

Music Aggregators and Intermediation of the Digital Music Market

PATRYK GALUSZKA¹
University of Lodz, Poland

This article demonstrates that, contrary to popular belief, the advent of the Internet has not made intermediaries in the music market obsolete. Individual artists and independent record labels who want to sell their music in digital music stores must deliver their records via third-party companies called music aggregators. Drawing on the concepts of new institutional economics, the article demonstrates that the emergence of music aggregators is a market response to the high level of transaction costs and bargaining asymmetry associated with selling digital music online. The conclusion suggests that the major music conglomerates may seek ownership links with music aggregators, leading to the emergence of vertically integrated companies, which may have profound consequences for cultural markets.

Keywords: music aggregators, disintermediation, streaming services, digital music, Spotify, record labels

Introduction

It is difficult to overstate the influence of the advent of the Internet and digitalization on the functioning of cultural industries. Numerous academics and journalists have described what has been happening to the music, film, book publishing, and other cultural industries since 1999—the year when the first massively popular peer-to-peer (P2P) network—Napster—shook their foundations (e.g., Rogers, 2013; Wikström, 2010). Nevertheless, although 15 years have passed, researchers still have quite divergent opinions about the consequences of these changes for artists, businesses, and the consumers of cultural products. One argument that has been put forward claims that communication technologies help democratize creativity by allowing more equal access to technologies and distribution networks (e.g., Fox, 2004; Frost, 2007; Kasaras, 2002; McLeod, 2005). This argument has often been built around the notion of disintermediation—the situation “when a middleman gets pushed out by other firms or when the

Patryk Galuszka: patrykgaluszka@gmail.com

Date submitted: 2014-07-22

1 The author would like to thank the Polish Ministry of Culture and National Heritage, the Central European University’s Institute for Advanced Study and Center for Media, Data and Society. An earlier draft of this article was written while the author was a junior scholar at the Institute for Advanced Study at the Central European University in Budapest.

Copyright © 2015 (Patryk Galuszka). Licensed under the Creative Commons Attribution Non-commercial No Derivatives (by-nc-nd). Available at <http://ijoc.org>.

services it provides become irrelevant, particularly as other ways to perform transactions become available" (Chircu, Kauffman, & Wang, 2007, p. 52). Those who argue that the concept of disintermediation should be applied to the analyses of cultural industries claim that the elimination of traditional producers, distributors, and retailers should lead to more direct relationships between artists and consumers of cultural products. Proponents of the opposite point of view argue that even if the changes caused by the Internet and digitalization are significant, the old, oligopolistic players always find ways to maintain market domination (e.g., Burkart, 2014; McLean, Oliver, & Wainwright, 2010). In other words, even if there has been disintermediation, it either has been elusive or was followed by intermediation (the arrival of new intermediaries) or reintermediation (reestablishment of the once disintermediated go-betweens) (Chircu & Kauffman, 1999).

This article begins with the observation that the discussion could benefit from a deeper understanding of the economic mechanisms behind the new models of distribution of cultural products. Consequently, the goal of this article is to examine one of the cultural markets—the market for music recordings—and to discuss the role of music aggregators, the new players that have appeared on that market after the advent of the Internet. The article adds to the research into the influence of new communication technologies on the cultural industries by shedding light on the nature of the business of music aggregation and its influence on record labels and individual artists. By doing so, the article contributes to the discussion on the media industries and the democratizing potential of new communication technologies.

The theoretical background of the analysis is provided by new institutional economics, particularly the theory of transaction costs (Brousseau & Glachant, 2008; Furubotn & Richter, 2005). New institutional economics is used to explain what type of contracts can be expected between copyright owners, aggregators, and digital music stores and why not all market players can negotiate contracts on equal terms.

The article is organized as follows. The next section discusses claims made in the literature that the advent of the Internet would lead to elimination of the intermediaries in the music market. A brief summary of the concepts of transaction costs and bargaining asymmetry is followed by an explanation of the legal issues that make opening a digital music store such a difficult task and a discussion of the role of music aggregators in that process. An investigation of the costs involved in using the services of music aggregators shows that the preference given to large rights owners distorts competition. The last section contains conclusions and suggestions for future research.

Understanding the role of music aggregators was possible thanks to 16 in-depth interviews and two e-mail interviews conducted with representatives of music aggregators, independent record labels, major record companies, major publishing companies, digital music stores, crowd-funding platforms, and collecting societies, all based in Poland (see the Appendix). In-depth interviews lasted on average one hour and included questions related to selling music online. The interviews were transcribed, coded, and analyzed. E-mail interviews were chosen when an interviewee was not available for an in-depth interview. E-mail interviews consisted of a similar set of questions, answered by the interviewees via e-mail. In addition to the interviews, secondary data on the digital music market was obtained from Polish collecting

societies and the Ministry of Culture and National Heritage. Although the empirical data were gathered in Poland (which, in 2012, ranked as the world's 23rd music market, worth US\$82.9 million; International Federation of the Phonographic Industry, 2013), the analysis conducted in this article applies to practically any music market in a developed country. This can be justified in two ways. First, even though some differences may exist between music markets in various countries (e.g., because of different business traditions and copyright laws), the economic mechanisms behind selling digital music are similar everywhere.² Second, some respondents represented international companies or had international experience, which enabled them to present a wider perspective on the discussed issues. Therefore, the conclusions reached in this article may be generalized.

Disintermediation or Reintermediation?

