will be spend. Historically heads of distribution firms have also been extremely active in the labels' discussions over priorities and general group strategy.

Research revealed that it was widely assumed that the majors' distributors overwhelmingly favoured American repertoire as this was easier to sell in large volumes and was more likely to be backed by the scale of radio campaign needed to drive hits. That the mainstream distribution system is almost completely focused on domestic product can be seen in the fact that even foreign branches of the

majors are forced to use the less powerful independent distributors to distribute their products in the US. European respondents said that their difficulties in accessing the majors' US distributors meant they were at a considerable disadvantage in unlocking the promotion and sales resources and networks needed to ensure both product availability and recognition.

3. At the storefront: the power of retailers

In addition to the difficulties involved in assuring good radio and distribution in the USA the nature of music's retail environment presents another level of both barriers/gatekeepers and huge expense for breaking new musical products.

Despite the continuing evolution of the balance between different retail forms specialist music multiple/chain retailers remain especially important for the early career of both new artistes and the new products of established stars: though they only account for 42% of sales in 2000 (NARM, 2001). When we interviewed Mike White – Executive Vice President and General Manager of Sales, Marketing and Operations WEA – about the crucial difference between specialist retailers and rack retailers (41% of sales in 2000) he said:

“Mass merchants [such as rack retailers] do not break artists. They sell hits.”

Specialist stores are where new music first arrives and remain the focus, at least in America's urban areas, for music buyers and media attentions. They are also more likely to be where sales data for the charts are collected. Access to specialist music stores, especially the large chains (such as Tower Records, HMV, and Virgin), is a key priority for those interested in successfully breaking a product.

Accessing US specialist music retailers' stores is not an easy or cost free process. Music retailers understand that different areas of a store attract customers' attention better and lead to higher sales volumes. In recent years a micro-geography of pricing and product placement has emerged in US music stores. Certain highly visible areas of a store such just inside the entrance, chart and recommendation walls, listening stands, end of aisle displays ('endcaps'), and well situated portable displays ('A-frames') almost guarantee dramatically higher sales volumes. Interviewees were of the opinion that a generally accepted rule of thumb was that prominent new releases in key in-store locations sell 3-4 times the volume they would if merely placed in racks. For less well known or unbroken artistes this figure was said to be at least 15 times the normal sales volume. In order to get their products in the desirable in-store locations retailers charge the record labels/distributor undisclosed sums: known as 'price-and-positioning' costs. Whilst the retailers interviewed would not comment on these charges executives from record companies and distributors interviewed said that the fees were a minimum of US\$1 per unit to about US\$1.50 per unit for the best locations in the stores with the highest turnover.

In addition to 'price-and-positioning', retailers charge record labels and distributors for advertising. Retailers universally demand what are known as 'cooperative advertising funds' to pay for television adverts, the retailers' own magazines/circulars, flyer and poster campaigns, etc. Through this the

record labels effectively pay for the retailers' advertising. Retailers in New York City charge US\$5-10,000 to have a display in an individual store's window. The costs of such advertising vary greatly between the retailers but respondents from both record companies and retailers agreed it can amount to tens of thousands per retailer per release.

All of these payments to retailers are in addition to the normal discounts and free goods retailers are provided with. In recent years retailers have begun to differentiate between seasons and it is now common practice to charge record companies 50-100% more than normal in two months running up to Christmas: for both 'cooperative advertising' and 'price-and-positioning'.

Industry respondents said that payments to retailers for in-store visibility and the like commonly account for around a half of a release's total marketing budget. In the case of big releases this can amount to several million dollars. Label and distributor executives complained not only that these costs are spiralling but also about what they considered the poor store level execution of product placement they had paid for. They also complained that the cooperative advertising funds they provided were seldom spent and that such funds are used by retailers as a ready extra income source. Interviewees suggested that such expenses underlined the lack of interest in music many retailers now exhibit:

"They like what you give them money for." (Interview with Mike White, Executive Vice President and General manager of Sales, Marketing and Operations WEA, October 2002)

The enormous costs involved in placing products in stores weigh heavily even on the well financed majors. For relatively unknown or less popular artistes and for independent record labels the scale of these costs represent one of the most significant barriers to entry existing in the US market.

