

Future Business Models of Music An Intellectual Property Perspective

A New Perspective on Copyright Protection, Methods of Utilizing Revenues and Business Models in the Electronic Music Industry

Author: Lukas Tolksdorf
University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands

ABSTRACT

This paper reviews the current state of the electronic music industry regarding intellectual property protection and business models. The current situation of intellectual property protection online is lacking to fulfill its purpose and leaves artists and labels struggling alike, as album sales are diminishing and streaming sites are taking the main spotlight as consumption medium. By reviewing current literature on intellectual property and business models in the music industry, a first view towards the situation is created. By conducting an online survey we look at whether there is evidence supporting the literature in its statements and try to find out more about consumer behavior and views on illegal downloading. Concluding it can be stated that streaming currently and in the future is the main online distribution medium. Intellectual property protection online is taking on a secondary role, as supporting free downloads as part of a *promotional business model* is more beneficial than fighting copyright infringements. Artists and labels are in turn advised to employ a mixture of an *integrated* and *promotional business model*.

Supervisors: Dr.Ir. A.A.M. Spil; Ir. Kijl

Keywords

Electronic music, business models, intellectual property, copyright protection, utilizing revenues, illegal downloading, streaming

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5th IBA Bachelor Thesis Conference, July 2nd, 2015, Enschede, The Netherlands.

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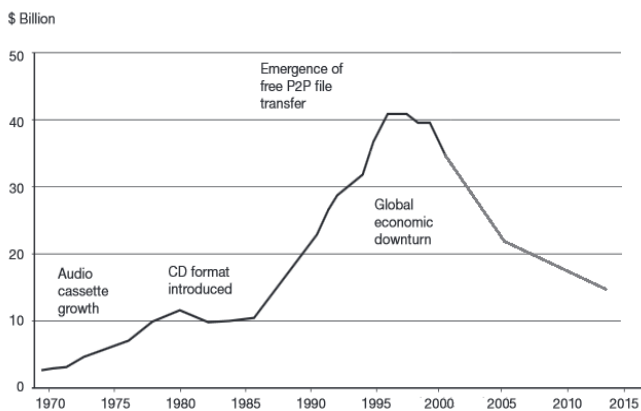
1. INTRODUCTION

Over the last fifteen years the music industry has seen a big change in how it is broadcasted and marketed. While the global music trade revenue started declining steadily in 2001, there has been a change in music mediums causing this trend. (Leyshon et al., 2005)

After the introduction of the CD as medium in 1984 album sales rose to new heights, peaking in 1999 when the Internet made an impact with websites such as “Napster”, introducing free peer-to-peer transfer, allowing users to share music online, disregarding copyright ownerships. While from then on album sales declined until today, between five and nine percent per year, digital album sales took a bigger percentage of the overall album sales starting with its introduction in 2004. (Sanghera, 2002) (Parry, Bustinza, & Vendrell-Herrero, 2012)

Figure 1

Global Music Sales, 1970-2001



Source: Sanghera, 2001 (Expanded to 2013)

Until today digital sales in the U.S market have overtaken physical sales, now being the dominant medium for buying music. While this is a common development, as mediums are constantly changing, the music sales industry has been declining as a whole, with a revenue of \$15 billion in 2013 down from \$20.7 billion in 2005. (The Guardian, 2007) (ifpi, 2005) Worldwide the recorded music market has halved since 2000. (Nguyen, Dejean, & Moreau, 2013)

The reason for this trend is bound to different causes, with a major influence being piracy, causing a loss of revenue of about \$12.5 billion dollars in 2007 in the U.S industry alone, almost equaling the worldwide revenue of the music industry today. (Ipi, 2007) Worldwide illegally shared music files on the internet were estimated to be worth 40 billion dollars in 2009. (Nandedkar & Midha, 2012) Furthermore online streaming platforms such as *Youtube*, *Spotify* or *Soundcloud* to name a few examples of the most important ones, allow users to access almost any song at any time for free, relativizing the need to purchase that song from the beginning with online access spreading more and more. As Borja et al. (2014) state: “Frequent users of music streaming are also more likely to download music illegally.” Contrary to that, Nguyen et al. (2013) state, that “streaming has no impact on CD sales. Furthermore, streaming does have a positive impact on live music attendance.” Also Aguiar-Wicht & Martens (2013) state that “a 10% increase in clicks on legal streaming websites lead up to a 0.7% increase in clicks on legal digital purchase websites,” suggesting that streaming has no negative impact on digital music revenues. The reasoning behind the relationship between streaming and legal purchase is the discovery of new

music, which consumers are willing to pay for. Furthermore losses are calculated on the basis of the estimated reduction in gross revenues rather than net loss, hence they might be significantly overestimated. Nonetheless digital file-sharing systems, such as peer-to-peer (P2P) networks, have significantly increased the circulation rate of illegal copies of copyrighted music, which is identified as clear and present danger to the mainstream musical economy survival. (Jones, 2002) (McCourt & Burkart, 2003) The contention that free downloading and copying is solemnly bad for music sales is however still disputed. Some musicians severely profited from online file sharing, underlined by market research which shows that 80 percent of music downloaders CD purchasing has either remained the same or increased. (Van Wijk, 2002) This indicates a certain trend, which nowadays will apply to online music purchasing in digital stores rather than CD sales. Still the music industry’s revenue has been declining with the relatively recent change of mediums.

Contrary to this trend, streaming revenues have been increasing rapidly but are not comparable in income to digital sales, or even physical sales. (Ipi, 2007) Problems that platforms such as Youtube pose are that a lot of users upload original songs of various artists without the property rights, taking a portion of the streaming views and in return denying income to the copyright holder, which is why there are programs in development to identify these non-copyright holders and block their uploads or simply return the revenue created from these videos. (Edmsauce, 2014)

In sum, even though there are both opportunities and threats to the music industry, revenues have been declining and new solutions have to be found to regain profitability. The general outline of the development of the music industry shows the broad picture and therefore includes the electronic music industry, for which the same problems apply. In the electronic music industry especially, even though it is booming, artists see their work being used in mixes or remixes but do not get a share of the income generated.

