Ökonomische Aspekte der Digitalisierung: Fluch oder Segen?

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A New Value of Music? Some Preliminary Elements on the Emergence of the MusicTech

Introduction

Debates over artists' remuneration, the emergence of new business models, and new companies linked to the music industry introduced on stock markets: the recent years have been marked by the omnipresence of discourses on the „value of music." It is striking that the term „value" is used both by the promoters of new technologies — to demonstrate the „added value" of their innovations — and by their detractors, who criticize the distribution of the benefits these innovations generate, or even question their existence. „Value" and its associated terms — „valuation," „value creation," and „worth" — are never debated[1]. This omnipresence is even more surprising given that, not so long ago, the music industry was heralded dead (Rogers 2013) because music no longer had value.

The aim of this chapter is neither to produce a precise analysis of the use of the term value nor to make a theoretical proposal on this concept. Instead, I aim to take a step aside from the unanimous use of this term. For some years, I have been trying to understand the transformations within the music economy (e.g., Müller/Riom 2019; Riom 2020; 2021; 2023). Indeed, it is commonly accepted that this industry radically changed from CDs to streaming, from a good economy to a service economy, and from exchanging material goods to digital and dematerialized markets. But what does this mean? How exactly did music markets change? This is the question I am interested in.

Before going any further, I must clarify how I approach such a question. I follow other scholars to analyze the economy socially and culturally. Such a perspective assumes that nothing is a priori economic, but rather that things must be „economized" and that there are different ways of making things economic (Çalışkan/Callon 2009; Callon 2021). These processes require knowledge, devices, practices, and forms of organization (Callon/Muniesa 2005). In other words, my work focuses on all these elements that enable something like the «music economy" to exist.

1 The term value is deliberately used here in a polysemic way. My aim here is to grasp how economic valuation engages beyond purely financial perspectives.

That being said, what interests me in this chapter is what „digitalization" — as it is used in the title of this edited volume, „Kultur und Digitalisierung" — does to the music economy. My argument will be the following: while the transformations of the music economy have primarily been analyzed from the point of view of technologies and commodification, we should consider the ongoing changes in the financing of the music industry. In this regard, debates on the value of music offer an alternative path to explore the transformations at work within the music industry from a financial point of view. To introduce this idea, I will start by reflecting on some recent debates around the notion of the „value" of music. Then, I will draw from my PhD research on a company called Sofar Sounds to show how new relations between music and finance — venture capitalism, to be more precise — are tied. I will conclude by opening questions for a research agenda focusing on investment practices and the music business.

Value as a Vehicle to Move Beyond the „CDs Crisis."

Over the last few years, there has been an increase in discussions about the value of music. These discussions are a fruitful vehicle to follow the transformations underway within the music industry and describe the emergence of „MusicTech" as an economic sector. These discussions can take at least three forms.

In the first example, there were several IPOs (initial public offerings), a financial term used when a company enters the stock market, of music-related companies such as Spotify, of course, but also Tencent, Pandora, or, more recently, Deezer. These IPOs have produced many debates and discussions on the financial value of these companies, to which type of business they should be compared, and their long-term viability (Eriksson et al. 2019). Here, the question of importance relates to companies' quotation and their valuation by financial markets.

A second example, value and, more precisely, the expression „value gap," have been used to criticize some of the same companies and others like YouTube or TikTok (Marshall 2015; Hesmondhalgh 2021). These critics pointed out that content providers (both record labels and artists) are not being compensated enough for their contribution to the value of the services offered by streaming companies or online video platforms. From this point of view, many stakeholders have advocated a transformation of remuneration models (e.g., by promoting a user-centric model)[2].

2 For instance, in September 2023, Universal and Deezer announced an agreement on a new remuneration model for streaming. Source: https://www.billboard.com/wp-content/uploads/2023/09/september-06-2023-billboard-bulletin.pdf (accessed September 11, 2023).