4. The Cadillac showroom: the focus on big hits in a shrinking market

Perhaps the most important difficulty foreign exports to the US music market face is the fact that the market has in the last few years been in crisis: between 2001 and 2002 total US music shipments dropped 10%. In response to the shrinking demand for specialist stores have begun to cut back on catalogue and place greater emphasis on more profitable merchandise: particularly DVDs and computer games. Mass merchandisers have already transferred much of the space once devoted to music to DVD. In addition to the shrinking market many of those in marketing and sales roles we spoke to suggested that the industry is facing a rapidly segmenting marketplace in which consumers have become more unpredictable.

With the market for the industry's traditional products – recorded music and related copyrights – in decline the bigger actors seem to be rapidly refocusing their energies and restructuring their operations. In particular, companies reported that they were attempting to develop new product lines such as on-line music, CDs with a high level of DVD content, or music DVDs. They have also begun to agree new forms of contract with artistes that allow the record companies to share in the artistes' potential touring, merchandising, advertising and film earnings. All those interviewed, both majors and independents, said that they were attempting to reduce their overheads and operating costs: e.g. by

firing staff; closing regional and overseas offices (which has led to an increased concentration of the industry in New York City); and concentrating on the 'major territories'.

For the majors, and the largest independents, the current situation has meant that they are changing their corporate culture towards one that is primarily focused on producing and promoting acts that they believe to be potential global superstars. This process can be most easily seen in the fact that these firms have all been busy reducing their existing rosters and signing less new acts. Given the shrinking market and the costs associated in breaking an act on the US market the firms' main adjustment policy has been to concentrate on a greatly diminished number of priority products. When interviewed Patrick Reilly - Vice President of Corporate Communications, BMG - said that BMG has reduced its global priority list from a mid-1990s level of 25-30 products to a present day level of 5-10. Several of these 5-10 he said will be new breaks but others will be drawn from 'deep catalogue': e.g. Elvis compilations. Not only are these priorities more limited in numbers they must also not have been broken significantly elsewhere: i.e. the corporations' US costs are so high that they need a product capable of being rolled out on global basis so that additional revenue from international rights and territories can fully cover the initial launch costs. This means that the US branches of the majors now have increased powers to determine the distribution of products in other markets (in particular Europe and Japan). The type of products the majors are now focused upon has been dubbed by those working in the US industry as 'Cadillacs'. By this they mean already well established, mainstream, heavy and reliable sellers that have a long life expectancy.

Executives from certain independents suggested that this will mean a splintering of the US music market with the majors focusing almost entirely on catalogue and 'Cadillacs' and the independents left to develop and break new music and music with limited sales appeal. Such a shift may be beneficial to those wishing to foreign firms as US independents have historically been more open to foreign repertoire than US majors.

Conclusion and policy challenges

Whilst this case study has outlined four main barrier areas, all respondents pointed to a cultural and knowledge gap between the US and the rest of the world as potentially the most insurmountable barrier to entry; insofar as this cultural and knowledge gap lay under all four. Aside from different business cultures most foreign musicians/executives lack sufficient personal contact networks in the US. The music business is one where trust and personal relationships are central. It is increasingly rare these days in the USA to get a gatekeeper (be it a radio or label gatekeeper) to even listen to unsolicited material. Gatekeepers filter the enormous amount of music out there by only allowing in material that comes through trusted personal contacts. In relation to the US market it appears that five distinct tasks are crucial to placing a product: securing the support of a major financial backer (usually a major label) capable of supplying a marketing and sales budget; securing a good licensing or distribution deal; employing a well-connected sales and promotion team; securing/buying press and radio exposure; securing/buying good access to retailers. Each of these tasks represents a 'pipeline' into the market and has associated gatekeepers. It seems imperative then for potential exporters to tap into the networks of personal contact leading to gatekeepers. Whilst these gatekeepers apply aesthetic

and taste based appraisals to all new products it appears that, like many things in life, money is the most effective way of accessing gatekeepers and the pipelines they control.

