

# THE NEW MODEL OF THE CROATIAN MUSIC INDUSTRY

**Miroslav Skoro**

*University North, Croatia*

*mskoro@unin.hr*

## **ABSTRACT**

*This paper analyzes contemporary models of the music industry to illustrate the connections between all of its participants in this highly advanced industry, both in the most developed and in transitioning countries. By comparing a number of existing business models with the one used in the Croatian music industry, the goal of this paper is to shine a light on its current model and, in turn, offer a newer, fairer, more efficient one. This paper consists of an introduction, conclusion and three main parts. It first analyzes the chosen music industry models of the world, then provides an analysis of the existing model in Croatia. Based on the results of this analysis and the findings, the third part of this paper will present a new model for the Croatian music industry as a possible solution for better relationships between the participants in the music industry.*

**Keywords:** *music industry, copyright, digitization, music industry models*

## **1. INTRODUCTION**

At the dawn of the new millennium, the music industry inadvertently transformed through the advancement of information and computer technologies. These changes were influenced by the new possibilities offered to creative, composers, and performers, as well as record labels, distributors and users. This paper analyzes contemporary models of the music industry to illustrate the connections between all participants in this highly developed industry, both in the most developed and in transitioning countries. The goal of this paper is to shine a light on its Croatia's current model and, in turn, offer a newer, fairer, more efficient one by comparing a number of existing business models with the one used in the Croatian music industry. In addition to the introduction and the conclusion, this paper consists of three main parts. It first analyzes the chosen music industry models of the world, then analyzes the existing model in Croatia. Based on the results of this analysis and the findings, the third part of this paper will present a new model for the Croatian music industry as a possible solution for better relationships between the participants in the music industry.

## **2. AN ANALYSIS OF A SELECTION OF MUSIC BUSINESS MODELS IN THE WORLD**

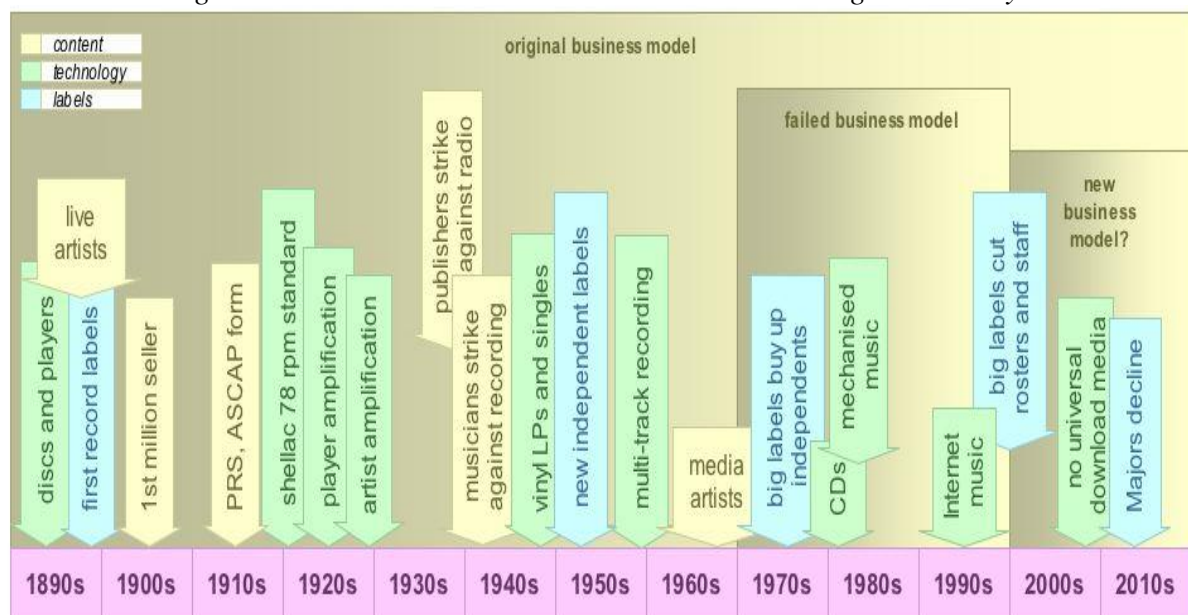
Magretta (2002) claims that a successful business model offers a better way of doing business than the existing alternatives, emphasizing that each new model is just a variation of old models. As a rule, every business model has two parts within its value chain. The first one includes creative activities, while the second part relates to sales, that is, with the monetization of goods or services. Magretta (2002) further asserts that failed business models occur when they fail the narrative test (i.e. the story behind the model makes no sense) or the numerical test (the basic business mathematics are not consistent). The business models of the music industry have changed throughout the centuries. The first models can be found at the end of the Middle Ages and the beginning of printed sheet music, which marks the beginning of the old business model. This model was based on music as a service, and printed sheet music, which is still being distributed worldwide as a basic format.<sup>1</sup> The next change came in the late 18th century, and was marked by the impending collapse of the old feudal system.

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<sup>1</sup> The oldest printed book of sheet music is the *Missale Romanum* by Ulrich Han, published in Rome in 1476. (Duggan, 1992:13).

Artists, especially musicians whose existence up to that point was largely facilitated by the court or wealthy patrons, had to continue operating within a new context because the aristocracy decided it no longer wanted to pay (or could not pay) for expensive composers and orchestras in their service (Tschmuck, 2006). The best example of an enterprising and independent composer who thrived with the new business model was Ludwig van Beethoven. According to Tschmuck (2006), his success was possible thanks to the newly created production conditions. Instead of entering into a contract with an aristocrat, Beethoven addressed an anonymous, mostly bourgeois audience through his work printed on sheet music. The original or traditional business model began with the invention of phonograms, as well as the emergence of phonogram producers (discographers) who became a part of the music industry during the late 19th and early 20th centuries. If the year 1476 (which is the year the oldest notation was printed) is taken as the beginning of the development of business models of the music industry, then it is possible to delineate four different music business models (Figure 1).