2. PROBLEM STATEMENT

The global music economy downturn, as indicator for the electronic music industry described above, results in artists finding themselves in situations where they may not receive the appropriate incentive to invest in their work and in innovation, which may result in stagnation of creative works and the development of the industry. (Besen & Raskind, 1991) As hinted at before, the current situation assembles itself through the state of copyright protection, which is not keeping up with the development of especially online platforms and peer-to-peer networks, as well as the lack of innovation in business models to possibly overcome these shortcomings

2.1 Research Method

To keep innovation and diversity as keywords in electronic music it will be looked at what intellectual property and copyright actually are and how they affect the industry, as well as at current business models in the music industry and business models in combination with copyright protection. What are differences and characteristics of intellectual property and copyright? What are current business models in the music industry? How do they relate to intellectual property protection?

Keywords used to look for relevant literature on *scopus.com* and *Google Scholar* are *electronic*, *dance*, *music industry*, *business model*, *copyright*, *intellectual property* and *sales* in different combinations. Following the literature review the

empirical part will analyze data collected through a survey in different online music forums. The survey consists of three parts. Multiple choice questions are used to gather data on *demographics* and *consumer behavior*. 5 point Likert scales are employed to gather information on opinions regarding illegal downloading and intellectual property protection. Furthermore open interview questions are posed to gather information about the motivation of some of the responses on the Likert scales as well as opinions on independent questions. The collected data was collected using *Google Forms* and resulted in a .csv file to be analyzed with *SPSS* and *Excel*. It will be looked at how people perceive illegal downloading, how they perceive the current state of intellectual property protection in electronic music and how they consume music in general, paying detail to which channels are used and what the preferred ways of consumption are. To display the data of Likert scales and open questions, single response averages and text mining was used, which will be explained more detailed later on. The goal is to combine the original data with the established information and come up with a way to connect intellectual property with the electronic music industry and business models to improve the current situation on the market, resulting in the following hypotheses:

1. *Intellectual property protection is insufficient*
2. *Illegal downloading hurts artists and labels*
3. *Intellectual property protection has to be improved to counter lost revenues*

In the following study it is expected that literature and empirics support the statement that the state of intellectual property protection is insufficient, illegal downloads hurt the electronic music industry and intellectual property protection has to be improved to regain profitability in the industry. Starting off, intellectual property and copyright will be discussed to clearly distinguish these keywords in the following sections.

3. INTELLECTUAL PROPERTY VS. COPYRIGHT – DIFFERENCES AND CHARACTERISTICS

One of the most discussed topics in the electronic music industry right now is concerned with the current state and development of intellectual property and copyright protection as major labels are pushing for more control over their media. To clarify what is meant by intellectual property and copyrights throughout this paper these terms will be defined and discussed in the following.

Nowadays the terms “intellectual property” and “copyright” are oftentimes used interchangeably. The true meaning of the two terms however is clearly distinguished. Intellectual property is a description of “a class of several different legal regimes that generally concerns creations of the human mind.” (Dames, 2009) Copyright is one of the regimes that fall under the general term of intellectual property. Alongside *copyrights* are *trademarks*, *patents* and *trade secrets*. While *copyrights* largely deal with forms of creativity concerning mass communications including music, motion pictures and computer programs to list a few examples, *patents* are used to protect new inventions so that they may not be exploited without authorization of the patent owner. A *Trademark* is a symbol, word, design, logo, slogan, or a combination thereof “that distinguishes one brand from another,” in order for consumers to distinguish the source.

(Piquero, 2005) *Trade Secrets* refer to “business information that is kept in confidence such as formulas, patterns, devices, strategies, techniques that are used to obtain an advantage over competitors.” (Piquero, 2005)

Intellectual property therefore is an umbrella term for different areas of property protection, while copyright is specifically describing the exclusive right to make copies, license, and otherwise exploit original works of for example: “literary, musical, artistic, photographic, architectural, and cinematographic works; maps; and computer software.” (Moore, 2012) Furthermore, the rights granted by copyright also include the right to adapt the work or derive other works from it, distribute copies of the work, display the work publicly and perform it publicly. Each of these rights can be individually parsed out or sold separately by the copyright owner. These five rights lapse after the lifetime of the author plus 50 to 70 years, depending on the states’ or country’s law where the copyright protection has been issued. The European Union applies a 50 year protection span and grants the following rights for copyright holders: Right of *reproduction*, right of *communication*, right of *distribution*, right of *fixation*, right of *rental or lending*, right of *broadcasting* and the right of *communication to the public by satellite*. (Parliament, 2015) Part of the laws surrounding copyright protection include the exceptions and limitations to the rights mentioned above. These exceptions for example allow the reproduction of copyrighted work provided that the rightholders receive fair compensation. Furthermore copyrighted material may be reproduced for “fair use”, such as teaching or scientific research, provided the source is acknowledged. This also includes caricatures, parodies or political speeches. (Parliament, 2015) At the same time “fair use” may not “adversely affect the present or potential economic interest of the owner of the protected work.” (Besen & Raskind, 1991) After gaining ownership of a copy the owner is free to do what they like with their property, short of violating the legislation above. This also includes the copyright holder being prevented from interfering with subsequent sales of the acquired copy. (Moore, 2012)

Even though intellectual property rights are related and oftentimes show similarities to the ownership of physical property, intellectual property separates itself from tangible property through several unique features. Intellectual property exists on a nonexclusive dimension since it is not consumed on use, unlike tangible goods. While theft of tangible property deprives the owner of the access to use his property, theft of intellectual property does not. This setup makes it significantly harder to maintain exclusive control over intellectual property compared to tangible property. One factor regulating the theft of intellectual property over tangible property was the availability of access to a computer or the internet, while at the same time possessing the necessary skills. This factor used to be an automated regulation of limiting who is capable to engage in intellectual property theft in the 90’s. (Piquero, 2005) However today 40% of the world population has access to the internet compared to only 1% in 1995. From 1999 to 2013 the number of internet users has increased tenfold. (internetlivestats, 2015) In addition, online tutorials and third-party programs enable everyone to commit intellectual property theft with only a few clicks, allowing for easy duplication with minimal flaws. (Eining & Christensen, 1991) With the removal of this regulating entry barrier, intellectual property crime has seen a big rise, which is affecting not only the music industry in its core, as according to the World Intellectual Property Organization (WIPO), “intellectual creation is one of the basic prerequisites of all social, economic, and cultural development.” (Piquero, 2005) Some of the problems arising

from the reduced entry barriers will be discussed in the following, by looking at key problems in the electronic music industry from an intellectual property perspective.