Several scholars and journalists writing about the music market in the first decade of the 21st century predicted that the advent of the Internet and digitalization would result in significant changes in the structure of the recording industry, or even in its complete disintermediation. The publications describing the dire straits of the recording industry can be classified in two categories. The first category consists mostly of comments written by journalists and bloggers who, perhaps for reasons of readability, announced the "death of the music industry" (DeGusta, 2011) or asked "who needs labels?" (Serpick, 2008). This type of writing, in most cases, takes any sign of crisis in the traditional business model of the recording industry as proof of the thesis that record labels can be completely replaced by direct relationships between artists and fans (for a comprehensive overview of this approach, see Rogers, 2013). Although it is true that, thanks to social networking sites, direct communication between the two parties increasingly takes place, it is not always obvious how to monetize it, especially if a musician does not have the experience, business skills, and know-how of the record labels. This line of reasoning also fails to account for the complexities of the music industry. For example, it emphasizes the decisions of popular musicians to leave their record labels, reading this as a sign of the death of the music industry without inquiring whether the split was really complete. After all, established musicians are backed by skilled public relations experts, and there are several ways of publicizing a star's divorce with his or her record label in such a way as to make the public believe that an artist chose independence while maintaining the star's strong links with the major record label's³ affiliated publishing company or signing a 360 deal (a type of contract in which "the record label participates in and receives income from a range of musical activities beyond the sales of recordings" [Marshall, 2013, p. 78]) with a "new major" such as Live Nation (Marshall, 2013; Wikström, 2010). And even if we assume that the departure of a few stars from major

2 Noteworthy differences may stem from the different legal traditions between the common law countries (the United States, the United Kingdom, and some Commonwealth countries) and civil law countries (e.g., continental Europe). Consequently, the position and competences of music publishers and collecting societies in both types of legal systems may differ to a certain extent (see Kretschmer, Klimis, & Wallis, 1999).

3 Major record labels (also referred to as majors, major music conglomerates, or major players) are the three largest record companies (Universal Music Group, Sony Music Entertainment, and Warner Music Group). They control the three largest music publishing companies (Universal Music Publishing Group, Sony/ATV Music Publishing, and Warner/Chappell Music).

record companies will somehow harm the latter (a daring assumption since majors still control a valuable asset—the copyright to the recordings made by these stars before the split), it does not mean that the music market is becoming more democratized and that the intermediaries are gone for good.

The second category of publications consists of more nuanced opinions expressed by academics who wrote about the possibility of changes in the structure of the recording industry without underestimating the power of the major players. This category is very broad and includes articles written from various perspectives (e.g., Galuszka, 2012, 2015; Jones, 2000; Kruse, 2010; May, 2007). Here it is worthwhile to briefly discuss two threads of analysis that fall into this category.

The first one, represented by Fox (2004) and McLeod (2005), sees new communication technologies as a means to a music market characterized by a more equal distribution of power. McLeod (2005) wrote that “technological changes do threaten to help break the music monopoly that has existed for a century” (pp. 530–531). By the “music monopoly,” McLeod meant the domination of the major record companies, which supposedly would be overcome by the independent labels and artists using Internet distribution to build more direct relationships with listeners. Thanks to cutting out the intermediaries, presumably the artists’ earnings would be higher, even if sales of records were lower (which would result from the widespread use of P2P file exchange services). A similar line of reasoning was applied by Fox (2004), who, apart from emphasizing the positive influence of disintermediation on competition in the recording market, noted that the decreasing costs of distribution could result in higher royalties paid by record labels to artists. It cannot be claimed that McLeod or Fox were completely wrong—the structure of power in the music industry is shifting, and independent musicians’ access to listeners’ ears (but not necessarily their money) is easier now than it was in the 1990s. However, as will be discussed in this article, this does not mean that there are no, nor even that there are fewer, intermediaries in the Internet market.

The second line of reasoning—represented, for example, by Bockstedt, Kauffman, and Riggins (2006) and Frost (2007)—concentrates on how record labels can be replaced or what they need to do to survive the turmoil. Bockstedt et al. (2006) correctly predicted that the technological changes may lead to weakening the position of record labels and traditional retailers in the value chain, yet they seem to have been too optimistic about the prospects of direct contacts between artists and digital retailers. Frost (2007) reasonably noted that disintermediation would not happen by itself, because there is a need for an infrastructure to replace the services of the record labels. He believed that “listener taste . . . could better be measured by reputation and rating systems, . . . local contract-studios could provide production services,” while “the Internet would provide the distribution infrastructure” (para. 12). The idea of basing the discovery of talent on folksonomies may seem appealing, but it could lead to elimination of promotion intermediaries only if all artists would refrain from spending significant resources on boosting their position in the rankings.⁴ The problem is that being in the top 10 or 20 of the rankings would have significant promotional value, because it would increase the chances of drawing new listeners.

⁴ Rankings here refers to not only official industry charts but Internet rankings showing collective behaviors of music audiences, such as weekly lists of the most popular tracks compiled for any country by Last.fm, or even recommendations made by users of Internet stores (e.g., Amazon’s customer reviews).

Consequently, it would be reasonable for artists to engage extra resources to help their recordings reach hit status. In such a situation, one can expect the emergence of specialized firms that would help artists increase the popularity of their music and boost their position in rankings. It is enough that one artist successfully uses such services to convince others to follow. Therefore, instead of disintermediation, we would observe the emergence of new types of intermediaries.

It should not be surprising that articles written in the early days of the digital music market to a certain extent overestimated the positive impact of the new communication technologies on the structure of the music industry. These technologies have a democratizing potential, and they have significantly altered the ways in which music is promoted, distributed, and consumed. Nevertheless, from the perspective of 2015, it seems that the domination of major record companies, as measured by their market share, is far from over and that new mechanisms are available for them to maintain their position which were not apparent to scholars writing about the music market in the early 2000s. This change of sentiment also can be noted in the literature. For example, Hesmondhalgh (2009) suggests that

the crisis and chaos in the music industry of the early 2000s was by no means unprecedented, and . . . digitalisation is just one of a series of technological innovations which have had impacts on the business of music over the last century. (pp. 68–69)

Arditi (2014) argues that independent record labels in the United States control a smaller market share today than they did in the 1990s, which suggests that it is not the majors, but the indies which are the victims of the changes. He believes that iTunes, by preventing individual musicians from uploading their music directly, benefits major record labels.⁵ Young and Collins (2010), basing their observations on interviews with Australian musicians, reach similar conclusions. They note that iTunes is an intermediary that can be difficult for independent artists to access. This leads Young and Collins to conclude that “the rise of iTunes represented re-intermediation rather than disintermediation” (p. 350). Similar observations are made by Morris (2010), who criticizes the assumption that “new technologies will inherently alter the balance of power in an industry,” because it “downplays the power afforded to entrenched players in various fields, especially when dealing with access to cultural commodities” (pp. 254–255).