The contemporary combination of the scale of costs to break a product and the shrinking market means that the US industry will no doubt undergo further restructuring in the coming years. What is clear is that whilst the US market is difficult for domestic product it is many times more difficult for foreign product. Companies and musical acts may try the lower cost option of breaking a product on the Canadian market which traditionally has had a high profile in the US and is structurally linked to the US industry: i.e. use Canada as a back door. National governments or industries could also attempt to provide greater support to exporters interested in the US market: as the French have done with their Music Offices and the British have been discussing (D'Arcy and Brindley, 2002). Further policy challenges arising from this case study are outlined in the report's policy challenge section.

Are they only in it for the money? – Subsidiary strategy and impact on local clusters in the recorded music industry: the case of Sweden

Swedish Case Study 2

Per Lundequist⁵³ and Daniel Hallencreutz⁵⁴

This case study takes its point of departure from two significant features of the global music industry. Firstly, that it has tended to become steadily more concentrated since the 1960s. Thus, the business of producing, distributing and mediating music is globally dominated by an increasingly concentrated system dominated by a shrinking number of global media majors'. Currently it is estimated that approximately 75% of the global market is controlled by the 'majors', i.e. the TNCs that encompass a number activities ranging from leisure, entertainment, media, consumer electronics and manufacturing, namely Bertelsmann AC (headquartered in Germany), Vivendi-Universal (France), Sony Corporation (Japan), EMI Group Plc. (UK), and AOL Time-Warner Inc(US). Secondly, that the music industry predominantly has a high proclivity to agglomerate to major urban areas. The rationale behind this tendency to agglomerate seems to relate to processes that facilitates the recruitment of staff, the monitoring of competitors, new firm formation, the generation of new business ideas, and the sharing of common meeting places (e.g. pubs and clubs) as well as suppliers and related services. Moreover, agglomerations also sustains the development of different types of 'soft infrastructures' that have been acknowledged as important for long term competitive industrial trajectories such as shared values and conventions, common language and trust.

Concerning the global music industry, there is an ongoing discussion – not only in academia but also within the industry itself – regarding how the majors affect the 'local' music industry in the host country (creatively, artistically, culturally, organisationally, economically etc.) The proponents argue that the presence of locally embedded majors' facilitates international competitiveness, i.e. that integration into the wider global music industry (and its concentrated power structures) in fact adds to the competitiveness of a local music industrial production system. The opponents on the other hand put forward a plethora of arguments that the before mentioned is not the case, rather the global majors are exploiting the local milieu – picking the cherries – as well as streamlining artistry and creativity when creating 'products'. In other words they, at the end of the day, are only in it 'for the money'. To some extent the abovementioned resembles the discussion concerning the role and impact of TNC on local production milieus and regional development in general, regardless of sector or industry.

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The case study focuses on the Swedish music industry – highly agglomerated to the major urban area Stockholm as well as showing a strong presence of the global majors – which in recent decades has emerged as an internationally successful exporter, generating export incomes through selling goods (such as phonograms, CD-manufacturing equipment), and services (such as mixing, music video production, and music licensing) as well as generating royalties. It has been estimated the total export earnings of the Swedish music industry in 2001 to approximately US\$550 million, and the annual growth rates – for the years between 1990 and 1997 – to around 15%. The overall aim is to examine the interrelationships between TNCs in the music industry and their impact on local clusters in an era of global economic restructuring. On the basis of Swedish empirical examples, this study discusses subsidiary strategy and impact on the Swedish Music industry and, thus, seeks to achieve a mixed blend of theory and practice concerning TNCs and regional clusters in the music industry. Questions at issue are: Are the Swedish subsidiaries merely heavily controlled marketing organisations for artist prioritised by the corporate mother or do they (and the local artist signed to them!) get a boost? How do foreign ownership affect the development of local firms (and artists) and as a consequence the development and dynamism in the local milieu?

