

## A Typology of Music Distribution Models

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### *Abstract*

*A typology of music distribution models is proposed consisting of the ownership model, the access model, and the context model. These models are not substitutes for each other and may co-exist serving different market niches. The paper argues that increasingly the economic value created from recorded music is based on context rather than on ownership. During this process, access-based services temporarily generate economic value, but such services are destined to eventually become commoditised.*

**Keywords:** music distribution, value creation, co-creation, ownership, context

## 1 Introduction

In this conceptual paper I propose a typology of music distribution models to give a new perspective on the on-going transformation of the music industry. Much of the current debate (e.g. eMusic, 2011; Mangalindan, 2011; Robertson, 2011b) on the transformation is focused on the viability and impact of online subscription music services (such as Spotify, Rdio, Deezer, etc.) that provide access to music, without providing ownership of that music. At the core of the debate lies the question whether such services will make traditional music distribution models obsolete. In this paper I attempt to look beyond this debate and argue that even though access-based models to some extent are replacing ownership-based models, the access-based models are unable to serve as a long-term solution for the industry. I suggest that "context-based" services which allow people to "do things" with music have greater po-

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tential to create economic value than those services that merely provide access. I also suggest that context-based models not only have implications for the distribution of music but also for the creative process and the musical artefact itself.

## **2 The ownership model**

According to the music distribution model that dominated most of the last century, consumers acquire music recorded on plastic discs or cassettes. They keep the discs in their homes, sometimes in expensive wooden cabinets that have been designed and made for this particular purpose. Music listeners who follow this model value the material and the tactile properties of the discs (Giles, Pietrzykowski & Clark, 2007). The music collection is one of their most important identity markers together with other material possessions such as vehicles, furniture and clothes and they have a strong emotional attachment and sense of ownership of the music they treasure. Record labels reinforce this sense of ownership by using verbs such as "buy", "own", "steal" in their marketing, even though in practice they only grant their users a limited license to listen to the music (e.g. Peoples, 2011). This well-established model can be referred to as the "ownership model", even though very few people actually do own the music that they listen to.

Physical music distribution has plummeted during the last decade, and even though online music distribution has been unable to compensate for this drop, online distribution of recorded music nevertheless is growing rapidly in importance (IFPI, 2010). It is interesting to note that when music distribution moves online, many virtues and practices are transferred from the physical to the virtual world. For instance, two successful services during the first decade of online music distribution merely transferred the ownership model from the physical to the virtual context. Apple's music service iTunes introduced one of the most successful models for online music retailing, "single-song download" to the mainstream audience. This was indeed an innovation but fundamentally, iTunes closely mimicked traditional music distribution logic, which made

it easy for rights holders and consumers to comprehend and embrace the service (e.g. Wikström, 2009). eMusic, another early online music service, also mimicked the physical world logic by transferring the record-of-the-month model to the virtual context (ibid). Both these models were based on principles of acquisition and ownership even though the physical record had been removed from the equation. Music listeners still "bought" and "owned" the music files that were distributed by the online services (e.g. Apple, 2011; eMusic, 2011).

However, as the Internet continues to undermine the rights holders' ability to control the flow of digital information, concepts such as ownership and acquisition have slowly become increasingly irrelevant (e.g. Shirky, 2008; Strangelove, 2005; Wikström, 2009). When a music consumer is able to download hundreds of songs in a few seconds (without paying) and to keep thousands of songs on their laptops, the concept of the once cherished and carefully selected record collection crumbles. As a consequence, a new kind of music listening behaviour emerges that complements the traditional ownership model. For this music distribution model it is of little relevance whether music listeners actually "own" a song or not and far more important that they are able to find and access the music, everywhere and at anytime.

### **3 The rise and fall of the access model**

As is observable in the contemporary music economy, this "access model" does not immediately replace the ownership model. CDs continue to be appreciated by a large part of the music listening audience although access-based music services are going through a period of rapid growth (IFPI, 2010). Both models continue to exist side-by-side but as time goes by, market data indicates that the music business seems to tilt towards the access model and away from the ownership model (ibid). Besides the increasing number of online music services that are based around the principles of the access model, there is also a growing tendency among music listeners to accept these services and behave according to the same principles. One example of this gradual shift from

ownership to access concerns the role of music as an identity marker. I have already recognised the traditional importance of the record collection as an identity marker within the logic of the ownership model, but how does this identity marker correspond to the access model, where the record collection has lost its relevance? In an era of social media, the act of listening to recorded music becomes increasingly social and public (e.g. Mjøs, 2012; Suhr, 2012). Certainly, listening to music has always been a relatively social activity (e.g. Frith, 1996), but with social media services such as last.fm and Facebook, music listeners are able to continuously broadcast to the world what they are listening to at a given moment (Baym, 2010). The role of music listeners' record collections as manifestations of their music identity is replaced by a steady flow of information about their real-time musical experiences. A collection of physical objects loses its relevance as an identity marker and is being replaced by a list of tracks listened to during the last hour, week or year. Experience replaces ownership.