The next sections develop the arguments of the aforementioned critics by discussing the role of music aggregators—new intermediaries whose role has not yet been analyzed in the literature.

The Digital Music Market Through the Lens of New Institutional Economics

In 1997, Picot, Bortenlänger, and Röhl wrote that “the electronization of markets does not automatically lead to markets without middlemen. A more differentiated intermediation structure is far more realistic than the total substitution of intermediaries” (pp. 115–116). With the benefit of hindsight, it is surprising that such precise predictions about the future of electronic commerce were made even before

⁵ At the time of this writing, individual artists can upload their music directly to iTunes if they hold rights to 20 albums or more, although the procedure is not easy.

the advent of the first P2P network—Napster—which marks the start of the turmoil in the recording industry. This is not to argue that anyone could have foreseen the reintermediation of the music market even before its disintermediation took place. Instead, I would claim that the theory of new institutional economics provides us with a useful tool to explain why today complete disintermediation of the music market, and the consequent threat to the music monopoly of the major record labels, is at this point unlikely. This is mainly due to two reasons. The first is market transaction costs, which, according to Furubotn and Richter (2005), include four categories of costs:

- Search and information costs—the costs of learning with whom one should trade (Who sells the desired product? Who offers the lowest price?)
- bargaining and decision costs—the costs of reaching an agreement that is acceptable for both parties
- supervision and enforcement costs—the costs of making sure that the transaction partners fulfill the contract and taking appropriate actions if they breach it
- costs of investments in social relations, which reflect the fact that “the internal social structure of markets matters,” because it “helps to ease the burden of personal uncertainty, information complexity, and limited rationality of actors” (p. 54)

It stands to reason that if the transaction costs of selling products directly to consumers were lower than the transaction costs of selling them via an intermediary, then producers would obviously choose direct contact (Hess & von Walter, 2006). As will be described later, major digital music stores cooperate directly only with the largest players; all others must contact them via intermediaries.⁶

Second, the existence of intermediaries can be desirable if the relationship between producers and buyers is characterized by bargaining asymmetry (Menard & Shirley, 2008; Williamson, 1985)—that is, only one side of the transaction has bargaining power. In that case, the stronger party—for example, the buyer—may capture part of its supplier’s margin by threatening to switch to a different supplier. In such a situation, hiring an intermediary who represents several producers (and hence becomes a more attractive trading partner) may be the most beneficial route. This is exactly what happens in the case of small labels, which are the weaker party when dealing with Spotify and the like.

Both transaction costs and bargaining asymmetry are reduced by an aggregator—an intermediary that aggregates “the demand of many customers or the products of many suppliers” (Bailey & Bakos, 1997, p. 9). Aggregators exist in several industries, but in the digital music market their role is largely unnoticed. To understand their role, it is necessary to examine how music is sold online.

⁶ Specialist digital music stores that cater mainly to independent artists (e.g., Bandcamp) allow users to upload their tracks directly.

Why Is Opening a Digital Music Store So Difficult?

The economic phenomena described earlier can be illustrated by a simple example that illustrates the complexities of selling digital music online. For the sake of clarity it should be noted that the term *digital music store* is used in this article to encompass the two most popular ways of delivering musical content online: the pay-per-download model and the streaming model.⁷ The pay-per-download model presents users with the option to buy individual tracks, usually for about US\$1 or €1 each. This model was implemented by the iTunes Music Store as well as many other smaller services. Record labels get a percentage of the price paid by customers. In the subscription model, users are charged a periodic fee, usually monthly, to get unlimited access to music content (e.g., prices for monthly access to Spotify vary among countries: €5.99 in Slovakia, €9.99 in Germany). In this model, record labels are paid proportionally to the popularity of their content and the number of paying subscribers in a given country, although exact numbers may differ depending on the service (Barr, 2013).

The process of opening a digital music store boils down to three elements:

1. designing a user interface (store's website)
2. signing the required deals with credit card operators
3. obtaining the repertoire that can be offered to customers.

From a business point of view, the first two elements are relatively uncomplicated. The first one can be solved easily by hiring a team of website developers. The second one requires signing deals with two or several business partners, depending on the country and payment options a digital music store intends to offer its customers. The third element—obtaining the repertoire—is much more complex. To understand these complexities one needs to realize that, in the case of digital music, copyright is not embedded in a tangible medium, which makes starting and operating a digital music store much more complex than starting and operating a traditional record store. Unlike a retail store that sells tangible records (e.g., compact discs), a digital music store must become involved in business dealings with suppliers of records and sign deals with copyright owners and the owners of related rights. In most cases, this means that to sell digital music online, it is necessary to sign deals with record labels and/or individual artists (the owners of the copyrights to the sound recordings), performers (whose rights may be managed by record labels), and music publishers and/or collecting societies (which license songwriters' rights).

Founders of a digital music store must answer two main questions before trying to contact rights owners. First, how large should the music repertoire offered to customers be? Second, in how many countries should the store be available? When answering the first question, the comparison to a traditional record store (i.e., trading in compact discs or vinyl) is useful. The size of the offer of a traditional record store was naturally limited by the store's capacity, and keeping records in stock that few people wished to buy was rightly perceived as a waste of shelf space that could be used to sell more popular products. In

⁷ Another popular model is the advertising model, in which free access to content is provided to consumers along with advertising messages.

the case of a digital record store, there is no warehousing problem, but acquiring the stock is much more difficult. It is not enough to get products from record distributors (as a traditional record store would); it is necessary to negotiate with the copyright owners of sound recordings (in most cases record labels) to obtain their consent to sell the product online. In theory, the larger the catalog that a digital music store wants to offer to its customers, the more copyright owners a store needs to negotiate with—hence, the higher the costs.