Figure 1: Cumberland's music business models throughout history



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Source: Cumberland<sup>2</sup>,

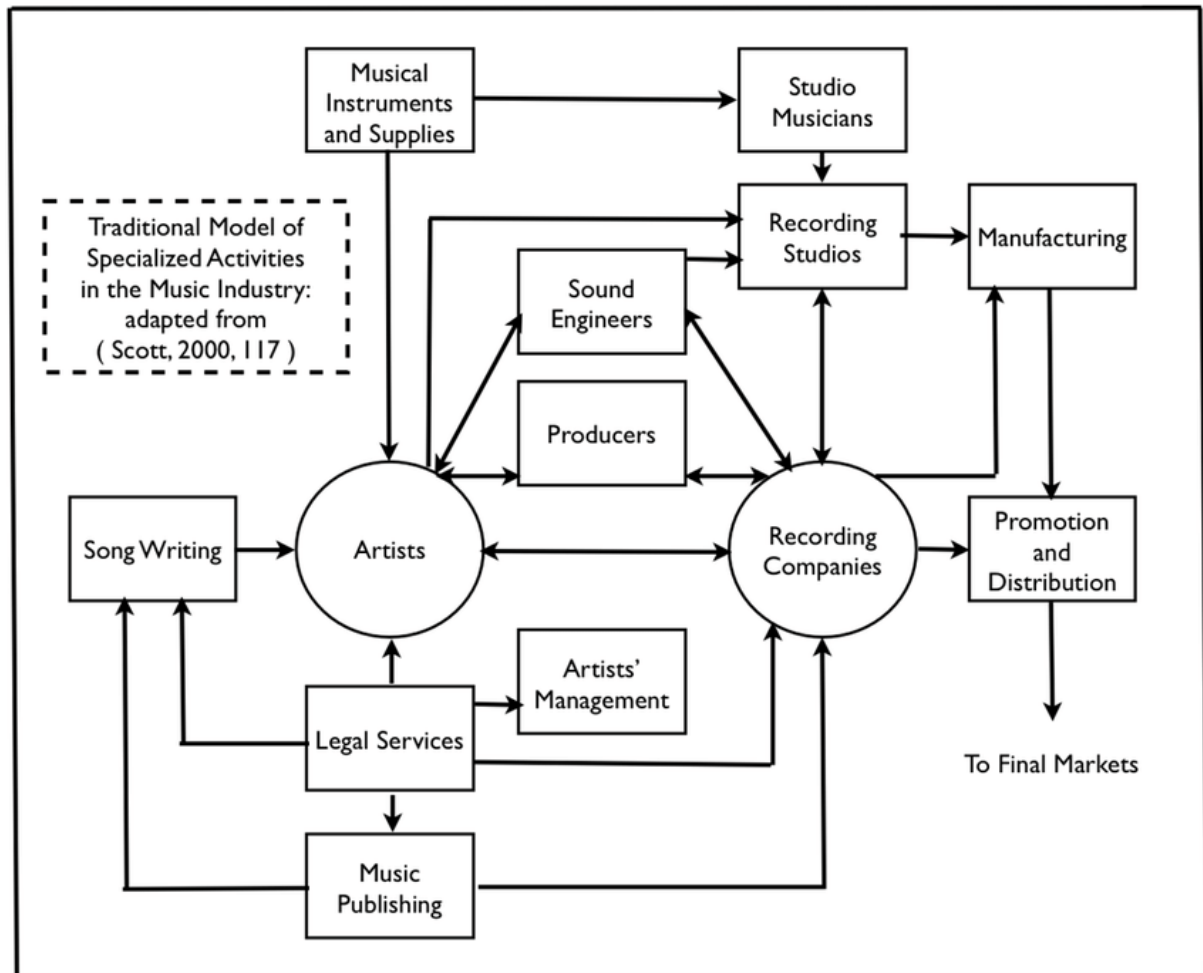
<http://www.bemuso.com/articles/thenewmusicbizmodel.html#theoldmusicbusinessmodel>  
retrieved on September 15, 2017

Cumberland labels the period between 1970 to 1990 as the failed business model, even though the value of the music industry that dealt with discography peaked during that time, and consequently experienced a sudden and irreparable decline. This was due to the rapid development of technology which prevented the largest companies from reining online distribution and commerce under their control. A number of scholars have tried to explain the logic and dynamics of the music industry, writes Wikström (2013:49), citing three essential parts of the business, which are recording, music publishing and live performances. Scott (1999:1968) presents a corporate organization model of discography (Figure 2) where the physical production of sound and image carriers is broken down into specialized activities within the process itself. Scott believes that the center of this process is the record label.

<sup>2</sup> Rob Cumberland - musician, music lover and retired IT professional who manages the excellent independent internet web page: <http://www.bemuso.com>. The web site explores the British music industry.

The original or traditional business model implies that the work of the author/artist mediated through a producer reaches a record label. The production and distribution of a piece of product (format) then goes to the point of purchase, and from there to the consumer or the user. Within this model, most of the revenue ends up in the discographer's hands. The signed contracts state that the record label becomes the owner of a recording, while the performer's fee is, as a rule, paid on the basis of the quarterly calculation of sold copies.