The examination of the case study was based largely upon qualitative fieldwork involving semi-structured interviewing of industry participants presently working with a major company (or with a history working within the ‘major sphere’). In addition to the interviews conducted in Sweden, the examination was also based upon findings from interviews undertaken in New York 2002. Moreover the article draws on research undertaken as part of a broader project on the popular music industry in Sweden and in particular on 76 interviews with music sector firms and industry organizations carried out during 1999 and 2000. Furthermore a variety of literature such as professional journals and biographies/autobiographies was used as well as statistical material obtained from statistical agencies, national and international industry bodies, business registers and annual reports.

All in all, Stockholm seems to be a clear cut case that industrial competitiveness often develops in a clustered or agglomerated manner; that is, it takes a large number of firms that are both competing and cooperating with each other to trigger growth. The industrial and organisational structure of Stockholm’s music industry is at once both highly competitive and highly cooperative and characterised by a diversity of actors and firms with a relatively high-turnover. The pace of structural, organisational, and technical change in the city’s industry has been high, and it would seem as though these changes have benefited the exports of Swedish musical products. For these authors however the feature of the Stockholm scene most supportive of export performance are the dense networks of inter-organisational linkages, voluntary associations, and service organisations that both secure relatively open export and distribution channels and copyright (and thus indirectly revenues back to the creative milieu). The music business, or rather the actors – be they firms or individual artists, composers, music teachers, publishers, or any other professional group – appear to have a high capacity for self-organisation; that is, to create mechanisms for the coordination and promotion of joint interests, exchange information and collective action. The Stockholm music ‘cluster’ could be defined as a ‘world of production’, embedded in the wider global music industry and characterised by a complex mixture of co-operation and competition. The quality and manner of intra- and inter-firm linkages and relationships can be said to have added to the success of both Swedish products in wider markets and also the export earnings involved in Stockholm’s role as a major international production and music

related services centre. The perhaps surprising conclusion – given the current strength of anti-globalisation rhetoric – is that it seems higher or increasingly levels of integration into the wider global music industry (and its concentrated power structures) have in fact added to the competitiveness and crucially the profitability for the local production system of the city's music industry.

However, research revealed that the local subsidiaries often operate quite autonomously when it comes to Swedish products and projects. Rather than simply following orders from HQ, actors were seen to display high levels of intra-firm/conglomerate entrepreneurship and often attempt to use the global marketing organisation of their parent company to export music produced and recorded in Stockholm (and elsewhere). Furthermore, there is evidence of continuous new firm formation manifested by a growing number of independent record companies, publishing companies, production companies, etc. Strong local dynamism and entrepreneurship seems, in this case, to go hand in hand with dominant foreign ownership. In this context, it is important to note that particularly the publishing companies (majors as well as independents) have been crucial since they have acted as knowledge pools and nexuses of social networks.

In addition it should also be acknowledged that the line between production and distribution is fuzzy. In the music cluster some actors in these intertwined networks control access to markets, nationally as well as internationally. They have a very strong role in the process of deciding which products are to be put out on the market. Getting 'signed' to a major does not necessarily mean immediate 'stardom' though. The reason for this is that a 'regional' group or artist (for example a Swedish debutant) has to compete with debutants (or established acts) from other regions (e.g. Norway or Holland). Thus, getting a high priority worldwide contract is a long process of negotiations, etc. within the conglomerate where the so-called regional acts (i.e. non-British, non-American artists and groups) have to compete with each other. Our case study indicates that embedded key individuals play a crucial role in this context.

There seem to exist a strong It would be wrong to say, however, that the smaller Swedish firms are in constant conflict with the foreign majors and their branches/affiliates. Rather it appears that many synergies exist between the different types of firms which are often cemented through the numerous examples of formal 'buyer-supplier' linkages found: particularly different types of project-based, socially embedded linkages. Furthermore, there exists a number of shared business-related local institutions and evidence of informal co-operative competition, for example various collaborative practices such as joint projects at international fairs (e.g. Midem and Popkomm) and lobbying for standards in copyright law. In general research suggests that the success of the independent production and post-production firms in Stockholm and the degree of formal and project based linkages between majors and minors has had several specific effects: it has greatly enhanced domestic artists and firms exposure and access to international best practice; has led to increased investment in the quality and capacity of firms' technical infrastructure and know now; and solidified associations between 'Stockholm' and 'quality product' in the minds and operations of global industry actors and firms.