The second question refers to the geographical reach of a digital music store—where does it intend to sell its products? Although it is often argued that there are no borders on the Internet, it should be kept in mind that there is no such thing as international copyright law. The differences between intellectual property laws and related institutional arrangements in various countries are significant. In addition to obtaining permission to sell digital music online from the owners of the copyright in sound recordings, a digital music store should also secure permission from songwriters or organizations that represent them. In the case of tangible records, this was simple—for each copy of a record produced, a record label paid organizations representing songwriters so-called mechanical royalties (about 10% of the price of a music album in a store (Vogel, 2007)). These royalties were embedded in the price paid by consumers, and the owner of the retail store where the album was purchased did not have to worry about getting a license from anyone, even if records were sold abroad.

The situation is different in the case of digital music, because it is not the label but the digital music store that is obliged to pay the mechanical royalties. This is not a particularly difficult process in the United States, but it is quite complex in the European Union, where songwriters' rights are managed by at least 28 collecting societies (each member state has its own collecting society). Consequently, a digital music store that intends to operate across the European Union needs to secure songwriters' rights by negotiating with a collecting society in each of the member states. Obviously, at some point, a digital music store may conclude, based on a cost-benefit analysis, that it is better to concentrate on the most lucrative markets, abandoning plans to enter, for example, the Estonian (about 1.3 million citizens) or Slovenian (about 2 million citizens) markets, where it would have to negotiate separate deals with collecting societies to include the local catalog in its offer. Alternatively, such a digital music store may consider entering a market in a small country without securing the rights to the local catalog, which means being unable to sell music that particularly appeals to listeners living in that country.

Consequently, selling a large catalog of digital music globally is costly, and no digital music store offers (and may never be able to offer) every record ever released in all countries. Most big players adopt a more pragmatic strategy of entering the most promising markets first and then gradually extending their offer, with some notable exceptions based on business strategy (e.g., the French-based Deezer abstaining from entering the U.S. market). It is important to emphasize that the slow but steady development of the digital music market would not be possible if not for the existence of economic mechanisms (namely, the emergence of new intermediaries) designed to reduce transaction costs. The next section examines the role of music aggregators, which play an essential role in the development of the digital music market by helping to overcome transaction costs and bargaining asymmetry problems.

The Role of Music Aggregators

Music aggregators bundle digital rights (copyright to sound recordings and performers' rights) and deliver them to digital music stores, such as pay-per-download stores (e.g., iTunes) and subscription services (e.g., Spotify). Aggregators operate on the business-to-business market, where one group of contractors are record labels or individual artists, and the other group are digital music stores. Contracts between small rights owners and music aggregators are usually exclusive, which means that a label or an individual artist cannot license the same repertoire to two different aggregators at the same time. Contracts between large digital music stores and music aggregators are not exclusive, which means that a digital music store can cooperate with several aggregators, and obviously an aggregator delivers content to multiple services (otherwise it would not be attractive to rights owners).

On the one hand, it can be claimed that music aggregators exist because digital music stores are not willing to work directly with small rights owners. On the other hand, digital music stores would not work with aggregators if their catalogs were small. It is the size of the bundle of digital rights gathered by the aggregator that makes it an attractive partner for digital music stores. Therefore, aggregators are motivated to seek rights owners whose catalogs are not yet sold online. Signing new partners not only gives aggregators the chance to earn profits but makes them a more attractive partner for digital music stores. As one of the interviewees noted, "We waited eight months for iTunes, and, frankly speaking, iTunes signed a deal with us only when we represented more than fifty labels."

Aggregators help answer the first question posed in the previous section (How large should the music repertoire offered to customers be?). Thanks to their services, digital music stores do not have to conduct costly negotiations with small and medium-sized record labels and independent artists, and can offer their customers the whole catalog that an aggregator managed to gather. For the sake of clarity, it should be noted, however, that aggregators do not help digital music stores solve the second problem discussed in the previous section. Aggregators do not deal with songwriters' rights, which must be negotiated with collecting societies and/or music publishers (see the previous section and Mazziotti, 2011). The entire process is illustrated in Figure 1.

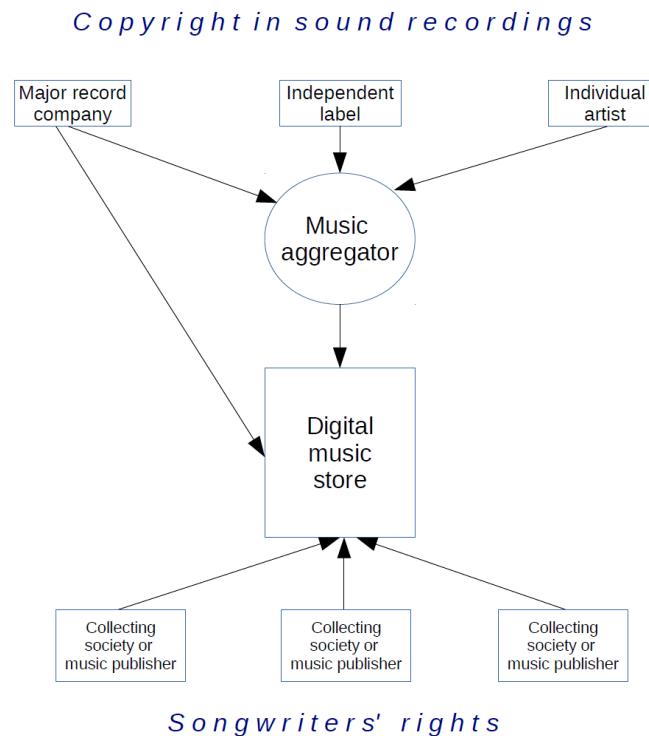


Figure 1. Entities involved in licensing digital rights.