4. KEY PROBLEMS IN THE ELECTRONIC MUSIC INDUSTRY FROM AN INTELLECTUAL PROPERTY PERSPECTIVE

As mentioned above, with the removal of certain entry barriers regulating intellectual property crime, there has been a big increase in copyright violations online. While in the 1980s digital audiotape recorders threatened the music industry, the 1990s brought about the development of portable large data capacity storage mediums, as well as advanced infrastructures, allowing for faster data transmission (i.e., cable modems and digital subscriber lines). (Luckenbill & Miller, 1998) The technological advancement of today is opening up all these different possibilities to easily and quickly acquire music files without effort. The problem arising from this growing number of intellectual property crime is that it seems to have an impact on the music industry's revenues as pointed out earlier. In turn artists lose out on revenue, which may to a certain degree result in stagnation in production, as "private producers have an incentive to invest in innovation only if they receive an appropriate return." (Besen & Raskind, 1991)

Whether producers will have a justified incentive depends on the ability to capture some of the value that users put on those works. If the ability to capture this value is limited for potential innovators, they may not receive enough incentive to invest the socially optimal amount in innovative activity. (Besen & Raskind, 1991) For musicians and artists this will mostly translate to not being able to invest their time in producing new music, reinvent their style and invent new sounds, as well as money in equipment for production. According to Besen & Kirby (1989) the widespread private copying of individual users may lead to inadequate revenues for creators of journals, computer software, and audio recordings, to no longer support a socially optimal amount of creative activity.

To counter the potential stagnation, protecting the "economic interest and promote innovation and advancement, it is important to protect intellectual property from piracy and theft." (Piquero, 2005) since the absence of laws and regulations governing the rights of individuals to freely create and develop innovations may not only stymie technology but also cultural and intellectual advancements. One example of the absence of sufficient regulations are third-party downloading programs to convert Youtube videos to mp3 files. While the act of saving an mp3 file off of Youtube is not legal by Youtube's terms of agreement, there are no regulations to actually work against it. Different lawyers even declare it as a "grey-zone", therefore not technically illegal. These circumstances lead to the average user not being intrigued by the thought of illegally downloading music files online. As modern deterrence theory suggests, humans are guided by reason, have free will, and are responsible for their own actions. Therefore deterrence theory "assumes that individuals are deterred or dissuaded from criminal activities if they perceive legal sanctions to be certain, swift, and severe." (Piquero, 2005) However in order for formal deterrence to work, there must first be a law to prohibit the behavior. Furthermore deterrence assumes that people are not only aware of the laws prohibiting the behavior but are also

fearful of the sanctions that may possibly ensue. One of the key issues in the music industry could therefore be the non-deterrence nature of illegal downloading online. New laws or law enforcement agencies might be needed in order for deterrence theory to have an impact. (Liebowitz & Watt, 2006)

Another factor driving illegal downloading online is that the generation of digital natives is used to receiving all kinds of information really fast. As Sano-Franchini (2012) said about digital natives: "They like to parallel process and multi-task. They prefer their graphics before their text rather than the opposite. They prefer random access (like hypertext). They function best when networked. They thrive on instant gratification and frequent rewards. They prefer games to "serious" work." Combined with the aftermath of the era of Napster, representing a profound cultural shift, signaling "a new "digital ethic" of text use and file distribution that runs counter to the usual expectations that have governed sharing and use of print texts." (Sano-Franchini, 2012) This cause of a subconscious shift in peoples' understanding of copyright, usage and ownership, made it rather unclear what is considered "appropriate" use of intellectual property and copyright-protected works. This way it is often easier to download music online, for example by directly starting a Youtube download while simultaneously watching the video to receive instant gratification, rather than visiting an external website and going through the purchasing process. These circumstances limit the functionality of existing business models in the music industry.

4.1 Business Models in the Music Industry

Traditionally a business model can be defined as: "The method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so." (Afuah & Tucci, 2000) In the music industry business models nowadays mostly focus on online distribution. Vaccaro & Cohn (2004) address three different business models: The *Traditional Business Model*, the *Renegade Business Model* and the *New Business Model*. The *Traditional Business Model* in the music industry includes mass production and distribution of physical goods. (Hughes & Lang, 2003) Record labels manufacture the product (mainly CDs) and distribute it via bricks-and-mortar stores, online e-tailers or at concerts. The *Renegade Business Model* is centered around illegal, unauthorized P2P music file trading via the Internet. Internet organizations provide the necessary software to empower consumers to become unauthorized mass distributors of music for free. These music industry "P2P services often support themselves by serving up unwanted ads-annoying pop-ups, spam and the like-to users." (Taylor, 2003) The *New Business Model* focuses on legitimate online digital music services. Legitimate music services online are a part of digital products and digital delivery, which often have strategic alliances with access providers. (Bambury, 1998) One of the big examples of this model is iTunes. (Vaccaro & Cohn, 2004)

The traditional value chain of the music industry as described by Dubosson-Torbay, Pigney & Usunier (2004) which is mainly a representation of the top five companies (Time Warner, BMG, EMI, Sony, Universal) shows to be a rather expensive process, as seen in *Table 1*.

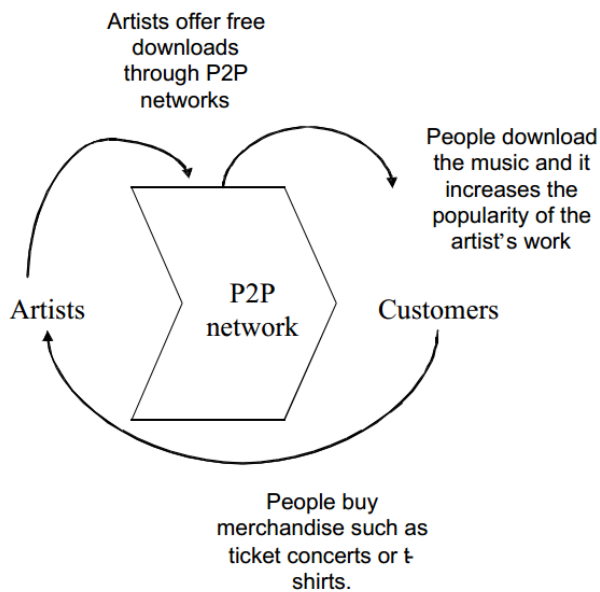
Table 1 – Music industry traditional value chain