Concerning the majors, their organisational structure may be defined as a loose-tight relationship. Thus, their financial goals needs to be fulfilled but apart from that the corporate mother do not interfere with the day-to-day activities of the Swedish subsidiary to any larger extent. It is important to

note though, that there do exist differences between the majors when concerning the degree of control. Largely this difference in degree may be explained by a) path dependency and b) embeddedness, i.e. that key individuals (with many years in the 'business') in executive positions (financially, creatively etc.) play a crucial role in 'securing' the independence of the affiliate.

The emergence of a post-industrial music economy? Music and ICT synergies in Stockholm, Sweden

Swedish Case Study 3

Dominic Power⁵⁵ and Johan Jansson⁵⁶

Introduction and rationale

Since the birth of rock and roll and mass consumption capitalism the music industry has enjoyed booming sales growth. This in turn has fuelled the formation of a highly corporatized and professionalized global business with worldwide retail sales revenue estimated to be worth at least US\$40 billion in 2000. However, in recent years this high profile and historically lucrative industry has been thrown into a frenzied collective depression by the rise of new technologies widely thought to threaten the business models and intellectual properties the industry presently rests upon. In particular, the widespread use of the internet to transfer and download music in new ways has had record executives running scared to their respective legal departments. It is against this background that this article reports on the findings of a research project into the ways in which new information and communications technologies are being combined with music by firms based in Stockholm.

The purpose here is thus to examine the development of ICT-music activities. We draw on an exploratory research project into these activities in Stockholm which attempted to understand the parameters and dynamics of these new activities and to question their relationships to existing music and ICT industries. Underlying this was a further concern to understand how such activities fit into the likely evolution of the music industry and economy.

In addition to presenting material on a relatively unstudied emerging business area, the research addressed what the authors' consider to be two pressing lacunas: an absence of treatments of the music industry as an industrial system; and a relative lack of empirical studies of the effects of having a leg in more than one strong cluster.

The research we carried out suggests to us that such activities may indeed hold important clues to the future competitiveness and shape of the music industry. In particular we argue that the music industry is rapidly moving away from a business model based on intellectual property rights contained in recorded music to one where a post-industrial musical economy exists.

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An emerging post-industrial music service economy? The case of Stockholm

Stockholm has a strong, export oriented music industry characterized by a large number of both local and global music firms engaged in the commercial exploitation of music and creation of global superstars from ABBA to the Cardigans. In recent years it can be seen that activities traditionally thought of as peripheral to a successful music industry have been accounting for increasingly large portions of Swedish 'music' exports.

Increasingly there is an awareness that a successful music industry can be based on providing specialised services that can be sold across the globe; and that these services are increasingly the most profitable areas of the musical value chain. As the album sales decline and copyrighted material becomes increasingly impossible to protect something akin to the decline of manufacturing industry in Western countries may happen. In short that it will be innovative service based and often ICT mediated elements of the musical economy that the largest profits and value added will reside: that a post-industrial musical economy may arise.

To explore the development of ICT-music activities a study was made of all the Stockholm firms that had ICT-music activities as their main business focus. In addition to a survey of these firms and analysis of company records and the scant available literature, a sample of 25 firms and relevant industry organisations were interviewed.

Technological change: the developing synergies between IT and music

The history of the music industry has long been a one of not only musical but also technological innovation. Technological development has radically effected everything from musical instruments to styles. Importantly technological change has also had a key role in the development of the industrial structure of the music industry and the commercial possibilities open to that industry.

In recent years pundits and academics alike have suggested that ICT-based advances such as the internet and new audio file formats (e.g. MP3 files) are laying the road to a new era for the music industry. At present it may be said that firms working with ICT-music crossovers fall into five rough categories:

- 1) Firms focused on internet-based music sales and distribution: ranging from relatively old school (on-line) mail-order type systems to new ways of distributing digitalized formats of music.
- 2) A rapidly growing number of web design and digital advertising services tailored to musical product.
- 3) Software programming and design focused on online or multimedia products and virtual instruments.
- 4) High-tech post-production and mixing services: for instance digitalised recording, mixing and post-production.
- 5) Virtual centres and communities for music industry actors and new ways of communicating, mainly through internet.