The second economic problem that music aggregators help resolve is the bargaining asymmetry that exists between large digital music stores and small independent music labels or individual artists. Even if we assume that negotiations between these two parties are not prevented by high transaction costs (i.e., the digital music store would agree to negotiate directly with a small label or individual artist), then the bigger player—a digital music store—would be in a better position to impose its own contract terms. Most small labels and individual artists would be offered take-it-or-leave-it contracts that would favor the interests of the digital music store. Owners of larger and more commercially attractive catalogs would be in a favorable position to negotiate contract terms, and only those perceived as indispensable by a digital music store (major record labels) would be able to obtain attractive terms.⁸ The existence of aggregators partly solves this problem. Thanks to the size of a catalog that an aggregator delivers to a digital music store, the aggregator can negotiate with the digital music store on an equal basis, in the name of all the rights owners that it represents. This solution is not perfect, because an aggregator itself

⁸ Such a situation would persist until the competition among digital music stores for repertoire would strengthen the negotiating positions of smaller players.

can discriminate among rights owners, offering better terms to owners of bigger and more commercially attractive catalogs. This danger is, however, somewhat mitigated by the competition among aggregators—small labels and individual artists can shop for an aggregator that offers them the best terms.

Bundling digital rights and delivering them to digital music stores and reducing bargaining asymmetry are the most important, but not the only, tasks performed by music aggregators. Other tasks include: (1) monitoring the status of the rights, (2) adapting digital formats to the requirements of the online retailer, (3) digitalization, and (4) delivering marketing materials to digital music stores. These tasks are explained in order below.

1. *Monitoring the status of rights.* Record labels sign various types of contracts with the artists whose records they release. Such contracts may stipulate that a record label keeps control over a master recording only for a limited number of years. Because selling digital files without the consent of a *current* copyright owner may have profound legal consequences, it is essential to keep track of the current copyright status of a recording. It may therefore be up to the aggregator to know who currently has the rights to the recording and when the rights expire. An interviewee explained this the following way:

The problem is that all these rights are “alive.” Let’s say one label loses the rights, because they had a three-year-long contract and it’s just expired . . . and, as a matter of fact, it’s all about speed—if there’s something new, it should immediately be sold, as there are cases when something sells for only two or three days . . . and if you upload it three days later [because of a problem with rights], then it’s too late; it won’t sell anymore.

This quote refers to a hypothetical situation whereby a label signs a three-year license deal with an artist. In a license deal, “the artist retains the copyrights and ownership of the master recording,” and “the right to exploit that property is granted to a label for a limited period of time” (Byrne, 2007, para. 26). Let’s assume that such a deal resulted in recording an album that was released on January 1, 2011, and the label’s right to exploit it ended on December 31, 2013, which means that on January 1, 2014, the rights to the record revert to the artist. If, by a coincidence, a song from that record becomes popular after that date and the music aggregator failed to note who owns the copyright after December 31, 2013, then that song cannot be sold anymore and the chance to earn profits is lost.

2. *Adapting digital formats to the requirements of the online retailer.* Various online retailers use their own digital music formats (e.g., Advanced Audio Coding—or AAC—used by iTunes) and systems of tagging music files. Theoretically, record labels could adapt digital formats to the requirements of online retailers on their own, but this task could become extremely time-consuming in the case of multiple formats and large music catalogs. Aggregators, because they provide these services to many record labels, exploit economies of scale, which makes the whole process less costly than if each label adapted formats on its own. As one interviewee put it:

When we sign a deal with a label, we get from it tangible records—it's not only audio but also CD covers, metadata (say, artist's name, who wrote lyrics and music, song's length, date, etcetera). Each label, even if it has all this data on a server of its own, uses different a format—some use first name, last name, other last name, first name—so you can't simply download it from them . . . you need to standardize the database regarding all the metadata and music formats—some use MP3, other WMA, various bitrates . . . the same with CD covers.

3. *Digitalization* is a service offered by a music aggregator to record labels that keep a part of their catalog (usually older records) in analog formats such as master tapes or vinyl. This is most relevant for record labels that have a large catalog of old records that were never offered for sale in digital formats before. As one interviewee said:

Regularly, for at least the last eight years, we've been signing deals with those labels. Now we have more than seventy deals; and we get content from them in very different forms and we have a team of people who digitalize and tag music and scan covers every day.

4. *Delivering marketing materials to digital music stores.* Some digital music stores use marketing content provided by aggregators, because it may be cheaper than investing in the development of the retailer's own marketing department. An aggregator in this case acts as an intermediary between record labels and digital music stores, which, apart from bundling music catalogs, delivers marketing spots and messages (e.g., brief information about an artist's new album, photos) produced by record labels to online retailers. Such marketing content can, if paid for, be embedded in the digital music store's main website, where it reaches customers.

Some aggregators—in addition to offering services to their main business counterparts (i.e., rights owners and digital music stores)—may work with institutions that want to start a digital music store but are not willing to go through the painstaking process of building the infrastructure that is needed to store content. An interviewee described this with the following example:

If you want to open a digital music store, it's enough that you design a front—a portal where users log on and have their data registered, what they downloaded, how much they paid, and so on—while all the infrastructure that is necessary to store music and to facilitate downloading is delivered and serviced by us. . . . In my opinion, our infrastructure constitutes seventy-five percent of the investment that is necessary to open a digital music store.

Obviously, large digital music stores prefer to design all the elements of their services. Smaller players (e.g., stores that operate in one country only) may be willing to outsource the technological and legal issues to aggregators, which have the necessary know-how. From an economic point of view, such a division of labor can be considered efficient.