Artists	Song writer: \$0.755 per song Recording artist: 14% of the wholesale price but subtracts for breakage
Production	\$100'000 to 200'000 (\$1/CD) studios, sessions musicians, covered by the advance the artists receives from the label
Labels	\$140'000 to 350'000; \$1 to \$2/CD of production costs and \$3 to \$10/CD of up-front marketing costs
Wholesaler	Price: \$10.50 to 11.50
Music stores	Mark up \$3 to 5 Vs \$1 to 2 for online retailers
Customers	CD price: \$17 to 19 for a major label and \$13 for an independent label

Source: Dubosson-Torbay, Pigneur & Usunier. 2004

While the downturn of the music industry forced labels to reduce CD prices, the opportunity of the online market was recognized. For traditional online business models Dubosson-Torbay, Pigneur & Usunier (2004) mention several approaches. The most relevant ones today include *The "à la carte" model*, offering customers the possibility to choose and pay track by track. The prime example of such a business model would be iTunes. Furthermore, *The online radio model* offers the possibility to design their own radio station that plays their preferred selections, such as Spotify does. *The advertising model* deals with the possibility to generate revenues and pay royalties through advertising as the likes of Youtube. With *the integrated model* record companies move towards integrating all the possibilities offered by online business models, which is most likely today's standard, to generate as much revenue as possible. Some artists or labels even choose to offer their music for free online as part of a *promotional model* (Figure 2) to generate revenue in other parts of their business. Janis J offered free music downloads on her site, which in turn led to a 300% increase in merchandise sales. (Dubosson-Torbay, Pigneur, & Usunier, 2004)

Figure 2 – The Promotional Model



Source: Dubosson-Torbay, Pigneur & Usunier. 2004

The amount of social media reach and online accessibility also led to the concept of disintermediation playing a role in certain business areas. Disintermediation – cutting out a piece of the value chain – for example occurred in the travel industry, almost completely removing travel agencies and their commissions as middlemen in airline ticket purchase as consequence of direct-to-consumer sales. (Frost, 2007) The same holds true for the music industry. The online market allows for artists to cut out the label as middleman in the value chain of their production. This allows for a bigger revenue span directly reaching the artist. As traditionally the labels role was to take on the risk of producing the artist, linked to the costs described in Table 1, now it is focusing more and more on promotional activities and bookings. The same however can be achieved by a personal manager as well, which might be more efficient in terms of insight and cost, as well as a stronger link directly towards the consumers. Furthermore, Frost (2007) states that disintermediation might have positive impacts on mitigating illegal downloading as consumers realize that more of the proceeds go straight to the artists instead of cutting the labels share. But how do these models connect with intellectual property?

4.2 Linking Music Business Models and Intellectual Property

The emergence of P2P-networks has artists and labels alike struggling to maintain their revenues. Copyright protection is not able to keep up with online developments. This situation is linking back to general music business models, having to retreat from tradition value chains and rather focusing on emerging business models such as the *integrated model* and the *promotional model*. Record labels therefore should consider, instead of opposing copyright infringements with lawsuits, to shift their attention towards promotion and marketing. (Freedman, 2003) With the development of contemporary, networked technologies, artists are able to distribute their music without mediation of the established electronic music industry to a worldwide audience: The process of disintermediation. This is opening up opportunities for smaller innovative companies to enter the market. This way more music is circulating and more bands are appearing than ever before, inevitably having more people needing to get paid. This leaves the market with more supply than demand and more music than people want to pay for. (Sano-Franchini, 2012)

Linking these topics we can picture the situation the electronic music industry is facing today. Although there have been several new online shops, they seemingly are not able to capture a real strategic advantage over Youtube downloading or torrenting and pirating music in general, making enough consumers willingly pay for what he or she is looking for, which is where for example Spotify or Apple Music have their foundation in the market by capturing the advantage of quality availability online (for Spotify) and both online and offline (for Apple Music). The combination of lacking intellectual property protection and emerging business models however results in a suboptimal state of business.

In conclusion the literature provides evidence that a new approach at business and generating revenues is needed. Distribution mediums have changed and leave the industry with less revenue which needs to be compensated for. To support these statements an online survey was conducted, to find original empirical data backing the literature up. Respondents were asked to fill in the 10 to 15 minute survey posing questions about their music consumption behavior and their views on illegal downloading and intellectual property

protection. We will start by looking at who the respondents are and then continue by examining their consumption behavior and views of the industry.

5. EMPIRICAL PART

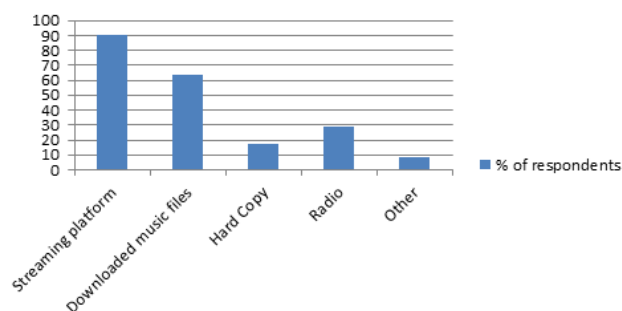
5.1 Demographics

Drawing from the survey conducted online in different music forums, as well as over Facebook, data has been gathered on intellectual property, business models and the electronic music industry. Out of the 74 responses one was a double entry and ten were from outside of Europe leaving us with 63 valid data sets. Out of the 63 respondents 87% are male and 13% female. The age distribution peaks in the 21-25 year old span, with a percentage of 43. 24% of respondents are aged between 16 and 20 and another 24% are aged between 31 and 36. This distribution correlates with what Nielsen (2014) analyzed as the electronic music listener. The majority of respondents are still studying (52%) while another majority is already employed (33%). The majorities in origination are 37% from Germany and 16% from England.