Experiences are usually packaged and sold as services rather than as products, and while the ownership model shares features with product-centred industries such as chocolate bars, toothpaste and socks, the access model shares features with service-centred industries such as hotels, restaurants and banks. Numerous access-based music services like Deezer, Grooveshark, MOG, Pandora, Rdio, Slacker, Spotify, and Wimp, have been launched during the last few years. The access model is still in its early days and the market for these services is still very immature. They are still actively searching for an optimal service structure and pricing model that is able to maximize the revenues from subscription fees and advertising. Currently, most of these services are limited by for instance the size of their music catalogues, the number of countries they are available in, how often and with what flexibility it is possible to listen to a certain song, the range of supported mobile devices, etc. Considering the diversity of the services it is possible to claim that the competition between the services simply is not very intense. However, fundamental economic theory states that as time goes by, also this market will evolve and mature as well as the differentiation between these ser-

vices will be shrinking and the competition between them will be intensifying (e.g. Pindyck & Rubinfeld, 2004). Eventually, as their search for an optimal service structure continues, those services who survive will all be able to offer more tracks than their users care to worry about, they will be available in every relevant market, they will offer the same technical quality, and they will support every conceivable mobile device. In other words, the subscription market for music services based on a pure access model is destined to eventually become a commodity market where competition is primarily based on price. The dynamic of such markets for products and services such as electricity, water or iron ore is well known. Such markets are characterised by fierce competition and low profit margins, and they are usually not a very attractive place to do business, unless you are a very large and strong actor (ibid).

#### **4 The context model**

When the aforementioned state of the market has been reached and the room for innovation and differentiation based on the pure access model is exhausted, online music service providers will need to look for other ways to differentiate their services and to maintain their profitability. One way of doing this is to go beyond the pure access model and to create services and features that provide a "context" to the songs that the users can access. That context may for instance enable music listeners a way to search and easily find the song they are looking for at a particular time, to share their music experiences with their friends, to organize their favourite music experiences in convenient ways, etc. Such context-based services provide a less deterministic and far more expansive space for innovation than those services that are based on a pure access model. While innovation within the access model framework can lead towards the same ultimate goal (universal access to all songs ever recorded), innovation within the context model framework lacks such a clear-cut outcome. A provider of a context-based music service has a greater potential to create a competitive advantage by using unique, innovative features than within the access model framework. The fun-

damental difference between the two models makes it far more appealing to invest and develop a context-based service rather than to an access-based service.

This transformation from access to context is illustrated by the evolution of the online music service Spotify. When Spotify launched in 2008 it was primarily focused on providing basic access to music. The company's business development focused on expanding its music portfolio, improving the technical quality, increasing the number of supported mobile devices, launching in new territories, etc. All these initiatives focused on providing better access to music, but did not enable the listeners to do much more than to listen to songs via the service. The focus of the company's service development efforts has shifted somewhat during 2011 as they put more emphasis on contextual features. Spotify's strategy for developing contextual features has been based on partnerships with other service providers, most notably Facebook (Ek, 2011a). They have also encouraged and facilitated other companies' (such as Billboard, Rolling Stone, Pitchfork, Soundrop, and the Guardian) efforts to develop applications which have become part of the Spotify application platform (Ek, 2011b). Over time, Spotify's ability to charge a premium for their service will not depend on their ability to provide access to a large music library via a wide range of mobile devices, but on their ability to provide an array of contextual features that allow subscribers to discover, share, organize, and be creative with music. In other words, the value created by the service is primarily created by the context-based features and not by the access-based features.

## **5 Consequences for rights holders**

So far this paper has argued that one way of structuring and understanding music industry distribution models is by using a typology consisting of the three archetypes "ownership", "access" and "context". The paper has argued that even though all three models are able to coexist, there is a trend for the industry to move further away from the ownership model via the access model and towards the context model. In the tradi-

tional music industry most of the value created by recorded music was based on the ownership model. During this transitory period as the industry is moving from physical distribution to Internet distribution, the access model is gaining in momentum. However, I argue that this model is a cul-de-sac and that it eventually leads to the commodification of music access. As a consequence, a growing percentage of the value which is created on recorded music is generated by services which take the universal access to music as a given and which provide different tools and features allowing users to "do things" with the music and sounds they cherish.