The Costs of Music Aggregators' Services

Although music aggregators solve a number of problems faced by record labels and individual artists, their services come at a cost. There are significant differences in pricing policies between aggregators that target record labels and those that agree to work with individual artists. When it comes to the former, the aggregator's commission is usually negotiated. The general rule is that the bigger and more valuable the label's catalog, the better terms it can negotiate with an aggregator.⁹ As one interviewee put it:

Our commission varies . . . depending on several factors. If someone comes to us with a big catalog, then it's obvious that we talk with them differently, while if someone has a small catalog, then taking care of such catalog is a different thing.

An interviewee gave the following example of how a commission might work: Assuming that a track costs US\$1 net (after deducting sales tax/value-added tax, credit card operator's costs, and digital music service's commission), about 10 cents is paid to the songwriter's collecting society, the aggregator's commission is between 30 and 45 cents, and the label receives the rest—between 45 and 60 cents. How much an artist receives depends on his or her contract with the record label. In a *profit-sharing deal* (often signed with independent record labels; see Byrne, 2007, para. 28), the artist's royalties can reach 50% of profits (in our example, between 22.5 and 30 cents); in a *standard deal*, the royalties will almost certainly be lower and will be paid only after the costs of recording an album have been recouped (Byrne, 2007; Passman, 2011).

Aggregators that agree to work with individual artists usually have predefined fees. For example:

- TuneCore charges artists a one-time submission fee (\$29.99 per album and \$9.99 per single) and an annual fee (\$49.99 per album and \$9.99 per single) (TuneCore, 2014).
- CD Baby charges artists a one-time submission fee (\$49 per album and \$12.95 per single) and 9% commission on digital revenues earned through the service (CD Baby, 2014).
- RouteNote offers artists two options: (1) the artists pay no up-front fee and are charged 15% commission on digital revenues earned through the service; (2) artists pay an up-front fee (\$10 for singles, \$20 for EPs, \$30 for albums and then \$9.99 annually) but are charged no commission on digital revenues (RouteNote, 2014).¹⁰

Aggregators that work mainly with individual artists can differ significantly when it comes to the number of digital music stores they work with and the additional services they offer their clients. For example, CD Baby offers the manufacturing of compact discs, while TuneCore offers the collection of

9 What matters is both the size of a catalog measured by the number of tracks and its value. Therefore, a label that owns rights to 10 popular albums may negotiate better terms than a label that owns 20 less-popular albums.

10 In all cases, status is as of October 19, 2014.

music publishing royalties. What additional services are offered depends on a particular aggregator's business strategy and the market in which it operates (e.g., global or in a limited number of territories). Artists who target non-English-speaking markets may be more interested in signing a deal with a local aggregator, because a global one may not give them access to digital music stores that operate only in one country.

From the competition point of view, the fees charged by aggregators would not be controversial if they were charged to all the participants in the digital music market. However, whether a record label chooses to deliver its catalog to digital music stores through aggregators and the size of the aggregator's commission depend on the size and value of the label's catalog (in other words, market power). Major record companies, which control approximately 75% of the global recording market, can make deals with digital music stores directly. Their catalogs are so large that practically no digital music store (with the exception of those that target niche markets) can do without them. This gives the major record companies negotiation clout; not only do they have an attractive asset that digital music stores need, but dealing with them directly can significantly reduce transaction costs. Additionally, major record labels benefit from market power when they find it necessary to deal with music aggregators. There are situations when a major record label may want to access a certain digital music store operating in a small market via an aggregator (e.g., for reasons of reliability, risk reduction, etc.). In such a case it is highly probable that a major record label will negotiate good terms (i.e., a low commission to the aggregator), and the contract will not be exclusive (i.e., the major record label will be free to deal with a different aggregator at any time).

In the most optimistic scenario, three deals with majors give a digital music store access to approximately 65% of the currently popular music repertoire, including some of the most popular artists.¹¹ However, what is convenient for major record companies and digital music stores constitutes a big disadvantage to smaller record labels and individual artists, whose digital revenue is, to a significant extent, eaten up by music aggregators.

Conclusions

This article contributes to the discussion on the Internet-led democratization of the music industry by showing that complete disintermediation of the recording market has not happened. A complete disintermediation would mean, for example, that selling music directly to listeners (e.g., via artists' websites) would be a common practice. Although both beginning and established artists experiment with direct sales, it is not a dominant mode of selling digital music. Not only do most artists and labels sell their music through digital retailers, but to have their content carried by digital music stores they need to employ another intermediary—a music aggregator. Consequently, the digital

¹¹ In 2013, the three largest record labels controlled about 75% of the global recording market, and music publishers affiliated with these major record companies controlled about 65% of songwriting revenues (Music and Copyright, 2013). Although these numbers do not mean that three largest music conglomerates controlled 75% or 65% of the entire copyrighted music repertoire, they can be treated as rough estimates of their market share in the currently popular repertoire.

distribution chain (label → aggregator → retailer) bears a striking resemblance to the traditional one (label → distributor → retailer). One could therefore conclude that the old saying “the more things change, the more they stay the same” seems to aptly describe the current situation in the music industry. A similar observation was made by Rogers (2014), who argues that the “fundamental strands of continuity” (p. 34) in the music industry are strengthened by, among other things, copyright law, which “forms one of the key suppressants of the radical potential associated with the Internet and other digital technologies” (p. 39). This corresponds to my conclusion that it is the concentration of ownership of copyrights that gives the major music conglomerates the advantage over small rights owners when dealing with digital retailers. In other words, the problem with the system based on music aggregation is that it favors the already-established players by binding costs of digital distribution with size and value of the rights owner’s catalog. Of course, this is the inherent logic of the system in which music is commodified and copyright is a tradable asset. Whenever there are high transaction costs combined with uneven market power of competing market players (content owners), some of them will be able to negotiate better terms because the size of their assets (catalog) reduces the contracting party’s transaction costs.

It is worthwhile to discuss the potential social and cultural consequences of the emergence of music aggregators. First, the situation in which independent labels and individual artists are forced to deliver their content to digital music stores on worse terms than the major players may negatively influence market diversity. One should ask whether independents are able to sustain and develop their businesses if their revenues from digital sales are permanently lower than the majors’.