5.2 Music Consumption

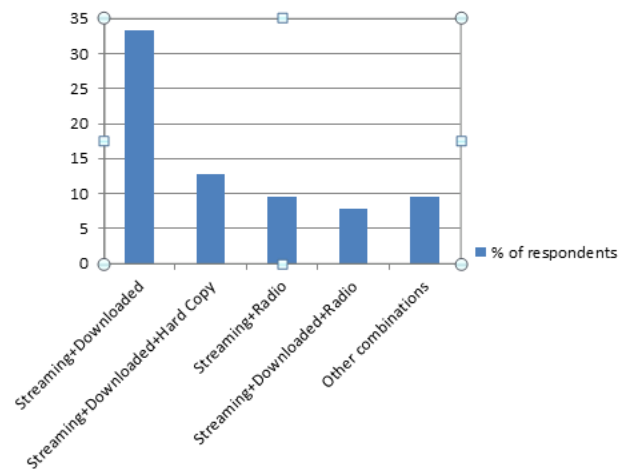
Out of the 63 respondents 51% stated, that they listen to more than 15 hours of music per week of which 38% stated that more than 50% of the music they listened to was purely consisting of electronic music. When asked about the ways the respondents consume music, 90% stated they would utilize **streaming platforms** as the likes of *Youtube*, *Spotify*, *Soundcloud* or *Apple Music*, of which 17% solemnly utilized streaming platforms, while 73% combined streaming platforms with other mediums. A majority of 33% utilized streaming platforms in combination with downloaded mp3's or similar files, while 63% of all respondents stated they utilized downloaded mp3's in general. Considering these stats clearly displays why the trend towards the *integrated business model* mentioned by Dubosson-Torbay, Pigneur & Usunier (2004) took place, utilizing many online business models to gather maximum revenue.

Figure 3 – Music Consumption Mediums Utilized



The downturn of the hard copy music industry finds its display as well with only 19% of respondents (Figure 3) stating they would utilize hard copies at all, of which 13% combined it with streaming platforms and downloaded music files as can be seen in Figure 4.

Figure 4 – Favorite Electronic Music Consumption Medium Combinations



Interestingly even though 90% of respondents stated they are utilizing **streaming** platforms, only 54% of them stated it is their preferred method of consuming electronic music. Another 36% referred to downloaded music files as their favorite way of consuming music while a diminishing 3% still preferred Hard Copies. (Table 2) A possible explanation for the in relation relatively low preference of streaming platforms could be the usage of music files on portable devices. The requirement of streaming services to have a stable internet connection is a quite severe disadvantage for the utilization on for example smartphones while travelling and therefore strongly favors the downloaded music files.

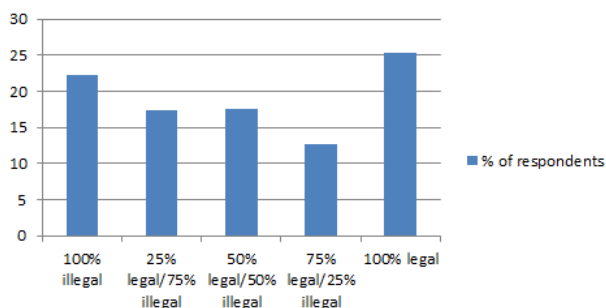
Table 2 – Favorite Electronic Music Consumption Medium

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Streaming platform (e.g. Youtube, Spotify, Soundcloud etc.)	34	54,0	54,0	54,0
Downloaded mp3's or similar	23	36,5	36,5	90,5
Radio	3	4,8	4,8	95,2
Hard Copy	2	3,2	3,2	98,4
None	1	1,6	1,6	100,0
Total	63	100,0	100,0	

Another important factor to look at is whether people, and to what extent, act legally. According to the survey 65% of respondents stated they have indeed purchased electronic music legally in their lives. Out of the 65% of legal purchasers 58% favor to purchase their music through a digital download on sites as, for example, *iTunes*, *Amazon* or *Beatport* while 44% preferred purchasing their music as Hard Copy. However only 25% of respondents stated they never acquired electronic music illegally. Out of the 75% of respondents who acquired music illegally, 59% utilized streaming site downloads (for example by using third-party programs to save files off of *Youtube* or *Soundcloud*), 46% utilized filesharing sites or P2P networks while 32% also acquired electronic music illegally by copying an acquaintance's collection. 44% use these options in different combinations to acquire music illegally. Looking at how much music of the respondents is in possession legally compared to illegally in Figure 5, it can be seen that a slight majority of 25% only owns music legally compared to 22% only owning

illegally acquired music, however there is no real outstanding distribution representing an overwhelming majority.

Figure 5 – Legal to Illegal Possession Ratio



When it comes to supporting the electronic music industry, 41% of respondents stated they were supporting it other than by purchasing songs, 52% of which employed ad- or subscription-based services, 50% stated they are visiting concerts or festivals and 21% stated they bought merchandise. 42% of the respondents claimed they would do one of these other supporting activities once a month while 32% stated they would do it once every few months.

Summarizing these statistics, there is a great potential to be recognized in making additional profits. Illegal acquisitions are a great part of the music that is owned by the respondents. Even though there is a big utilization of streaming sites, it has to be looked at whether they are used in favor of the artists or not.

5.3 Perception of Copyright Protection, Illegal Downloading and the Electronic Music Industry

To gather more data on how respondents perceived for example illegal downloading or intellectual property protection in the electronic music industry, they were asked to fill in five point likert scales and open questions. The five point likert scales will be analyzed in percentages and to efficiently represent the single average response, values will be assigned to each response, adding up to a total which then will be divided by the amount of responses.

For this matter the response are assigned:

- Strongly agree = 5 points
- Agree = 4 points
- Neutral = 3 points
- Disagree = 2 points
- Strongly disagree = 1 point

As an example we represent 15 responses:

- 1* Strongly agree = 1*5points = 5
 - 2* Agree = 2*4points = 8
 - 0* Neutral = 0*3points = 0
 - 10*Disagree = 10*2points = 20
 - 2*Strongly disagree= 2*1 point = 2
- =====
- 35points

Since there are 15 responses the 35 points are divided by 15, so $35/15= 2.33$ average. This average is therefore displaying the average response which is leaning towards 2 points, and thus the response “Disagree”. The “Involved single average response” displayed in some of the tables is the single average response of respondents indicating they are directly being involved with the electronic music industry. (n=6)

For the open questions responses were summarized into key statements, which then represent a headline for the core essence of different responses to be able to count how many responses actually posed the same content. For example: “Illegal downloads help the electronic music industry by getting spread to a lot of people and resulting in increased exposure for the artist, which in turn can lead to more popularity and other income.” This response would go under the headline of “exposure and popularity” as core essence. Other responses with the same content then count toward that headline resulting in a countable number of respondents displayable as percentage.

