Music360

A 360 DEGREES PERSPECTIVE ON THE VALUE OF MUSIC

Deliverable 6.3
National Music Ecosystem Models

Disclaimer

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1. Introduction

In this deliverable, we develop conceptual models of the national music ecosystems. Following [1], a business ecosystem is a system of economic actors that depend on each other for their survival and well-being.

We are interested in conceptual models of business ecosystems for a number of reasons. First, it provides a common understanding of the music sector in Europe. Although quite similar, there are also differences between the various digital ecosystems the partners of Music360 participate in. Usually, these differences are the result of local law. Second, the ecosystems for each country provide the scope for the living labs in these countries (WP6). Therefore, it is important to understand them well, including their differences. Third, the models are the foundation for presentation and analysis of the music of value at the ecosystem level (WP4). And fourth, the national ecosystem models are important to design and analyse the business model of the Music360 ecosystem itself (WP5).

The conceptual models in this deliverable are conceptual models, which are expressions of how a business creates, delivers, and captures economic value [1]. Because business models are about economic value understanding of the domain at hand, they are instrumental in understanding the value system of the domain, here the music sector.

The music ecosystem in general is very complex. Therefore, in this deliverable, we focus on the European national music ecosystems concerning background music. This is a part of the bigger ecosystem of music, which also includes festivals and live performances.

The core value proposition of the part of the ecosystem that we model is to provide background music to businesses (e.g. use music professionally), which becomes part of the experience of the customers and/or employees of these businesses.

In section 2, we characterize the domain of background music, with the focus on the partners in the Music360 project. Section 3 provides the value hierarchy of the national ecosystems. A value hierarchy shows the services and products offered by actors to others. More information can be found in [1]. Section 4 presents a generic *e*^{3}*value* model, which is made more specific for the situations in The Netherlands, Finland, Ireland and Portugal (section 5). The e3value method is an approach to formalize business models of ecosystems, which is briefly explained in the Appendix. Interested readers can consult [2] for more information.

2. Characterization of the Background Music Domain

The music domain is highly complex, with many parties, and product & services requested, distributed, and offered. To reduce complexity, but still to be in line with Music360, we focus on the subdomain in which Collective Management Organizations (CMOs) are the central parties. Also, we concentrate on background music only.

In general, CMOs operate on behalf of right holders, sometimes called the creative entities (artists, music and text writers), and producers, and publishers. CMOs collect money for right holders, and in return CMOs receive the mandate to collect money for the right holders.

Money is collected from professional music users such as restaurants, bars, shops, etc., in short, any venue where a party creates additional value by playing music. These are collectively called the users, and they receive a license to play music in their venue and pay a CMO for that. Typically, a CMO pays the right owners that collected money but keep a fraction of that money to finance its operations. While professionally using music, the importance of music can vary. For example, for a popular-music radio station, music plays a very important role, because it so closely relates to the mission of that radio station. The station is charged accordingly. For shops, music is often perceived as background music; the idea is that music contributes to a positive shopping experience and results in more sales. Finding out if this is really the case is one of the goals of Music360.

The mandate and license mentioned above can be for many different rights. In Music360, we restrict ourselves to author rights (typically owned by text & song writers, publishers) and neighbouring rights (artists and producers). The author right is fairly generic (e.g. also relevant for books) and occurs if some writes music, or song texts. Author rights have a long history, neighbouring rights are more recent as they stem from the treaty of Rome in 1961. A neighbouring right occurs if music is played outside the private environment. If a shop, restaurant, radio- or television station plays music, or in other words: make music public, it has to pay for that neighbouring right (“neighbouring” means next to the author right). Typically, authors rights are about works, whereas neighbouring rights concern recordings. A specific work can have many recordings. For example, the work “Have a little faith in me” as written by John Hiatt is recorded by the same John Hiatt, but also by Joe Cocker and Ilse de Lange. The other way around, a recording may relate to many works. This is not trivial at first sight, but happens for example in case of a medley, where a single artist or band records a track with pieces of many works. Finally, it is important to state that a neighbouring right always requires a recording. If an artist performs a work live, there is no neighbouring right (unless the artist uses samples from CDs, which are considered as recordings). However, with live performances, there are author rights involved.

In the music ecosystem, CMOs can play one or more roles. They can claim money for the right at hand, they can collect money for rights elsewhere (e.g. if The Beatles are played by a Dutch radio station, the Dutch CMO collects money from the radio station, and the UK CMO claims money from the Dutch CMO on behalf of the artists), and they can distribute claimed and collected money to the appropriate right owners. In some cases, these three roles can be played by one CMO, but in other cases, they play only one or two roles.