The rest of this brief report will deal with firms working in these five areas (a more extensive report exists in which fuller details are provided). Rather than presenting a section on each of the above it occurs to us to draw on all of these five activity types to exemplify four main themes that emerged from the research: the ways in which new technologies give rise to new opportunities; the role of relationships with existing industries; the role of agglomeration effects and economies; and the development of new business ideologies.

New technology, new opportunities?

The new technologies combining ICT and music can be *roughly* divided into two categories: doing old things in new ways; and doing completely new things.

In particular new technology has most heavily effected the type of medium on which music can be stored, sold and distributed. Although many firms were engaged in net-based music distribution two examples of doing old things in new ways are worth mentioning: ring-signals; and digital instrument manufacture. In 2001, 25 million ring-signals were downloaded in the Nordic countries at a cost of between around US\$1-2 per downloaded signal plus a small administrative fee. In the same year the total sales of music singles (CD and vinyl) in the five Nordic countries amounted to 8.8 million units. Both numerically and in light of continually declining singles sales ring-signals have come to represent a major music market with all the characteristics of the old-style singles markets: ring-signal operators provide their customers with the latest melodies (one company interviewed, *INPOC*, estimated that 90% of its sales come from new releases; analysis of the ring-signal charts put this at between 80 and 90%); charts and hit lists are produced (and appear, for instance, in the Swedish music industry magazine *Musikindustrin*); and ring-signals are widely seen by the music industry as both a growing revenue source and as good advertising for new artists and albums

New ICT has, of course, created entirely new types of business activity. Some examples of such activities found during the research period were: website designers specialising in music; specialists in digital encoding of music and music video; multimedia, DVD, and Super Audio CD mastering and postproduction services; specialist providers of streaming music and copy protected samples to e-tailers; SMS (mobile telephone text messages) and webcast services tailored to music events, festivals and tours; streaming music video and radio channels; and an online and on-demand music video service with the world's largest archive of music videos.

These activities share the characteristic that they are developing new opportunities and/or channels for adding value to the core product. This is especially important to the profitability of an industry whose core product – the album – is under severe pressure, from the end of the CD replacement market, the negative substitution effects of the rise of DVDs, CD burning/copying and internet piracy.

A branch to hold onto?

A second key factor in the evolution of music-ICT firms was seen to be the relation of the firms to existing industries: principally the music industry and the ICT industry. In the currently popular 'cluster perspective' of industry competitiveness, innovative and supporting activities find a nurturing

environment in the dense interconnectedness of a functioning industrial cluster (a group of related firms located in the same area). In Stockholm it appears that the firms we studied have experienced both negative and positive effects emanating from their proximity to both the city's well established music cluster and ICT and mobile-telecommunications cluster. All our respondents reported having important links to one or both of these proximate clusters/agglomerations. Commonly reported links or inheritances included: sectorally based social networks; early career experiences; imported knowledge and contacts; sectorally focused or located venture capital sources; and supporting industry organisations. For the most part firms interviewed cited the music industry as their key source of inspiration, experiences, and staff. Importantly, a majority of the firms said that their suppliers, customers, funding/venture capital, and/or target market came from the ICT sector.

This study then suggests that a crucial factor in the type of pressures firms engaged in new or innovative activities that cross established industrial boundaries is how they have positioned themselves vis-à-vis existing industries. It is by no means true to say that being firmly within, or sharing characteristics with, established proximate industrial clusters always benefits new firms or activities: for instance those firms that were closely linked to the ICT industry have suffered heavily from the bursting of the ICT bubble.

Agglomeration economies and effects

Obviously there are some factors making location within a large city or an industrial agglomeration crucial for firms within a particular sector. For the firms in the study one important aspect was the density of customers in Stockholm. This was especially important for those firms dealing in products targeted at record companies and those aimed at large consumer markets. Though for most of the firms, dealing as they do with niche markets, the Swedish market is too small they considered it a good test market from which to later pursue international markets.