As stated earlier, 75% of respondents acquired electronic music illegally in their lives. But how do they perceive illegal downloads in connection to the electronic music industry? Do they feel like they are hurting the industry or might they think illegal downloads actually help the electronic music industry?

Table 3: How much do you think illegal downloads hurt the electronic music industry? (n=63)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
11%	17%	33%	30%	8%

Single average response = 3.06

Involved single average response = 2.33

The distribution on the question how much respondents feel like illegal downloads hurt the electronic music industry is rather biased and with a single average response of 3.06 only minimally leaning towards the view that illegal downloads hurt the electronic music industry. Even though 30% of respondents took a neutral stance on the subject, another 30% think illegal downloads **mostly hurt** the industry. To provide a counterpoint to the illegality it was asked whether respondents thought electronic music is actually helping the electronic music industry.

Table 4: Do you feel like illegal downloads help the electronic music industry? (n=63)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14%	16%	29%	33%	8%

Single average response = 3.05

Involved single average response = 2.3

Surprisingly the responses showed an opposing distribution compared to the question leading up to it, displaying a single average response of 3.05. So while 30% of respondents think illegal downloads are hurting the electronic music industry, 33% think they are actually **helping**, underlining the bias regarding this topic. Looking at the open follow up question “If you do feel like illegal downloads help the electronic music industry, in which way do they help and why?” we can

understand the reasoning behind the bias. While illegal downloads are not resulting in record sales which is to the disadvantage of the artist, respondents felt that **illegal downloads** indeed lead to more **“exposure and popularity (48%)”**, increased concert attendance (11%),” and it positively relates to making a “buying decision (8%).” Furthermore it was mentioned that record sales actually are not the state of the art anymore and the main income factor would be concert or gig attendance. Comparing the single average response with the single average response of people being directly involved in the electronic music industry, shows a gap in opinion on illegal downloads. The involved single average response of 2.3 shows that people being involved with the industry believe less in the positive impact of illegal downloading than the average respondent, possibly giving an explanation on why there seem to be only few artists utilizing downloads to their advantage.

Based on the bias towards illegal downloading one might assume that respondents did not really take a stance on whether the current state of intellectual property protection in the electronic music industry is fair and justified.

Table 5: Do you feel like the current state of the electronic music industry regarding intellectual property protection is fair and justified? (n=63)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14%	14%	59%	11%	2%

Single average response = 2.71

Involved single average response = 2.17

Looking at the percentages of responses, **59%** of respondents indeed took a **neutral** stance on whether the current situation is fair and justified, hinting at the **bias of pros and cons** of for example illegal downloading. The single average response however reveals a slight leaning towards disagreement, regarding fairness and justification. When asked for the reasoning on why or why not respondents thought the situation is fair and justified, responses were that artists gain an **“unfair share of proceeds (8%)”**, including low ad payouts and streaming income as well as record sale income being criticized, and too high “label shares (5%).” Another 5% stated the situation is “somewhat fair.” Furthermore respondents stated that illegal access of music files is too easy, criticizing property protection. The majority however displayed that they did not feel involved enough with the topic to be able to give a meaningful response and therefore took a neutral stance.

If we compare the general response to the single average response of only the respondents that indicated they are directly involved with the electronic music industry, which is 2.17, we can see that there is more of a direction towards disagreeing with the current state of the industry being fair and justified. Reasons for that were mainly “unfair share of proceeds” for electronic artists as well as the illegal acquisition of music being too easy.

Following up the indication of fairness and justification regarding intellectual property protection, respondents were asked whether they have an idea or ideas on how to improve this current situation: *“Do you have an idea/ideas how to improve the current situation in the electronic music industry regarding intellectual property protection?”* While 5% indicated that they feel like there is “no change” needed, the majority of 6% stated that the future of the business is in

streaming, and that is what artists need to focus on. Other suggestions were to “accept donations (3%)” to make up for missed income on illegal downloads or to “cut the labels (3%)” out of the value chain, supporting themselves with only the possibilities of the internet and social media.

However looking at streaming as future of the business, one factor driving the illegal acquisition of music being third-party downloading programs, the opinion of respondents was examined whether they should be officially made illegal and prosecutable, being a grey-zone as of right now, to reduce the abusiveness of streaming.

Table 6: Do you feel like downloading music from streaming websites through third-party programs should be made officially illegal and prosecuted? (n=63)

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
43%	24%	21%	11%	2%

Single average response = 2.05

The data on third-party programs actually displays the strongest opinion of all the likert scales, with a single average response of 2.05. **43%** of respondents **strongly disagree** with the thought of **making third-party downloading programs illegal** and prosecutable. Another 24% disagree while 21% took a neutral stance. Only 13% are positively inclined on the topic. The most voiced opinions were that it would be **“impossible to enforce (5%)”**, especially with “online availability of files (13%).” Also it was mentioned that some people “cannot afford (8%)” to purchase music, while music should be available for everyone. Third-party programs then allow these people to still download music for free. On the contrary 10% were pointing out that acquiring music this way is still an “illegal act” and should therefore be prosecuted.

The disagreement with third-party downloading programs becoming illegal leaves the door open to look for new business models to possibly counter illegal downloading or abuse it to an advantage. Respondents were asked: *“Do you feel like there should be a change in business models? If yes what change and why?”* As indicated above, respondents thought that streaming is the future of the business, which is displayed in the responses once more, stating that artists should “adapt more to the internet and streaming (3%).” The main reoccurring theme however was that artists should rely more on “independent publishing through online possibilities (5%),” which links back to people stating that labels receive too big of a share of the generated income of artists. On the contrary a minority was stating that there is no change needed to the business models, as “good output will always be paid (2%).”

To find out more about artist support, the question *“What drives you to support a specific electronic artist or the electronic music in general,”* was posed. The biggest factor under the respondents was the “appreciation of quality work (22%),” followed by the artists **“sympathy/likeability (10%).”**

To wrap it up the empirical data indeed provides evidence of support on the literature statement that there is a change in business models needed. Streaming utilization is incredibly high and illegal downloading is perceived very biased, with a significant amount of respondents stating they are positively affecting the industry. Literature and empirics will now be connected in the following, which will be done by interpreting some of the data in relation to the literature review. In the end the created links should clarify the hypotheses and work up to the conclusion.