Similarly, CMOs can focus on one right (e.g. the author right or the neighbouring right) but can also handle more than one right. Finally, there can be competition. Usually, there is only one CMO per right in a country. This is often due to the law. For example, in The Netherlands, the SENA is appointed by the government to collect, claim and distribute all neighbouring rights for the Dutch right user and -owners, but in some other countries, right owners can decide themselves which CMO handles their rights.

Finally, CMOs can provide services, e.g. to each other. What may happen is that a CMO collects money for both a neighbouring and author right. However, from a legal point of view, the right user still has a contract with both CMOs individually; one for the neighbouring right and one for the author rights. In

such a case, one CMO provides the service for the other CMO, namely sending the bill to the right user, and receiving the payment (we call that service factoring). Often, this is done for reasons of efficiency of the claiming process. Also, it is convenient for the right user, as only one invoice needs to be paid.

In Music360, we are interested in the various business ecosystem configurations for the two music rights, as for each country, there are differences. Based on explanation above, a business ecosystem in the music industry with respect to background music has the following dimensions:

- The right: author right or neighbouring right
- The right owner: composer (e.g. of music and lyrics), publisher, artist, producer. Note that this is a top-level classification, e.g. an artist can be further classified as main artist, studio musician, session musician, etc.
- The right user: everyone who uses music professionally. The list is endless: shops, restaurants, radio & television station, cinemas, hospitals, etc.
- The role of the CMO: collecting (from right users), claiming (from other CMOs), distributing (to right owners).
- The role music plays: we focus on background music.
- Bundling of rights (e.g. CMOs that deal with both authoring and neighbouring rights).
- Competition: multiple parties that play the same role for the same right owner and the same right in the same geographical area.
- Services: e,g, factoring.

3. The Value Hierarchy

In a plenary project workshop in March 2023, the major stakeholders in the music ecosystem were identified and we made a first version of the value hierarchy of the European music ecosystem [2]. In bilateral meetings conducted with the CMOs since March, we improved and refined the model to the following diagram.

The boxes in the diagram represent groups of stakeholders. One stakeholder can play more than one role. For example, CMOs play a role in revenue distribution but are also data providers. Horizontal lines present a service hierarchy. Entities in lower layers can provide services to entities in higher layers. The arrows represent value propositions.