A third example, some commentators have accused streaming platforms of „devaluing” music and turning „aficionados” into „causal listeners” (Marshall 2019). Here the discussion focuses on whether digital platforms offer valuable services to users and thus contribute to the prosperity of music markets. Other companies, such as Bandcamp (Hesmondhalgh et al. 2019) and Patreon, claim to offer alternative models organized around a more direct relationship with consumers and encouraging their engagement.

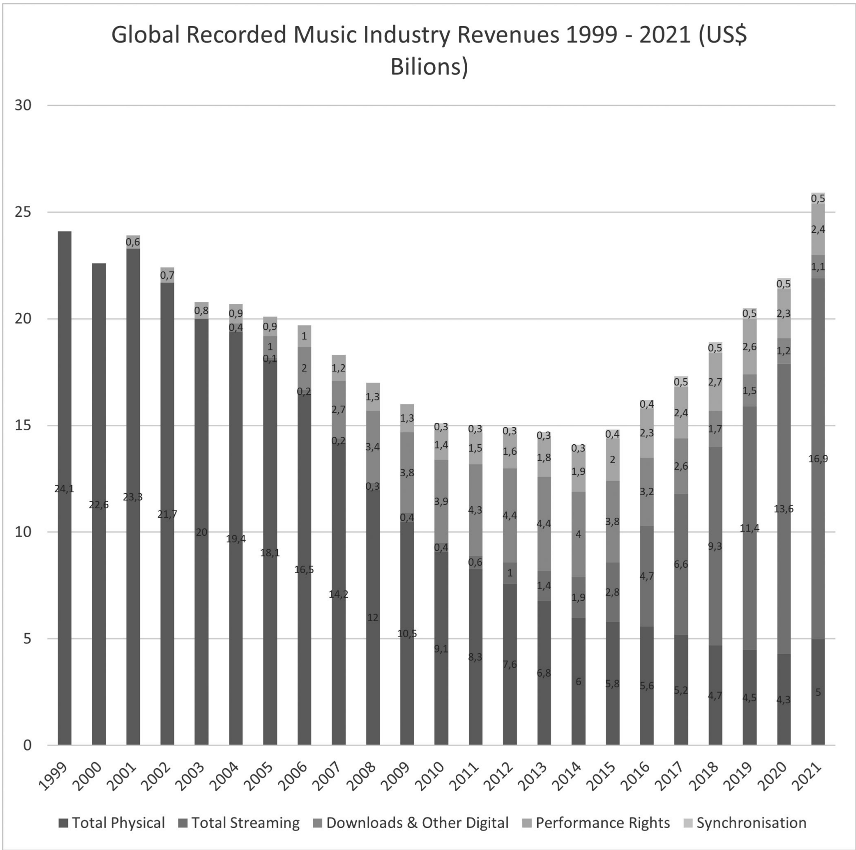

Figure 1: Global Recorded Music Industry Revenues (source IFPI)

These are just examples. I am sure they resonate with other situations you might have. I am not interested in deciding how such questions should be determined (e.g., whether Spotify is overpriced on the stock market or what remuneration model artists should use by streaming platforms). What strikes me in these debates is the unanimity of both the promoters and the critics of these technologies to use the term „value" and other related terms such as „value creation," „valuation," or „worth." In other words, I do not aim to use „value" as a concept but instead, as a vehicle to explore what these controversies say about the music industry's current state. And how such concerns about the „value" might teach us something about the music economy?

Graph such as the one above is frequently used to describe what has happened to the music industry over the last twenty years (Figure 1). On the left, it shows the irremediable decline of physical sales since the turn of the century and, on the right, the inevitable rise of streaming as the music industry's primary revenue source. This evolution has been widely commented on, and scholars have emphasized the way music was repackaged in playlists according to moods or activities (Hagen 2015; Eriksson/Johansson 2017; Siles et al. 2019) as well as how it became what Jeremy Morris (2015) calls a „digital commodity." In addition, several authors have described the way songs are distributed on these platforms and especially the critical role played by curated playlists to access large audiences (Morgan 2019 ; Bonini/Gandini 2019 ; Eriksson 2020). They have showed how streaming platforms create new relationships between user data, music listening and the advertising industry (Negus 2019). Yet debates about the value of music also focus on other things: companies, their business models, and how they are capitalized. In other words, what is less visible on the graph above (see Figure 1), but what we can grasp from the debates on the value of music is the emergence of an economic sector at the crossroads of tech and music: MusicTech.