This shift has severe implications for music right holders. In the ownership model, rights holders primarily earn their revenues as a fixed royalty based on how many copies of a song or an album the music retailer is able to sell.<sup>2</sup> This revenue model has served the industry well over several decades and many rights holders have tried also to maintain the same model when they entered negotiations on licensing terms with access based music services such as Spotify and others. However, the access model is not compatible with the rights holders traditional revenue model and makes it difficult to create a business model that is sustainable for all the partners involved (ibid). Even though the negotiations were lengthy, eventually mechanisms for generating revenues for rights holders from access based music services have developed allowing Spotify and a number of other similar online music services to get off the ground. (Wikström, 2009)

The second shift from an access model to a context model has similar implications for rights holders as the shift from ownership to access. Rights holders that use access or ownership as the basis for their revenues will run into problems as the value created by these two models continue to diminish. In order to capture some of the growing value generated by contextual services, rights holders need to find new principles and mechanisms for how sharing this value.

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<sup>2</sup> It should be noted that some rights holders such as composers, authors, and interpreters mainly earn their revenues from non-recoupable advance payments.

Contextual features are often integrated with services that also provide basic access to content, as shown in the Spotify case briefly presented earlier in the paper. Such services, which offer both access and context, do not lead to an immediate pressure on rights holders to create new revenue generating mechanisms. These services have a proper business relationship with rights holders and whenever a song is used or listened to, the service provider pays a fee to the rights holder. However, what ought to be increasingly concerning from a rights holders' perspective is the fact that a growing number of context-based music services operate with no concern for how the songs have been acquired or accessed.

One example of this type of stand-alone context-based service is the range of services referred to as "online lockers", "cyberlockers", or "cloud-based drives". These services allow users to upload songs to an Internet-based data storage and listen to the music from their computers and mobile devices. Services such as "Hotfile", "RapidShare", "MP3Tunes/Airband", and "Dropbox/BoxyTunes" all provide such services but online giants such as Amazon, Apple, and Google have also launched their own versions of the cloud-based drive.

Most of these services lack agreements with major rights holders and the service providers argue that no such agreement is necessary since it is impossible to distinguish an online locker from an ordinary external hard disk drive (e.g. Robertson, 2011a). As a consequence no royalty is paid when users upload or download songs from their lockers and all of the revenue that these services generate from subscription fees and advertising sales is retained by the service providers. Music and film rights holders on the other hand argue that online lockers cannot operate legally without such agreements and without the rights holders being compensated (e.g. MPAA, 2011). Consequently, they have launched legal actions against some of the online locker operators, but so far without any significant success (ibid).

The legal status of online lockers is still in its early days and it remains to be seen how it will eventually play out. The argument that online lockers provide the same functionality as physical external hard



disk drives may lead to some interesting potential consequences. For a number of years several European countries have applied a blank media levy on recordable CDs, DVDs, etc. (e.g. <http://www.copyswede.se>, <http://www.hyvitysmaksu.fi>). Some of these countries (e.g. Finland) have already implemented these levies on external hard disk drives (ibid). If cloud-based drives provide the same function as an external hard disk drive, rights holders may attempt to extend the scope of blank media levies to include cloud-based drives as well. Regardless of whether such a development is considered to be desirable or not, it would indeed be a rational development and it would also be a way for rights holders to capture a portion of the value created by contextual services without arguing the case of copyright infringement.

## 6 Let's play together

So far this paper has discussed how the music industry is shifting from an ownership model via an access model further towards a context model. In other words, economic value is increasingly created by providing the audience with tools which allow them to "do things" with music rather than by providing the audience with basic access to music. The discussion has up until now been focused on the distribution of music, but this section takes the reasoning one step further and argues that this transformation has implications also for other segments of the music industry value chain.

A number of artists and composers have during recent years implemented the context model in the creative production of their musical works. Rather than only making polished recordings for the audience to experience and enjoy, they have created services and practices that involve the audience in the creative process and allow the fans to "do things" with music. There have been several attempts to create such services and practices. For instance, the Swedish pop artist Robyn has created an online-based rhythm tool for her album *Body Talk* that invites fans to play with sounds and images in collaboration with other fans. The rhythm tool generates new music and new remixes of Robyn's loops

and sounds for other fans to enjoy, but perhaps more importantly, it strengthens the relationship between Robyn and her fans (<http://www.robyn.com>). This relationship is of substantial economic value, since it leads to an increased propensity to pay for her other products such as merchandise, concerts and recorded music.