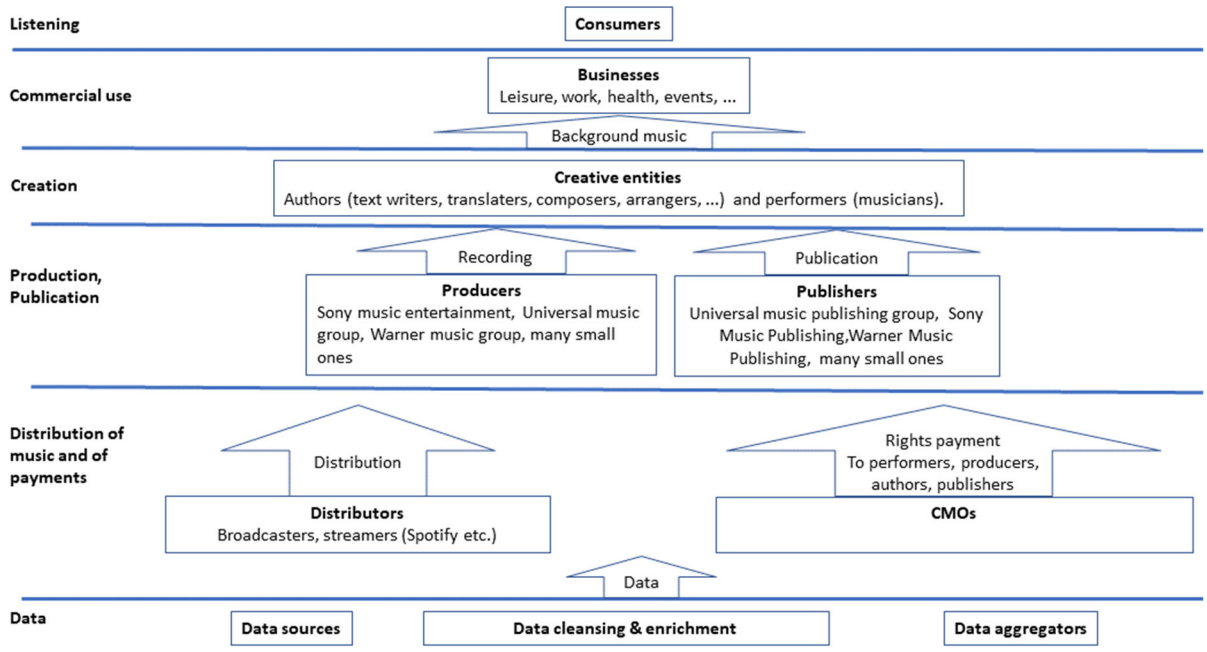


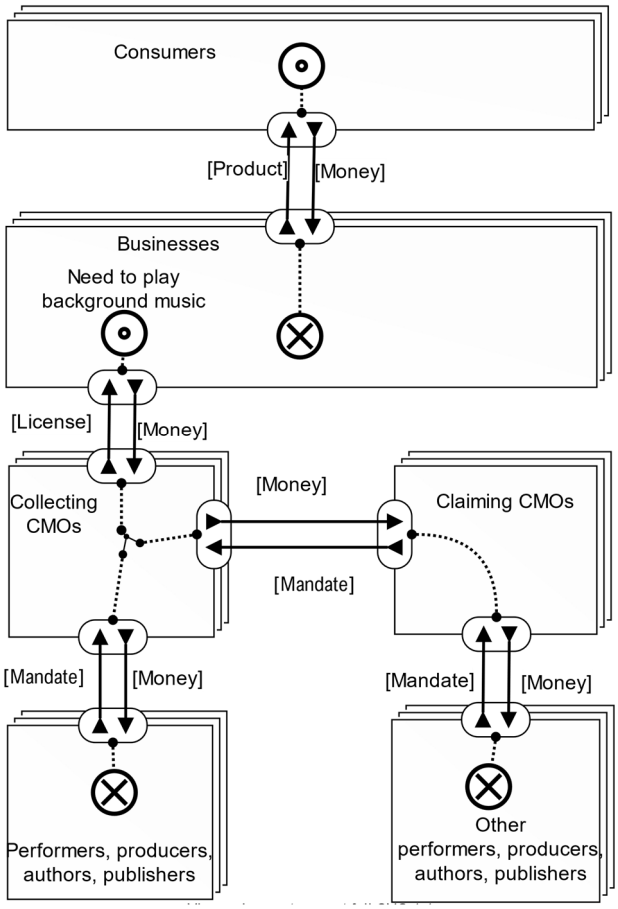
Figure 2.1: Some stakeholders in the music ecosystem and their value propositions.

The diagram says that creative entities (authors & performers) provide background music to businesses and use the services of producers and publishers. Distributors provide services to any of the higher entities. Collective Management Organizations (CMOs) provide rights collection services to record companies and creative entities. At the lowest layer, data providers provide services to any of the higher entities.

The model is a simplification. It restricts itself to background music. Every box in the diagram can be elaborated to an ecosystem in itself. The model suits our goal of developing a system to provide 360º insights in the value of background music.

4. The General CMO Revenue Model

The following *e³value* diagram shows the value flows as they happen in each country in Europe. A brief introduction to e3value is given in the appendix. We supplement each diagram with a short summary of the value flows described by the diagram.



A business sells products or services to consumers. For this they need a physical space, lighting electricity, water, furniture, background music and much more. They pay to obtain a license to play background music.

Creators (performers, producers, authors, and publishers) register with a CMO located in a country and where necessary give them a mandate to directly or indirectly license background music to businesses in their country. Each CMO monitors where in that country their music is being played as background music. They distribute the money derived from these licenses to their members. This is the **collecting** (and distributing) role of a CMO.

CMOs also mandate each other to collect revenues for their members from background music played in other countries. If the music of these creators has been played in another country, they receive the money from the relevant CMO in that country and distribute it to their members. This is the **claiming** (and distributing) role of the CMO.