*Figure 21: Scott's music business model*

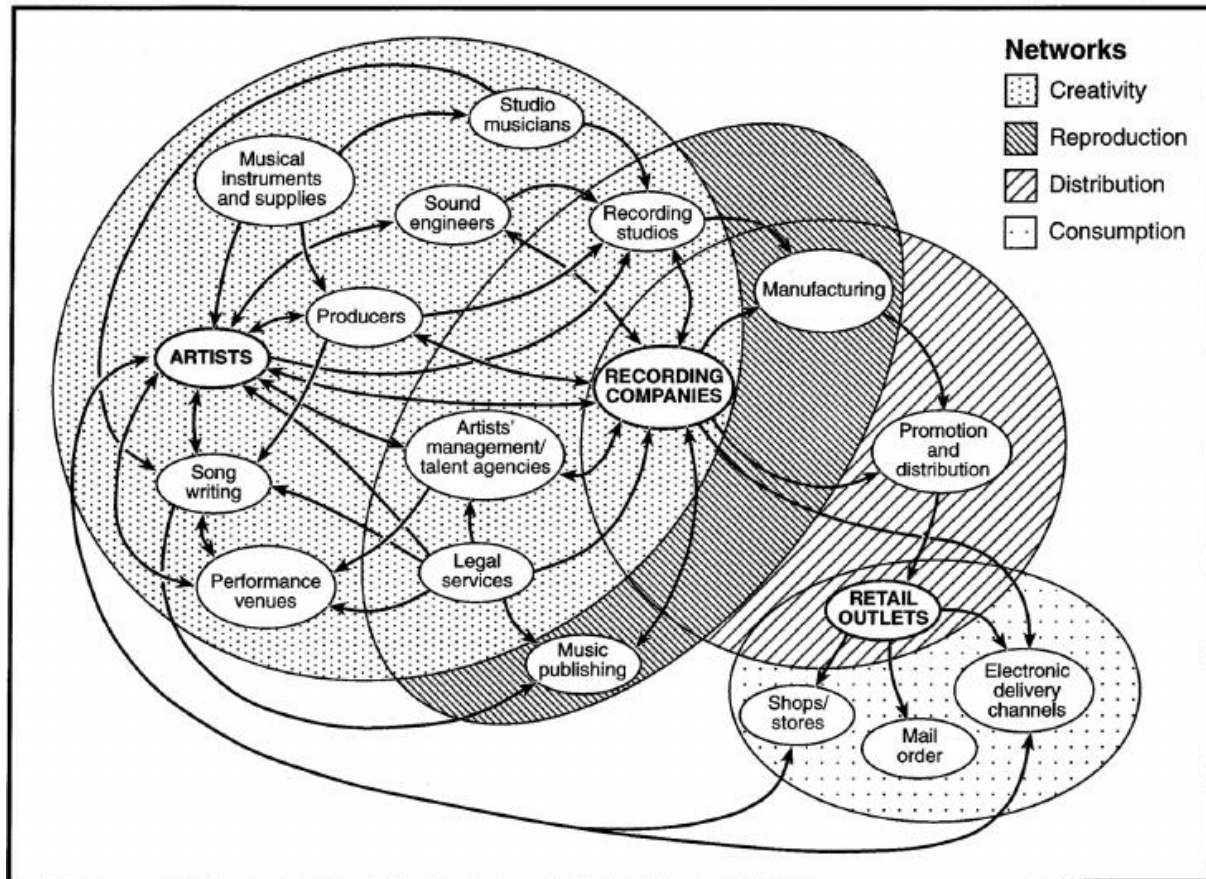


*Source: Scott, 1999:1968*

By developing Scott's business model, Leyshon (2001:57) argues that the "music economy consists of a series of sequential processes". His model consists of four networks whose functions in certain segments overlap (Figure 3). The consumer network includes those locations where the music products created within the first three networks are being bought (Leyshon, 2001:65).

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Figure 2: Leyshon's network structure of the music industry



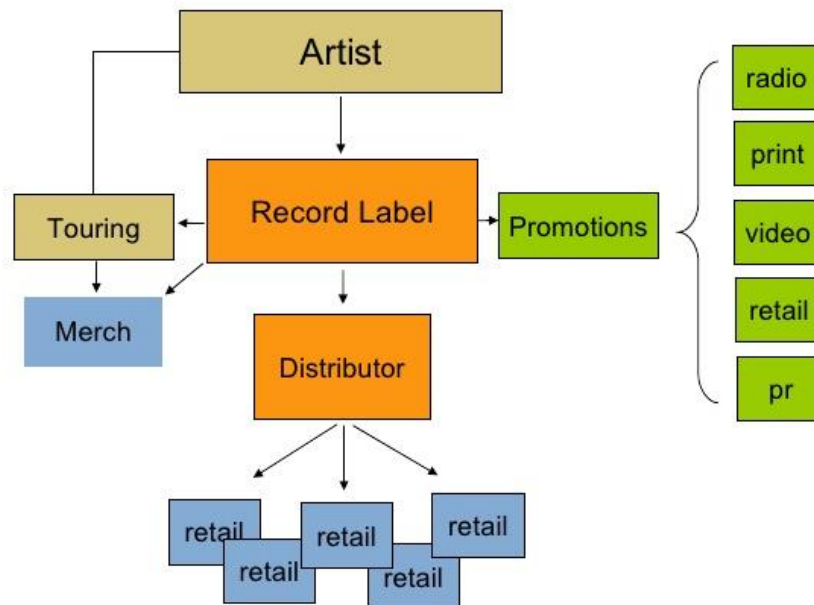
Source: Leyshon (2001:61)

Cudahy (2007) created a music business model that operated before the advent of the internet and digital distribution (Figure 4). His model focuses on record labels, as well as emphasizes live performances and the sale of merchandise on the one hand, and promotion on the other. Cudahy considers radio broadcasting, print, video, and point-of-sale promotion and other PR enterprises as the most important promotional activities. Furthermore, a decade ago Cudahy (2007) created a newer music business model (Figure 5). What is interesting about this model is that it does not feature a record label, which highlights the delusion of the general public during that period. This phenomenon was noted by To Rogers (2013:177), who remarked that the music world was undergoing an "evolution, not a revolution", as well as Galuszka (2015), who indicated the underappreciation of record labels during the first decade of this millennium. Cudahy believed that the new business model would allow artists to independently distribute their work through digital services; likewise, they would have control of live performances and the sale of merchandise. Similarly, he believed that promotional work would be handled by social media, YouTube, etc. in the interest of the artist. Unfortunately, what happened was the complete opposite.