So, what is MusicTech? As with other labels — fintech (for finance) or agtech (for agriculture) — this term juxtaposes music and tech, which designates the technological innovation sector here. According to Allan Watson and Andrew Leyshon (2022), this label emerged as early as the early 2000s to establish a myriad of companies that, like Spotify, Shazam, or SoundCloud, were developing solutions presented as innovative for the music industry. When we think about MusicTech, we have primarily in mind companies active in online music distribution (streaming platforms in the lead). We also find companies that develop music production tools are active in music education, artist or B2B services, ticketing, etc.

To give an idea of the size of this sector, depending on the sources, the total investments in this sector are estimated to range from \$6.3 billion to \$15.8 billion[3]. According to *Business Financing*, total investments within MusicTech reached \$745 million in 2019 and \$243 million in 2020[4]. This decline may be linked to the COVID period, and monitoring this trend over the coming years will be interesting. What I would like to emphasize is that the encounter between, on the one side, music-related businesses and, on the other side, companies specialized in high-risk investment are organized around the vocabulary of value and more presidency of value creation. To further investigate how the question of value creation is central here, I will take the example of Sofar Sounds, a start-up that was the main case study of my PhD thesis (Riom 2021).

Being a MusicTech Company: The Sofar Sounds Example.

Sofar Sounds was founded in 2009 in London. The company organizes „secret concerts" in „unconventional" spaces in order „to reinvent live music." These events gather about 50 people in spaces not meant for music performance: the office of a start-up, a living room, or a clothing store, for example. Moreover, the audience attends the event without knowing in advance the artist that will perform or the event's exact location. Sofar Sounds organize several hundred events per month in 350 cities around the world.

My investigation into Sofar Sounds allowed me to highlight four aspects that can help us to understand how MusicTech companies relate to the question of value. First of all, these companies are backed by venture capital funds. This investment is made through a round of funding. For instance, Sofar Sounds raised the first „seed funding" estimated at £150,000 in 2014. The Wired UK reports that the goal is „to be the go-to music-discovery place via sites such as YouTube, SoundCloud, and Spotify."[5] This funding was mainly used to develop its website. It was followed the following year by a series A. One year later, Virgin and its iconic CEO Richard Branson entered the company capital for several million. In 2019, Sofar Sounds announced a series B of \$25 million to pursue

3 Source: https://www.crunchbase.com/hub/music-startups (accessed June 9, 2023) and https://tracxn.com/d/sectors/music-tech/__D-mvJUN_YIDEhgYdsrNC0yK83Yb1yNj7pDZlGcnaAIM (accessed June 9, 2023).

4 Source: https://businessfinancing.co.uk/visualising-the-state-of-startup-funding/ (accessed June 9, 2023).

5 https://www.wired.co.uk/article/sofar-sounds (accessed June 9, 2023).

its development. These funding rounds were achieved by constantly increasing the company's capital. At its incorporation in 2011, Sofar Sounds were divided into three shares (one for each co-founder). In 2023, the last information on the UK House of Companies website stated that more than 30 million shares were divided between one hundred and fifty different shareholders. In other words, funding rounds create new capital tying investors with entrepreneurs.

Then, each of these rounds of funding questions the identity of the company, its business model, and value. For instance, Sofar Sounds experimented with different business models, creating a creative agency for music licensing, festivals, and, more recently, brand partnerships. This process is described by Liliana Doganova (2009) as „exploration entrepreneurship." Entrepreneurs and investors seek to agree on a common scenario and build an alliance around a shared project for the company. Such a process contributes to bounding them and foster a shared interest through exploration and experimentation.