Second, because the “imperative towards vertical integration is strong in the cultural industries” (Hesmondhalgh, 2013, p. 200), it can be expected that sooner rather than later the most attractive music aggregators will be bought out by the major music conglomerates. The first signs of this can be observed already: In 2009, Sony Music Entertainment partnered with a music aggregator called Independent Online Distribution Alliance, which in 2012 merged with another aggregator—The Orchard—forming a major player in digital distribution. Sony owns a large stake in the new entity, taking a first step toward becoming a fully vertically integrated company. Because major music conglomerates own shares in some digital retailers—for example, Spotify (Sherwin, 2013)—the birth of fully vertically integrated music conglomerates that control whole digital distribution chains may be closer than we think. Considering that, prior to the advent of the Internet, major record labels rarely owned record stores, in a few years it may turn out that the fully vertically integrated majors are, paradoxically, the winners in the shift to digital.

Finally, although individual artists may find that securing global distribution of their recordings is easier today than it was before the advent of the Internet, it is cheap and uncomplicated only if such artists stick with retailers that specialize in independent music (e.g., Bandcamp). If an individual artist wants to have her or his records available in one of the mainstream (i.e., used by most digital customers) services such as iTunes, Spotify, or Deezer, then paying for the services of a music aggregator becomes a must. Although aggregators’ services are not prohibitively costly, when one takes into account the low royalties paid by streaming services, it is quite probable that in many cases individual artists will find that making their tracks available in these services causes them to operate at a loss.

Three directions for future research can be envisioned. First, researchers could evaluate developments in the digital music market through the prism of competition. Any sign of abuse of concentration of power or anticompetitive practices—for example, resulting from vertical integration—should be scrutinized from the perspectives of economics and political economy. Second, research into the strategies implemented by individual artists and small record labels in the digital music market could lead to a better understanding of the problems stemming from the unequal treatment of big and small players. Theoretically, not every artist needs to be on Spotify, and as cheaper alternatives emerge, their attractiveness to musicians representing particular music scenes or genres should be investigated. Finally, it is necessary to further explore the links between the evolution of copyright law and the shape of the digital music market, and markets for cultural products more generally. It has been suggested here and in other research that copyright law is used by major conglomerates to counteract disruptive technologies and strengthen their position. The political, social, and economic forces at play should be further studied.

Appendix: List of Interviews

March 7, 2013:	Independent Digital (music aggregator)
March 8, 2013:	MJM Music (independent record label)
March 8, 2013:	Sony/ATV Music Publishing (major publishing company)
March 8, 2013:	Muzo.pl (digital music store)
March 8, 2013:	EMI Music Poland (major record company)
March 14, 2013:	E-Muzyka (music aggregator)
March 14, 2013:	Asfalt Records (independent record label)
March 14, 2013:	STX Jamboree (concert agency)
March 15, 2013:	Sony Music Entertainment Poland (major record company)
March 20, 2013:	Universal Music Polska (major record company)
March 21, 2013:	ZPAV (collecting society)
March 21, 2013:	ZAiKS (collecting society)
March 21, 2013:	SAWP (collecting society)
March 22, 2013:	STOART (collecting society)
May 17, 2013 (e-mail interview):	Spotify (digital music store)
May 23, 2013:	WIMP (digital music store)
June 12, 2013:	MegaTotal.pl (crowd-funding platform)
July 9, 2013 and July 10, 2013 (e-mail interviews):	Sound Park (digital music store for individual artists and independent labels)

References

- Arditi, D. (2014). iTunes: Breaking barriers and building walls. *Popular Music and Society*, 37(4), 408–424. doi:10.1080/03007766.2013.810849
- Bailey, J. P., & Bakos, Y. (1997). An exploratory study of the emerging role of electronic intermediaries. *International Journal of Electronic Commerce*, 1(3), 7–20. Retrieved from <http://www.jstor.org/stable/27750817>
- Barr, K. (2013). Theorizing music streaming: Preliminary investigations. *Scottish Music Review*, 3, 1–20. Retrieved from <http://www.scottishmusicreview.org/index.php/SMR/article/view/40/34>
- Bockstedt, J. C., Kauffman, R. J., & Riggins, F. J. (2006). The move to artist-led on-line music distribution: A theory-based assessment and prospects for structural changes in the digital music market. *International Journal of Electronic Commerce*, 10(3), 7–38. doi:10.2753/JEC1086-4415100301
- Brousseau, É., & Glachant, J.-M. (2008). *New institutional economics: A guidebook*. Cambridge, UK: Cambridge University Press.
- Burkart, P. (2014). Music in the cloud and the digital sublime. *Popular Music and Society*, 37(4), 393–407. doi:10.1080/03007766.2013.810853
- Byrne, D. (2007, January 16). David Byrne's survival strategies for emerging artists—and megastars. *Wired*. Retrieved from http://www.wired.com/entertainment/music/magazine/16-01/ff_byrne
- CD Baby. (2014). *Worldwide music distribution: No annual fees*. Retrieved from <http://members.cdbaby.com/cd-baby-cost.aspx>
- Chircu, A. M., & Kauffman, R. J. (1999). Strategies for Internet middlemen in the intermediation/disintermediation/reintermediation cycle. *Electronic Markets*, 9, 109–117. doi:10.1080/101967899359337
- Chircu, A. M., Kauffman, J. R., & Wang, B. (2007). Beyond the “eBay of blank”: Next stage digital intermediation in electronic commerce. In S. Barnes (Ed.), *E-commerce and v-business: Digital enterprise in the twenty-first century* (pp. 43–73). Burlington, MA: Butterworth-Heinemann.
- DeGusta, M. (2011, February 18). The REAL death of the music industry. *Business Insider*. Retrieved from <http://www.businessinsider.com/these-charts-explain-the-real-death-of-the-music-industry-2011-2>
- Fox, M. (2004). E-commerce business models for the music industry. *Popular Music and Society*, 27(2), 201–220. doi:10.1080/03007760410001685831