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Figure 43: Cudahy's model of the music business before the dawn of the internet

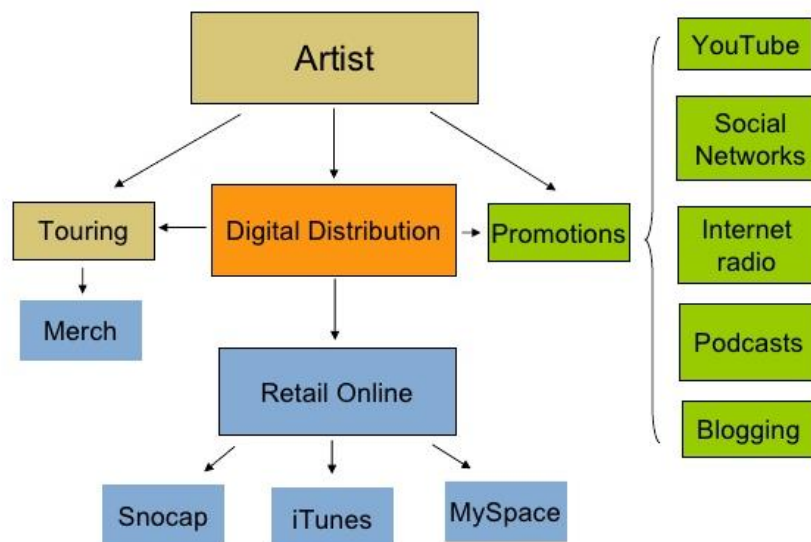
## Pre-internet Model



Source: Cudahy (2007), <https://www.slideshare.net/gangofour/the-music-industry-business-model>, retrieved on October 11, 2017

Figure 5: Cudahy's new model of the music business

## Present Model (2007)



Source: Cudahy (2007), <https://www.slideshare.net/gangofour/the-music-industry-business-model>, retrieved on October 11, 2017

Record labels still play a major part in the music industry because of the recordings in their catalogues, while YouTube and other social media function as a type of advertisement channel. One of the biggest problems dealing with these channels (especially YouTube) is the complete disregard of copyright and the so-called transfer of value.



In this overflowing, extremely chaotic environment that is the internet (Marson, 1997), which is illustrated in Figure 6, Siemer & Associates (2013), the following intermediaries can be observed between the artists (authors and performers) and consumers (users): classic record labels, music publishers, collecting societies, digital aggregators, the internet cloud (audiobox), online download/retail, internet radio and music services, UGC services and social networks, digital music services for mobile networks, ISP<sup>3</sup> music services, and Multi-Channel Networks.

Figure 6: The digital model of music distribution (the digital music ecosystem)



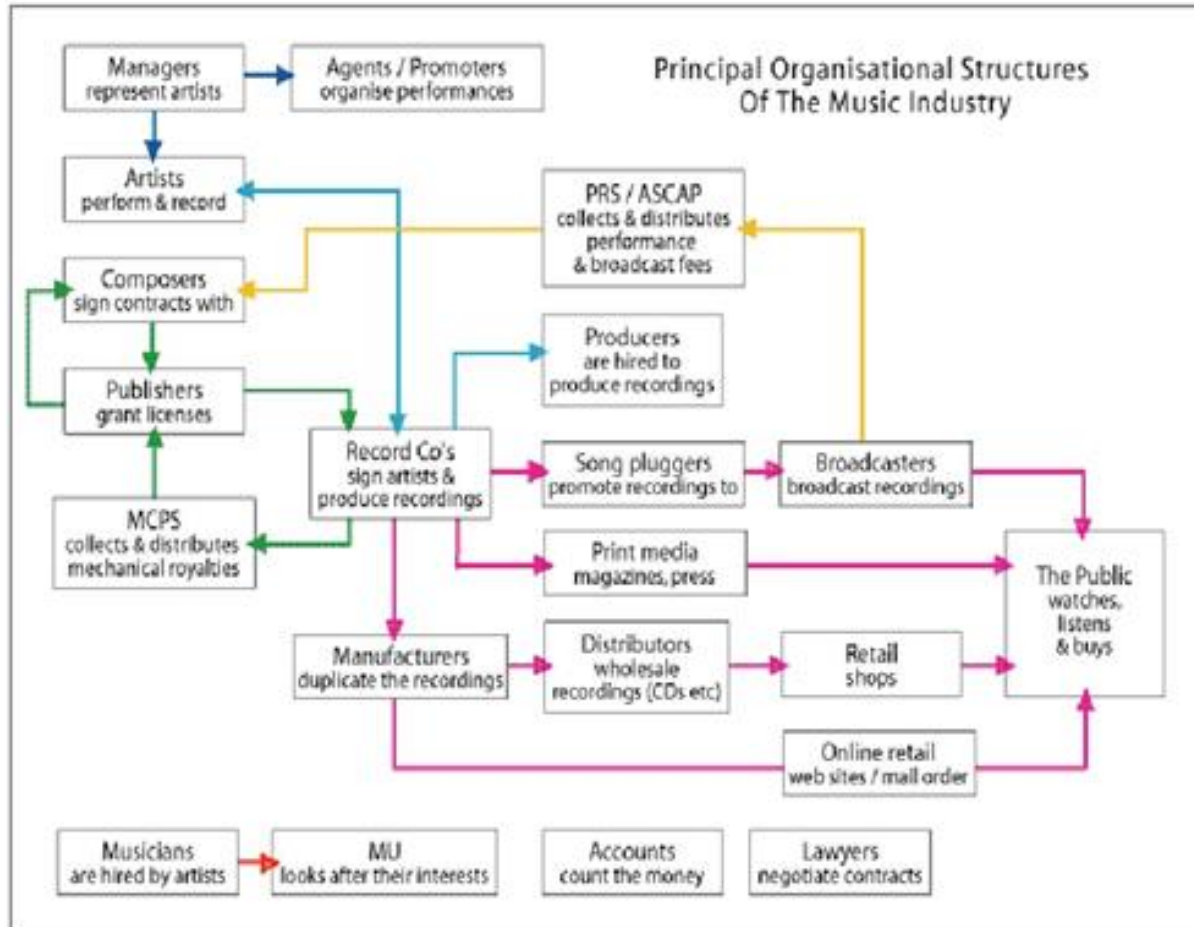
Source: Autor prema Siemer & Associates (2013), available at: <http://www.siemer.com/research/>, retrieved on October 11, 2017

In her music business model, Camilla van der Boom (2011) presents a system that recognizes the importance of all of its factors in such a way that respects the position of the record label, while simultaneously showcasing other functions and activities vital to the extended functioning of this system (Figure 7).