Figure 3-1 The general CMO revenue model

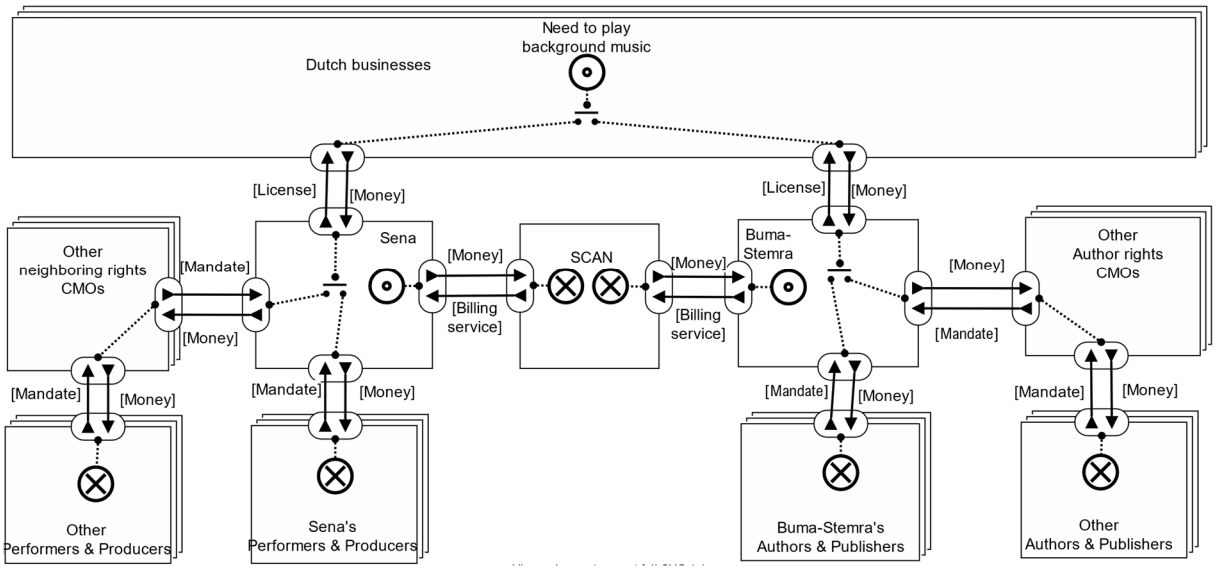
Most CMOs use a small fraction of their revenues to support a foundation or initiative(s) that supports the music sector in the country with subsidies. For simplicity we do not show this in our models.

5. National Music Ecosystem Models

CMOs collect money (derived from the licensing of author and neighboring rights) for their members from businesses and claim such money from sister CMOs. We show the value flows in these two scenarios in separate diagrams for each country.

5.1. The Netherlands

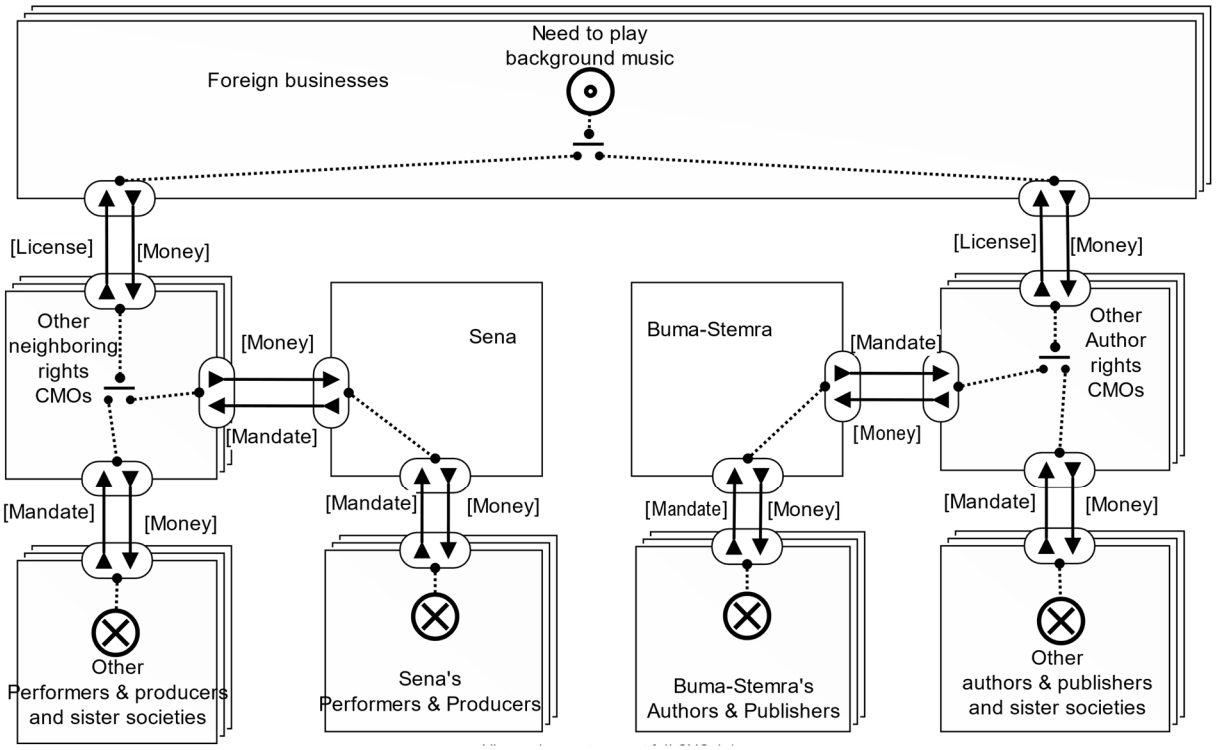
Sena and Buma-Stemra collect money from Dutch businesses through SCAN and distribute it to their members and to other CMOs. SCAN is a joint venture which provides the service of collecting money derived from the licensing of author and neighboring rights.