6. DISCUSSION

Looking at the literature and consecutively at the data, the link between the three areas of intellectual property, business models and electronic music becomes apparent and will now be discussed. As pointed out early on, album sales and the global music industry have been declining steadily since 2004. The big driving factor of the decline is the online market and its opportunities. New consumption mediums are taking over the market and illegal downloading is easier than ever before. Intellectual property protection is therefore harder to enforce leaving some business models behind in competitiveness, such as the *Traditional business model*. (Vaccaro & Cohn, 2004) There is not as much data on this topic specifically addressing the electronic music industry, which is why the survey provides the third link.

Looking at the results, we can see that 75% of respondents indeed downloaded electronic music illegally, which shows a clear underlining of the insufficient intellectual property protection and growth of online opportunities to acquire files illegally.

As Dubosson-Torbay, Pigney & Usunier (2004) mentioned, the spread of the *integrated model* is increasing, combining as many revenue streams by different online business models as possible, which is a development from the situation as seen in the data, that many channels of music consumption are combined by consumers (Figure 3). The leading medium between the respondents was the streaming platform with 90% of respondents employing it. Combining this stat with the reoccurring statement in the open questions, that streaming platforms are the future of the business and should be the main focus when looking at generating income, as well as streaming growth rates, we can assume that streaming indeed will be the main distribution medium in the future, even though online sales might still be more profitable as of right now. Furthermore 59% of respondents stated they were using third-party programs to download music illegally off of streaming websites. Also 43% strongly disagreed with the thought of making third-party downloading software illegal and prosecutable. Combining these stats we might assume that streaming is not only the future on the income site, but also on the general exposure and spread site. With so many people employing these programs and relying on them, voicing such a strong opinion with a single average response of 2.05, using streaming platforms to the artist's advantage will probably be more effective than trying to enforce intellectual property protection. While for example Spotify or Apple Music generate income, Youtube or Soundcloud can rather be employed to gain exposure, even though they are unsafe regarding property protection.

The general bipolar views on whether for example illegal downloads are helping or hurting the electronic music industry (SAR = 3.05 and 3.06) and whether the current state of the industry regarding intellectual property protection is fair and justified (SAR = 2.71) reflect how biased the topic is and how difficult finding a solution can be. Some labels are realizing this potential and are starting to employ rather than fight illegal downloading. As Piquero (2005) pointed out: "Rather than trying to fight the use of new advances in technology some companies are finding ways to use the technology in their favor." Some of the monthly paying or one-time downloading fee services are results of this evolution. Napster for example drew a lot of attention, when it provided a peer-to-peer file sharing service that allowed mp3 music file transmission without legally purchasing the songs. In turn some companies

reacted and created legal services also offering mp3 file transfers resulting in applications such as iTunes and Spotify.

Lil Wayne is one of the artists utilizing the internet to connect to and share with his audience. By uploading free downloadable songs online almost every day he built an incredible bandwidth of audience and managed to release a bestselling album in turn. (Thibeault, 2012) This is a display of the *promotional model* explained by Dubosson-Torbay, Pigney & Usunier (2004) working to a great effect. As we can see in the data respondent actually react positively to a few songs being given away for free as promotion as it raises "sympathy" for the artist which in turn was said to be one of the driving factors of consumer support.

Consumer support on the other hand seems to display quite a bit of potential as well, with 41% of respondents supporting the electronic music industry other than by purchasing music. Concert attendance was the second biggest factor with 50% of employment only slightly led by ad- or subscription based services with 52%. As especially concert tickets usually yield a higher margin than record sales, trying to increase concert attendance through online exposure and popularity is a valid option in generating more revenue. As 11% of respondents stated, illegal downloading would result in higher concert attendance. Combining these factors gives another hint at the *promotional model* being able to play a big role in current and future business models.

At the same time the promotional business model is independent of label support, since online distribution is not necessarily in need of a label's network or funding. The before mentioned concept of disintermediation therefore perfectly supports the use of a promotional model, complementing the cutting off of labels in the value chain.

To wrap it up we can confirm *Hypothesis 1: "Intellectual property protection is insufficient."* As pointed out in the data and the literature barriers to illegal downloading are at an all-time low and there is virtually no way to completely dismiss it.

Hypothesis 2 is not confirmed: "*Illegal downloading hurts artists and labels.*" Especially the data provides a big bias towards whether illegal downloads help or hurt the electronic music industry. On the one hand artists miss out on revenue, on the other hand they gain exposure and popularity resulting in different revenue streams.

Hypothesis 3 can be rejected: "*Intellectual property protection has to be improved to counter lost revenues.*" It became clear that trying to enforce intellectual property protection in the current online environment is not worth the efforts. By giving intellectual property protection online a lower priority and work more with the promotional model, lost revenue can partially or completely be made up for in different revenue streams.

7. CONCLUSION

Finally, from looking at the literature and the data, we can conclude that streaming as a medium is the biggest factor currently and in the future, when it comes to business models in the electronic music industry. Intellectual property of electronic music is not sufficiently protected and the focus on increasing protection is taking a secondary role. Achievements in property protection are not worth the effort, as it is more beneficial to support these exploitable functions in an attempt to gain exposure and popularity instead of trying to fight copyright infringements.

As stopping these illegal downloads momentarily is nearly impossible, the online music market forces labels and artists to shift their focus from protecting their intellectual property online to instead employing these downloading techniques for promotional purposes. In order for artists and labels to stay competitive they need to understand these factors and introduce a new business model, namely a mixture of the *integrated* and the *promotional* business model to generate a maximum of income. Streaming platforms therefore take the primary role in distribution channels. As streaming revenues are still lacking, but album sales are diminishing, income has to be generated in different areas, such as concert ticket and merchandise sales. Increasing these sales is the main objective of employing the *promotional model* in the new model mix. Since these platforms also enable artists to create their own distribution network, artists can at a certain point disintermediate labels from the value chain to increase their revenue, as labels do not play a role in the promotional model.