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<sup>3</sup> ISP - Internet Service Provider, a company that provides internet connection services (i.e. T-com)

Figure 7: A business model of the music industry



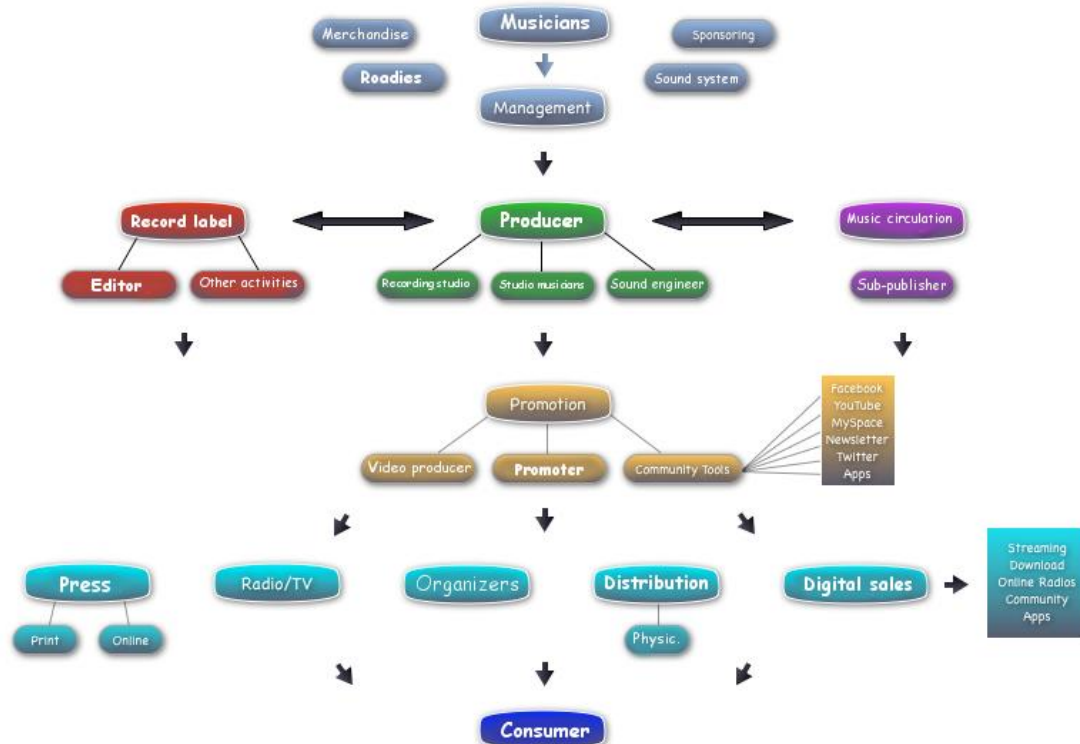
Source: Camilla van den Boom (2011),

<https://www.slideshare.net/camillavandenboom/business-models-in-the-music-industry>,  
retrieved on October 11, 2017

Western countries whose music industries have been operating on market principles for many years place greater importance on managers, agents, promoters and music publishers. Their importance and positions can be partially observed in the other models presented in this paper. What distinguishes van der Boom from other theorists who have dealt with this problem is the representation of music unions, bookkeeping services (tax advisors) and lawyers who covertly have almost full control of western music businesses. In his model of the Swiss music industry (Figure 8), Baiker somewhat follows Leyshon's approach (Figure 3) to the music industry, which he views as a series of sequential processes. The creative-performing part is located at the top of the model, followed by editors and producers, as well as music publishers. The promotional-distributional segment of the model handles the created work and passes it on to the user.

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Figure 8: Baiker's modern model of the Swiss Music business



Source: Rene Baiker, <https://www.renebaiker.ch/workshops/#top>, retrieved on October 11, 2017

All of these models portray the functioning of the music industry, both in its specific and in its general way, trying to define the key participants and the complex relationships among them. Neither of them suggests the course of monetization or the allocation of funds generated throughout the process. The perception is that the music industry is constantly contradicting itself and the postulates of ordinary business; furthermore, it seems that Harker (1997) is right when he asserts that the industry is wrapped in a veil of secrecy, since the real information and relationships are known only by a handful of people that desire it to remain that way.

### 3. THE CROATIAN MUSIC BUSINESS MODEL

Until 2017, there were no attempts to delineate the Croatian music business model, which is illustrated in Figure 9. The arrows show the direction of a musical work, which becomes a product or a service that then generates certain revenues through distribution. The creative component of the model is comprised of the authors and the songwriters who may have a contract with a music publisher. If they do not have one, then they independently either directly offer the work to the performer or through a record label, that is, the producer who here is part of a sound studio. If the author has a contract with a music publisher, then the procedure of finding a performer, then recording and publishing is identical, except that it can be done by a music publisher who has the same rights as the author. A recording of a piece of music is done after the selection of a performer, which is then transformed into a product by assigning it a barcode<sup>4</sup> and an ISRC<sup>5</sup>. Through distribution channels, monitored by marketing activities already taking place on the user's interface, a recording (now physical product) is sold either through retailers, through the internet or as a digital recording uploaded to a content aggregator database, which then becomes available to digital retail services.