Another European pop artist who is using a different and somewhat more ambitious strategy to engage with her audience is the British artist Imogen Heap. During the last couple of years Heap has done several different projects intended to involve fans in her creative process. She has for instance invited fans to remix her music with the promise that the remixes will be released as an album and that the potential revenues will be shared between fans and Heap. She has encouraged fans to contribute to her official biography by tweeting their thoughts and impressions of the star. During the spring of 2011 she launched another project that eventually developed into her next album. A new song is created, recorded and released over a period of a few months and after three years the new album will be finished. What makes this project particularly interesting is how Heap invites her fans to contribute with sounds, words, images, and videos that she uses as building blocks in the making of the songs. (<http://www.imogenheap.com>)

It is difficult to determine whether Heap's workflow and business model for the new album project really is viable or not but it is nevertheless interesting to see how she is using her fans as contributors in the production, and once the production is finished, she sells the songs and videos back to her fans.

A third example is a project created by yet another European female musician and singer, Björk, originally from Iceland. In Björk's most recent album project *Biophilia*, she complemented the traditional album with an ambitious application for the Apple iPad and iPhone. The application is sold for approximately the same price as the traditional full album, but in a similar way to the Robyn example, it allows the audience to create new sounds and rhythms and to explore Björk's visual and musical world. (<http://bjork.com>)

It is not only Björk that has been inspired by the possibilities offered by technologies and gadgets such as the Apple iPad and other tablet computers. A quick survey of the applications offered for Apple's mobile devices iPad and iPhone shows that a majority of the most successful music applications (free and paid) are not for listening to music, but for making and playing with music.<sup>3</sup> Data on revenues these music apps have generated is not readily available, but based on reports from Apple in March 2011, US\$ 2 billion had been paid by Apple to app developers since the launch of the iOS platform (Apple, 2011b). Based on information that music apps constitute approximately 5-10% of the total apps downloaded from iTunes, one might assume these music apps have generated approximately US\$ 100-200 million for the developers (Chomp, 148Apps, & Cillingo, 2011). Information about how these revenues are distributed among specific developers is not available. Perhaps not that much when compared the entire music industry, but nevertheless a substantial amount.

During the last decade, the global recorded music industry based on selling and owning recorded music has shrunk by more than 50 per cent (IFPI, 2010). At the same time, the total entertainment industry, in spite of rampant difficulties caused by online piracy and digitisation, has not shrunk at all, but grown by more than 60 per cent (Gunnarsson, 2011). The recorded music industry which once was the second largest entertainment sector accounting for 22 per cent of the consumer spending on entertainment media is now the smallest, accounting for only six per cent (ibid).

In the light of this development, it makes sense for all actors in the music industry to pay attention to the emerging contextual music service business. Björk, Robyn and Imogen Heap use slightly different approaches in their ambition to engage their fans in the creative process, but all three try to grow their revenues created by interactive contextual services when their revenues from traditional sales of recorded music continue to decline.

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<sup>3</sup> The top 200 free and paid applications for both iPad and iPhone (total 800 apps) were counted and categorised during a week in May 2011.

## **7 Conclusions, implications and suggestions for further research**

The purpose of this paper is to suggest a typology for music distribution models consisting of three models, namely the ownership model, the access model and the context model. The models are not in any way perfect substitutes and they may coexist and respond to demand of different market niches. However, I argue in this paper that the economic value created from recorded music is increasingly based on the context model and to a lesser extent on the ownership model. I also argue that during this transformation, the access model will play a temporary role as a framework for creating economic value but that such pure access based music services ultimately are destined to become commoditised.

In the second step of my reasoning I argue that the increasing importance of the context model has implications that go beyond music distribution and affect the very core of the musical art form. Examples were presented that showed how popular music artists spend their creative effort on making tools and software that allow their audiences to play with music and to get involved in a creative process. These tendencies raise fundamental questions about the boundaries and definitions of the music industry and the music organizations. Will tools and software for playing with music become an important part of the mainstream music industry? If so, what will this mean for the evolution of music companies? As live music and music publishing became increasingly important industry sectors in the first years of this millennium, traditional record labels reinvented themselves as 360-degree music companies, with equal emphasis on all three music industry segments. If the reasoning brought forward by this paper is indeed correct, music companies will need to add new competencies and perhaps a new business area to their organizations that will enable them to capture the increasing economic value created by context-based music services.

This paper is exploratory and conceptual in its character and it calls for empirical research in order to verify the suggested structures and market dynamics. Primarily, the paper calls for studies in order to meas-

ure the value generated by context-based music services as well as the commoditization of access-based music services.

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