Third, MusicTech start-ups' development goes through moments of demonstrations. In the case of Sofar Sounds, this was notably the case in 2017 with the organization, in partnership with Amnesty International, of what has been described as „the largest festival ever organized," with hundreds of shows taking place the same night to collect funds to assist migrants across Europe. Moreover, the various funding rounds set objectives that must be met to demonstrate the viability of the company project. Rafe Offer, founder, and chairman of Sofar Sounds, told me: „Having 1000 artists in a one-night show to investors is a massive thing" (interview with Rafe Offer).

Finally, venture capitals give these companies financial power that allows them to develop their digital infrastructure and build their financial viability in the future (many of these companies are not profitable yet). This allowed Sofar Sounds, for example, to set up an online ticketing system that no other house concert organizer could have. In addition, in 2021, Sofar Sounds acquired Seated, a „ticketing service including direct-to-fan presale and VIP ticketing."[6] Spotify is another excellent example to capture this issue. While the streaming platform is still struggling to profit even after going public in April 2018, it has been supported by numerous funding rounds (for more than $2B). As Maria Eriksson and her colleagues (2019) showed, the success of Spotify established streaming as a model for the music industry, relying on personalized curation powered by personal data and, more importantly, actively working to reconnect the music industry and finance.

6 https://news.pollstar.com/2021/02/12/sofar-sounds-acquires-ticketing-company-seated-exclusive/ (accessed June 9, 2023).

In this process, the question of value is critical. The value, the present value, and the future value of the company (or the discounted value), its capacity to create value, are used to evaluate the projects and choose those that an investment must support. In other words, I would like to emphasize that following closely recent debates on music value brings us beyond the only question of markets and technological innovation. It brings us to consider the emergence of an economic sector — the MusicTech — but above a new interest in music from high-risk investment funds.

Investigating the Entanglements between Music Business and Venture Capitalism: A Research Agenda

To conclude, I would like to raise four questions that could open direction for a research agenda to investigate the entanglements between the music business and venture capitalism. First, what is the importance of MusicTech within the politics of the music economy? I would like to suggest here that investment practices act somehow as „political technology" (Muniesa 2017) that contributes to deciding what projects should be funded or what projects are (financially) viable. Therefore, how do such practices actively contribute to redefining a „digitalized music economy?" This first question invites us to better understand the procedures related to MusicTech. For example, what are the difficulties encountered by these different stakeholders? How do music and tech professionals meet? What are the relationships between MusicTech and traditional actors of the music industry (labels, festivals, etc.)? How can music businesses attract investment? How do such processes redefine the boundaries between public funding, philanthropy, and private investment?

Second question: To what extent do these practices and „value creation" transform the music business culture? How do they reshape notions like artistic quality, creativity, or music experience? How are music or musical practices turned into financial value and capital? How far can we consider the digitalization of music as the emergence of a new economic culture rather than only the consequences of technological transformation? Third question: how investment practices do invite us to reconsider the „CD crisis" and the recent history of the music industry from a different angle? From this point of view, it might be less like a crisis related to consumption but instead to investment, in other words, the lack of interest in an industry that was considered „dead." And conversely, how should investment practices inform our understanding of the future of the music industry?

Lastly, what are the consequences of MusicTech on the broader music ecosystem? The last few years have underlined the difficulties of many actors to make a living from music. Streaming platforms and other VC-backed companies are partly held responsible for this situation. The difference between the funding available to these new actors and many music industry stakeholders is striking. For instance, last year, Zug-based start-up Utopia, which offers a blockchain-based copyright management service, raised 300 million Euros in funding. By way of comparison, Swiss Music Export's annual budget is just over CHF 300,000, that of the SUISA foundation CHF 2 million, and annual public support for pop music (including concert halls, festivals, artists, and labels) in French-speaking Switzerland is CHF 21 million (Camus et al. 2022). Such new configurations raise the question of the role of regulation, taxation, and, more broadly, public policies regarding the emergence of this new music economy.

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