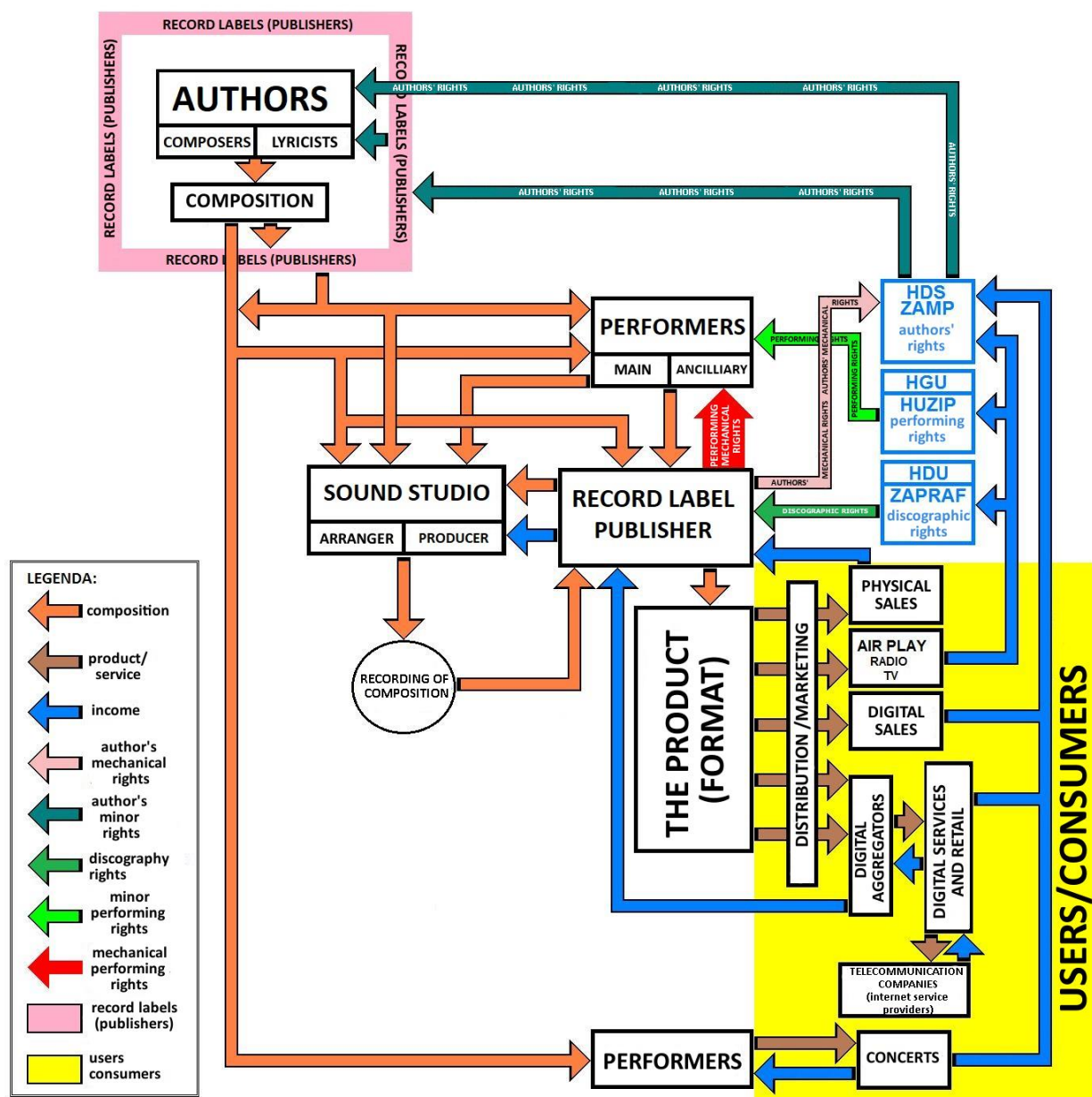
<sup>4</sup> A form of labeling a product with a series of black and white lines which are then identified and read by special scanners.

<sup>5</sup> The International Standard Recording Code, a unique international identifier for sound recordings and music videos.



It is also possible for as recording can circumvent this mechanism and be performed live in front of an audience. Every recording should be protected by an official copyright collecting society. In the event of a live performance, the performer earns a fee and based on the musician application form for live performances the organizer is obligated to pay a fee for the use of the work to HDS-ZAMP. The revenue made from the internet and online sales go to the record labels (publishers). They then directly pay out a percentage to the contractors which they agreed upon signing a contract. These rights are called mechanical performing rights, while the mechanical author's or major rights amounting to 11% of their wholesale price, minus the cost of the equipment and the design, is forwarded to HDS-ZAMP. After a deduction of 18% which is retained by HDS-ZAMP for copyright protection, the money is then directly paid to the authors twice a year. If they have a contract with their music publisher, the fees are first dispensed to the music publisher who retains his contractual part, then the rest is forwarded to the authors.