The city's highly advanced urban infrastructure was also cited as important. Infrastructural aspects reported to be particularly important were: well developed air links and courier services; the city's technological and telecommunications infrastructure; the provision of adequate high speed bandwidth; and Stockholm's advanced mobile telephone and wireless computing network.

Less tangible assets were also commonly referred to and every firm interviewed mentioned the positive influence from just being there: being close to family and friends; keeping an eye on local competitors and partners; and having the chance to 'listen' to the local milieu to find out about the 'buzz'. Perhaps most important was that the 'buzz' seemed largely a shallow reflection of a deeper set of social networks. These networks were commonly based on personal friendships and acquaintances made by firm members during their early careers in the music industry (and to a lesser extent the ICT industry). Especially important to most respondents were that these networks contained 'pipelines' that reach outside the local milieu.

Above all agglomeration considerations already mentioned stood the importance of the labour market. Particularly scarce are people who combine the skills and trainings associated with both industries. Given the relative scarcity of people well qualified people in either of the industries, and particularly

those qualified in both, it is hardly any surprise that all but one firm interviewed cited staff recruitment and retention as their biggest problem but also the most important factor keeping them in Stockholm.

New business thinking and modus operandi

A commonly held modus operandi was seen to exist in members of these firms. This consisted of three main elements. Firstly, it was observed that all the firms studied and interviewed had consciously developed an international or global export oriented perspective. This export orientation most commonly sprang from the perception that Sweden's small domestic market could not fully support their survival.

The second aspect of this shared modus operandi was a focus on 'community' (e.g. a community of software users or music fans) as a core business concept. The building of communities around their core products as a vital tool for product competitiveness and profitability.

A third aspect of the 'shared' culture of these firms was a strong sense of independence. Government intervention in issues other than helping with vocational training, providing help with export licenses, and finding employees were thought by participants to be either not necessary or indeed negative.

Conclusions and policy challenges

In conclusion, these types of new industrial synergies seemed, to us at least, to say much about the way industrial innovations are formed in an inter-industry and inter-cluster environment. Proximity to, or existence within the bounds of, a strong competitive cluster certainly had a variety of both material and immaterial effects and though many of these can be considered positive this is not necessarily so. In many ways it was the firms that straddled both which seemed to fare the best as this gave them some degree of isolation from the competitive maelstrom of vested interests and large market movements that existed within the clusters. One could indeed suggest that this case begs the question of whether innovation and adaptation of new technologies in fact occur best in a cross-or inter-cluster context?

Secondly, the growth in the range and value of a music service economy in Stockholm suggests to us much about the future competitiveness and shape of the music industry and music centres. Indeed a number of the firms studied depend less and less on the domestic music scene and have become successful service providers to a range of global clients and consumers who are demanding everything from mixing and song-writing to samples and virtual instruments. This carries with it the possibility of both strengthening the existing music industry/cluster and indeed becoming an export oriented industry quite separate from the traditional notion of exporting domestic artistes to foreign ears.

In line with the observation of this emerging sector's independent potential and profitability we recommend that action is taken to:

- Promote the development of a separate identity and brand for the increasingly valuable music service industry.

- Promote awareness in the traditional core of the music industry (record companies, etc.) of the existence of the extensive range of music services available at home.
- Guarantee that music service firms should be included in activities and measures taken to support the development of the Swedish music industry and in particular measures taken to develop the industry's export capacity.

Finally, the evolution of a music services sector in Stockholm we argue is suggestive and indicative of a deeper shift in the music industry: the development of a post-industrial (and post-MP3) musical economy where services and related products around the core music make the money and reputation for musical centre and indeed the industry as a whole. Whilst record companies invested enormous sums of money into building a brand up around a performer or group it has always been the performer/group that has sold and profited from the brand. The music industry is starting to realise that these brands are increasingly much more lucrative than the music itself. The firms we studied are pioneering and showcasing methods for building added-value to products and new product areas and distribution channels (such as ring-signals, streaming, and multimedia). Their focus on building community and added enticements into products, new channels for distribution and new revenue sources from associated services seems key to profitability in a post-industrial musical economy.

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