By distributing freely downloadable content, sympathy and exposure towards the artist increase, as in turn artist support among consumers increases, since “sympathy” was one of the driving factors towards artist support. At the same time subscription based services and online stores can see their profits rising as consequence of employing the *promotional model* as well, as mentioned by Aguiar-Wicht & Martens (2013). Offline, on the contrary, intellectual property protection still plays a prime role, to fairly collect and distribute revenues generated by songs being played in for example discos and clubs.

In the future it has to be determined whether these statements and propositions hold true. Further research with more extensive empirical studies could further develop this topic. Ultimately the music industry is a fast-paced environment and requires constant strategy adaptations.

8. ACKNOWLEDGEMENTS

I would like to thank Dr. Ir. A.A.M. Spil and Ir. B. Kijl for their support as supervisors of the thesis as well as their continued input and S. Thäter for his great support distributing the survey.

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10. APPENDIX

10.1 Survey

Future Business Models of Music - An Intellectual Property Perspective

A New Perspective on Copyright Protection, Methods of Utilizing Revenues and Business Models in the Electronic Music Industry

*Required

This survey is part of the research for a Bachelor Thesis.
Filling in this form will take approximately 10-15 minutes.
By filling in this survey to your best intent you will be joining a raffle for a 6 months Spotify or 6 months Apple Music subscription (optional).
You can also fill the survey in anonymously.

Part 1 - Music consumption

Please specify your "other" answers.

1. How much music do you consume in a week on average? *

It does not matter whether you consume primarily or secondarily. Give your best estimate.
Mark only one oval.

- <5 hours
- 5 - 10 hours
- 10 - 15 hours
- >15 hours

2. How much of your general music consumption consists of electronic music? *

Give your best estimate. Electronic music is referring to the general genre of electronic music for this survey.

Mark only one oval.

- 0-25%
- 25-50%
- 50-75%
- 75-100%

3. What mediums do you utilize to consume electronic music? *

Multiple answers possible.

Tick all that apply.

- Streaming platform (e.g. Youtube, Spotify, Soundcloud, Apple Music etc.)
- Radio
- Television
- Hard Copy
- Downloaded mp3's or similar
- Other: _____

4. What is your preferred way of consuming electronic music? *

Mark only one oval.

- Streaming platform (e.g. Youtube, Spotify, Soundcloud etc.)
- Radio
- Television
- Hard Copy
- Downloaded mp3's or similar
- Other: _____

5. Have you ever purchased electronic music legally? *

Mark only one oval.

- Yes
- No

6. If yes, what is your preferred way of purchasing electronic music? *

Mark only one oval.

- Digital Download (e.g. iTunes, Amazon, Beatport)
- Hard Copy
- Other: _____

7. What is, for you, the main reason to purchase electronic music legally? *

Mark only one oval.

- Supporting the artist
- Supporting the label
- Higher quality files
- Easier to acquire
- Risk of getting caught
- Other: _____

8. Please state the brand name of your favorite electronic music provider. *

E.g. Youtube, a TV channel or a hard copy shop etc.

9. Do you support the electronic music industry in other ways? *

Mark only one oval.

- Yes
 No

10. If yes, how?

Multiple answers possible.

Tick all that apply.

- Going to concerts/festivals
 Buying merchandise
 Listening to ad- or subscription- based streaming services
 Other: _____

11. If yes, how frequently do you support the electronic music industry otherwise?

Subscription services will be counted as "once a month"

Mark only one oval.

- Once a week
 Once a month
 Once every few months
 Once a year
 Other: _____

12. Have you ever acquired electronic music illegally? *

Using third party programs to download music off of e.g. Youtube or Soundcloud will be counted as illegal music acquisition.

Mark only one oval.

- Yes
 No

13. If yes, how did you acquire it?

Multiple answers possible.

Tick all that apply.

- Filesharing sites
 Streaming site download (e.g. Youtube, Soundcloud)
 Copying a friend's/relative's collection
 Other: _____

14. How much of your electronic music in possession is acquired legally compared to illegally? *

Give your best estimate.
Mark only one oval.

- 0% legal / 100% illegal
- 25% legal / 75% illegal
- 50% legal / 50% illegal
- 75% legal / 25% illegal
- 100% legal / 0% illegal
- I do not own electronic music

15. Do you have any part in the electronic music industry? *

Mark only one oval.

- Yes
- No

16. If yes, in which way?

Part 2 - Perspectives on the electronic music industry and intellectual property

17. How much do you think illegal downloads hurt the electronic music industry? *

Mark only one oval.

- 1 2 3 4 5
-
- Not at all hurting Extremely hurting

18. Do you feel like illegal downloads help the electronic music industry? *

Such as increasing popularity by illegally sharing to lots of people.
Mark only one oval.

- 1 2 3 4 5
-
- Not at all helping Extremely helping

19. If you do, in which way?

20. Do you feel like the current state of the electronic music industry regarding intellectual property is fair and justified? *

e.g. the state of copyright protection/prosecution
Mark only one oval.

1 2 3 4 5

Not at all fair Extremely fair

21. Why / Why not? *

22. Do you feel like electronic artists should give away their music for free? *

Mark only one oval.

1 2 3 4 5

Never Always

23. Why / Why not? *

24. Do you feel more drawn to purchasing a song when it is officially available for free-of-charge streaming? *

Mark only one oval.

1 2 3 4 5

Not at all Extremely

25. If you do feel more drawn to it, why?

26. Do you feel like downloading music from streaming websites through third-party programs should be made officially illegal and prosecuted? *

For example downloading from Youtube using mp3converters.
Mark only one oval.

	1	2	3	4	5	
Not at all	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Extremely

27. Why / Why not? *

28. What is it that drives you to support a specific electronic artist or the electronic music industry in general?

29. Do you have an idea/ideas how to improve the current situation in the electronic music industry regarding intellectual property protection?

30. Do you feel like there should be a change in business models regarding the electronic music industry? If yes, what change and why?

Part 3 - Demographics

Please specify your "other" answers.

31. What is your Age? *

Mark only one oval.

- <15
- 16-20
- 21-25
- 26-30
- 31-35
- 36-40
- >40

32. What is your gender? *

Mark only one oval.

- Male
- Female

33. What is your nationality? *

34. What is your occupation? *

Mark only one oval.

- Student
- Employed
- Currently unemployed
- Retired
- Other: _____

35. What is your E-Mail address?

This is optional and simply for the purpose of selecting a winner for the raffle at the end of the data collection.