- Frost, R. L. (2007). Rearchitecting the music business: Mitigating music piracy by cutting out the record companies. *First Monday*, 12(8). doi:10.5210/fm.v12i8.1975
- Furubotn, E. G., & Richter, R. (2005). *Institutions and economic theory: The contribution of the new institutional economics* (2nd ed.). Ann Arbor, MI: University of Michigan Press.
- Galuszka, P. (2012). Netlabels and democratization of the recording industry. *First Monday*, 17(7). doi:10.5210/fm.v17i7.3770
- Galuszka, P. (2015). New economy of fandom. *Popular Music and Society*, 38(1), 25–43. doi:10.1080/03007766.2014.974325
- Hesmondhalgh, D. (2009). The digitalisation of music. In A. C. Pratt & P. Jeffcutt (Eds.), *Creativity, innovation and the cultural economy* (pp. 57–73). London, UK: Routledge.
- Hesmondhalgh, D. (2013). *The cultural industries* (3rd ed.). London, UK: SAGE Publications.
- Hess, T., & von Walter, B. (2006). Toward content intermediation: Shedding new light on the media sector. *International Journal on Media Management*, 8(1), 2–8. doi:10.1207/s14241250ijmm0801_2
- International Federation of the Phonographic Industry. (2013). *Recording industry in numbers: The recorded music market in 2012*. London, UK: Author.
- Jones, S. (2000). Music and the Internet. *Popular Music*, 19(2), 217–230. Retrieved from <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=61748&fulltextType=RA&fileId=S026114300000012X>
- Kasaras, K. (2002). Music in the age of free distribution: MP3 and society. *First Monday*, 7(1). doi:10.5210/fm.v7i1.927
- Kretschmer, M., Klimis, G. M., & Wallis, R. (1999). The changing location of intellectual property rights in music: A study of music publishers, collecting societies and media conglomerates. *Prometheus*, 17(2), 163–186. doi:10.1080/08109029908629548
- Kruse, H. (2010). Local identity and independent music scenes, online and off. *Popular Music and Society*, 33(5), 625–639. doi:10.1080/03007760903302145
- Marshall, L. (2013). The 360 deal and the “new” music industry. *European Journal of Cultural Studies*, 16(1), 77–99. doi:10.1177/1367549412457478
- May, C. (2007). A multi-tiered music industry? Intellectual property rights, open access and the audience for music. *Journal on the Art of Record Production*, 2. Retrieved from

- <http://arpjournal.com/570/a-multi-tiered-music-industry-intellectual-property-rights-open-access-and-the-audience-for-music/>
- Mazziotti, G. (2011). New licensing models for online music services in the European Union: From collective to customized management. *Columbia Journal of Law and the Arts*, 34(4), 757–808. Retrieved from <http://hdl.handle.net/10022/AC:P:13800>
- McLean, R., Oliver, P. G., & Wainwright, D. W. (2010). The myths of empowerment through information communication technologies: An exploration of the music industries and fan bases. *Management Decision*, 48(9), 1365–1377. doi:10.1108/00251741011082116
- McLeod, K. (2005). MP3s are killing home taping: The rise of Internet distribution and its challenge to the major label music monopoly. *Popular Music and Society*, 28(4), 521–531. doi:10.1080/03007760500159062
- Menard, C., & Shirley, M. M. (2008). *Handbook of new institutional economics*. Berlin, Germany: Springer-Verlag.
- Morris, J. W. (2010). *Understanding the digital music commodity* (Doctoral thesis). Department of Art History and Communication Studies, McGill University, Montréal, Canada. Retrieved from http://www.jeremywademorris.com/Publications_files/Dissertation%20Final%20Archive.pdf
- Music and Copyright. (2013, May 1). *UMG leads the new order of recorded-music companies, Sony dominates music publishing*. Retrieved from <https://musicandcopyright.wordpress.com/2013/05/01/umg-leads-the-new-order-of-recorded-music-companies-sony-dominates-music-publishing/#more-1011>
- Passman, D. S. (2011). *All you need to know about the music business* (7th ed.). London, UK: Viking.
- Picot, A., Bortenlänger, C., & Röhr, H. (1997). Organization of electronic markets: Contributions from the new institutional economics. *The Information Society*, 13(1), 107–123. doi:10.1080/019722497129313
- Rogers, J. (2013). *The death and life of the music industry in the digital age*. New York, NY: Bloomsbury Academic.
- Rogers, J. (2014). Canary down the mine: Music and copyright at the digital coalface. *Socialism and Democracy*, 28(1), 34–50. doi:10.1080/08854300.2013.869875
- RouteNote. (2014). *Music distribution simplified*. Retrieved from <http://routenote.com/services/artist>

- Serpick, E. (2008, April 17). Nine Inch Nails, Eagles, Pumpkins: Who needs labels? *Rolling Stone*. Retrieved from <http://www.rollingstone.com/music/news/nine-inch-nails-eagles-pumpkins-who-needs-labels-20080417>
- Sherwin, A. (2013, July 15). Thom Yorke Spotify criticism: Top producer accuses Radiohead singer of Twitter hypocrisy. *The Independent*. Retrieved from <http://www.independent.co.uk/arts-entertainment/music/news/thom-yorke-spotify-criticism-top-producer-accuses-radiohead-singer-of-twitter-hypocrisy-8709829.html>
- TuneCore. (2014). *Tunecore pricing*. Retrieved from <http://www.tunecore.com/index/pricing>
- Vogel, H. L. (2007). *Entertainment industry economics: A guide for financial analysis*. Cambridge, UK: Cambridge University Press.
- Wikström, P. (2010). *The music industry: Music in the cloud*. Cambridge, UK: Polity.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York, NY: Free Press.
- Young, S., & Collins, S. (2010). A view from the trenches of music 2.0. *Popular Music and Society*, 33(3), 339–355. doi:10.1080/03007760903