Figure 9: A model of the Croatian music industry

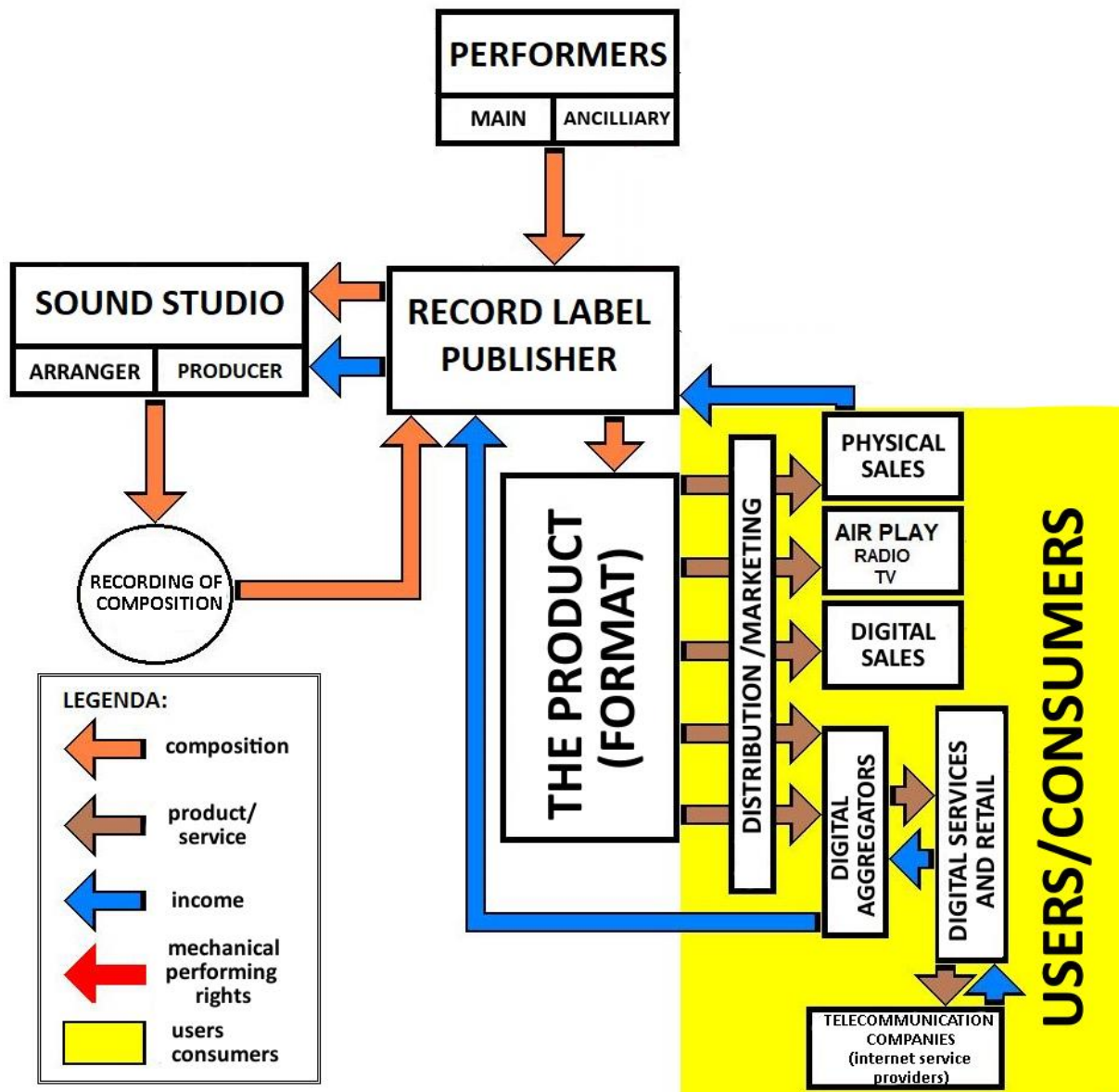


Source: author's work

From the proceeds received from a recording through digital distribution via one of the channels (through download or streaming), a portion relating to the author's rights goes directly to HDS-ZAMP. The remainder of the fees (after deducting service revenue) is sent to the digital aggregator, who retains his part, with the remainder being then forwarded to the record label. Those funds obtained by HDS-ZAMP, along with revenue for exploitation in radio and television programs, i.e. minor rights, are then relegated on the same principle after deducting costs of copyright protection as in the case of author's mechanical rights. HUZIP also collects fees to protect the collective rights of performers from exploitation in radio and television programs and distributes them to performers once a year after the deduction of costs. ZAPRAF collects compensation for the collective rights of producers of phonograms from exploitation in radio and television programs and, after deducting the costs of copyright protection, annually transfers them to record labels. When it comes to the protection of rights' holders in the conditions of digitalization, authors have managed to negotiate collecting fees through their associations because they are objectively in a better position. This problem has been recorded at the level of performing mechanical rights, which has been shown through conducted research. Almost half of the respondents said that nothing had so far come from digital distribution. Figure 10 shows a part of the model of the Croatian music industry that deals with the relationship between record labels/publishers and performers. This relationship is regulated through direct contracts between record labels and performers, which means that it is by law regulated through individual rights of the performing artist. Current practices, as well as the power of music publishers, has allowed record labels to set terms in the contracts which were largely phrased in their favor. Performance fees were small and rarely exceeded ten percent of the performer's constituent. Amendments made to the law, the advent of HGU and subsequently of HUZIP in the 1990s created the conditions for musicians to receive for the secondary use of their recorded performances which were used in public (radio, TV, etc.), thanks to the copyright protection system. Through the digitalization process and the advent of the internet, recordings became available in the broadest sense of the word to everyone, at every moment. Since it is not in the system of copyright protection, this type of use has continued to be treated as a mechanical right, i.e. as a sold item. This means that the fees would be collected by the record labels/publishers and then passed on to the contractors. The reason for this is the low quality of contracts that contractors have signed with record labels, who could not resolutely and explicitly anticipate this situation. Similarly, there was a period where record labels lagged behind and an even longer period where legislature failed as well. During that period, users began to believe that music was free of charge, to which Napster, other platforms and even performers, who believed that the number YouTube views were the most important factor in their career. The reason is that contractors get nothing or receive very little from digital sales. In addition, there are so many intermediaries, which means that the amounts being disbursed are approximate to the fifth or sixth decimal place of one kuna. However, as small these amounts are, they still belong to Croatian musicians, and no one according to the law is allowed or entitled to retain or pay them without their consent. In order to achieve this, a new solution (Figure 11) needs to be made in which the individual rights of the performers will be translated into collective ones, and thus, through HUZIP, will be paid to the performers as the legitimate rightsholders.

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Figure 10: Performing mechanical rights



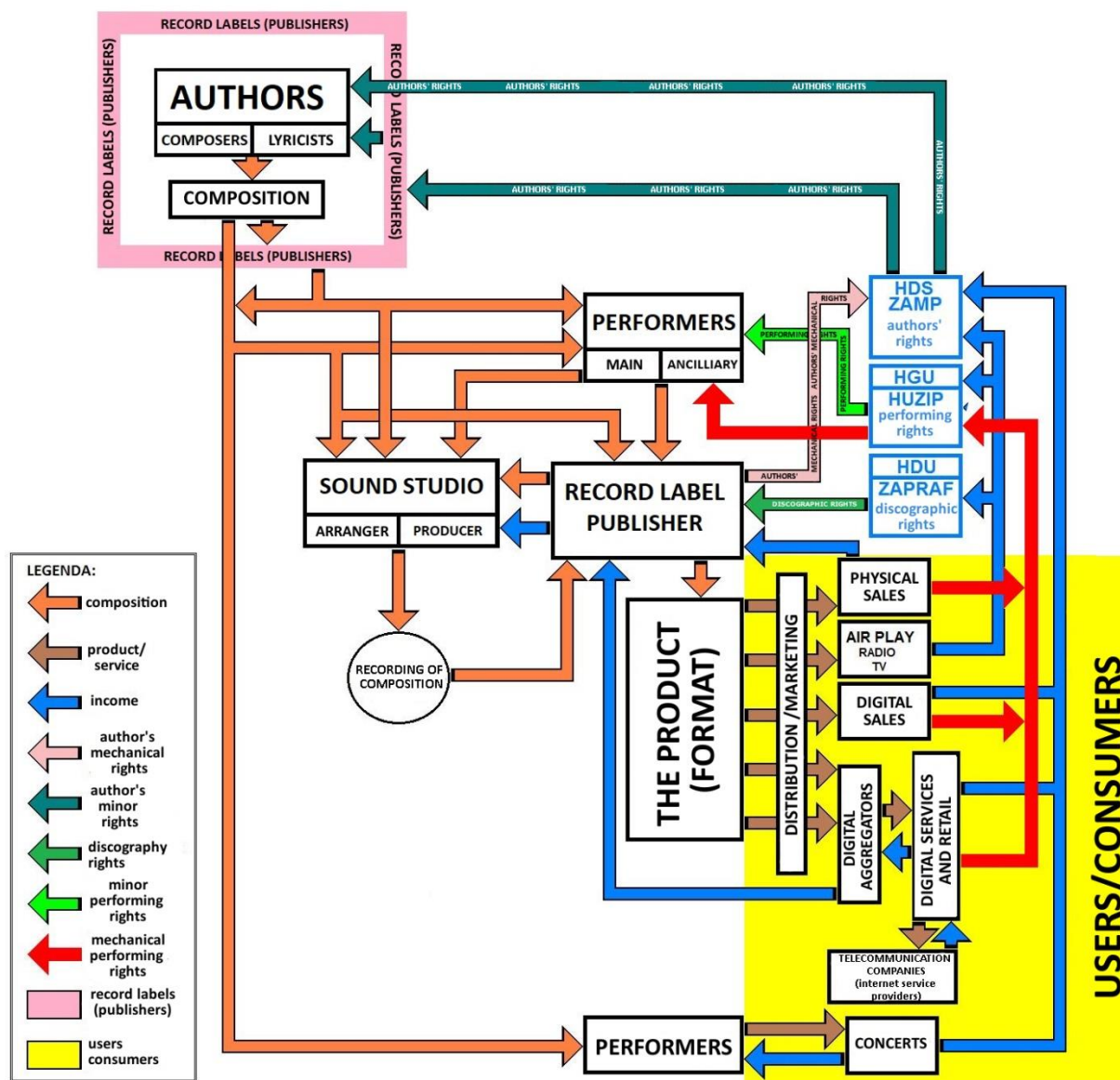
Source: author's work

#### 4. THE NEW MODEL OF THE CROATIAN MUSIC INDUSTRY

Compared to the other models shown above, it is easy to see that the proposed model still lacks certain elements that should be included in the mechanism of the Croatian music business. First of all, the issue of artist representation should be addressed, that is, there should be a solution for the functioning of music managers and agencies.

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Figure 11: The new model of the Croatian music industry



*Source: author's work*

Other models also include unions, providers for legal and bookkeeping services, sponsors and donors. They are not listed because, on the one hand, it is not in the interest of key players within the industry, and on the other, the state as a whole does not treat any business, let alone one that deals with music, as an associate and inciter, but as a criminal jurisdiction. The state also stoutly regulates the possibility of sponsorship through legislature, especially when it comes to donations. As far as the state is concerned, historically, artists have been largely dependent on patronage and have rarely succeeded to independently become self-sufficient. In present-day sponsorships and donations, legislature limits the music industry to use either one. For the sake of clarification, in accordance with laws on corporate income tax and personal income tax<sup>6</sup>, sponsorships are considered to be the act of donating money or other property while expecting reciprocal obligations from the counterpart.

<sup>6</sup> Law on personal income tax, NN 177/2004  
Law on corporate income tax, NN 115/2016

## 5. CONCLUSION

In the light of everything above, and based on the results of the research, as well as positive world experiences and solutions in theoretical and practical terms, it is evident that it is necessary to change the management model and the distribution of digital revenue within the Croatian music business. Problems that came with digitalization, such as piracy and the illegal use of music are undoubtedly financial, legal and ethical in nature. Attitudes vary from one person to another, but the solution probably does not only entail the excessive use of legal efforts, nor in the use of different technological or marketing approaches. The answer probably lies in a combination and synergistic, measured actions that target users and providers. Considering that there are many users, education and marketing campaigns can be used to improve awareness of the rights holders, while the key to the problem lies in the hands of technology manufacturers, telecommunication companies, large online companies, and record companies as well. They should be treated with better legal solutions and stricter application of legislation because they are the ones who make enormous profits by enabling the creation of an environment where the use of other people's property is possible without compensation.

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