Sena and Buma-Stemra grant licenses (authorisation for the exploitation of neighbouring and author rights) to play background music, respectively, to Dutch businesses. They use the service organization SCAN to handle the billing. They distribute the collected money to their members and forward money due to non-members to sister organizations, who distribute it to *their* members.

Figure 4-1 Sena and Buma-Stemra collect money through SCAN and distribute it to their members and to other CMOs.

Figure 4-1 shows the economic transactions involved in selling the license to play background music to Dutch businesses. Operationally, the money flows from the businesses to SCA, and then from SCAN to Sena and Buma-Stemra. Legally, this process implements the sale of licenses to businesses by Sena and Buma-Stemra,.That is the transaction shown in Figure 4-1.



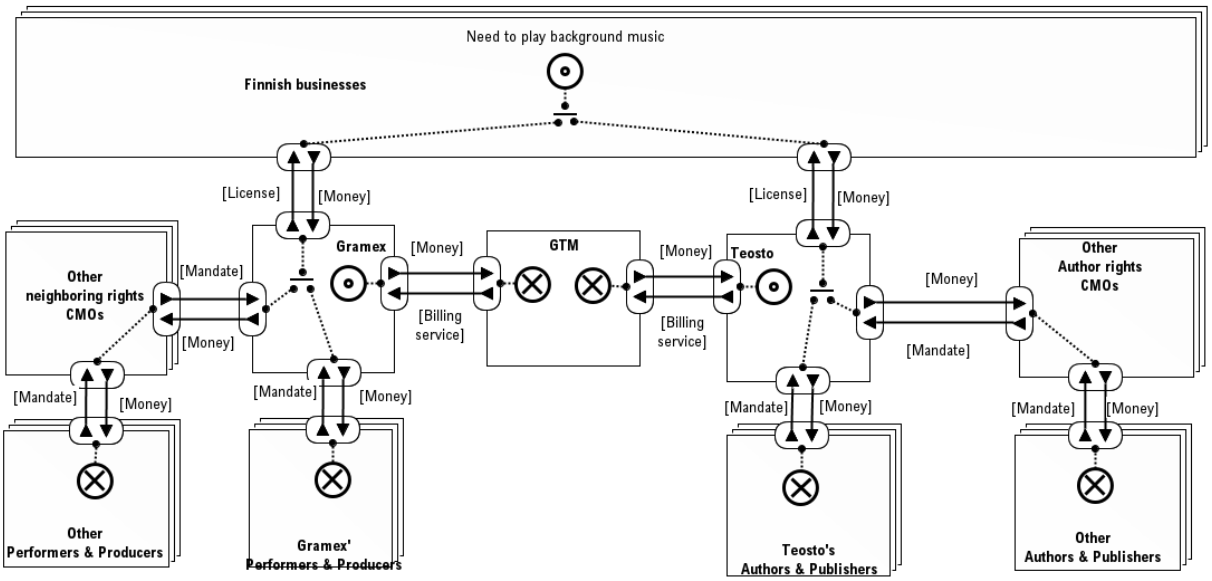
Sena and Buma-Stemra receive money due to their members for music played in other countries from sister societies and distribute this to their own members.

Figure 4-2 Sena and Buma-Stemra also claim money from sister societies.

For money received from sister societies, SCAN does not play a role.

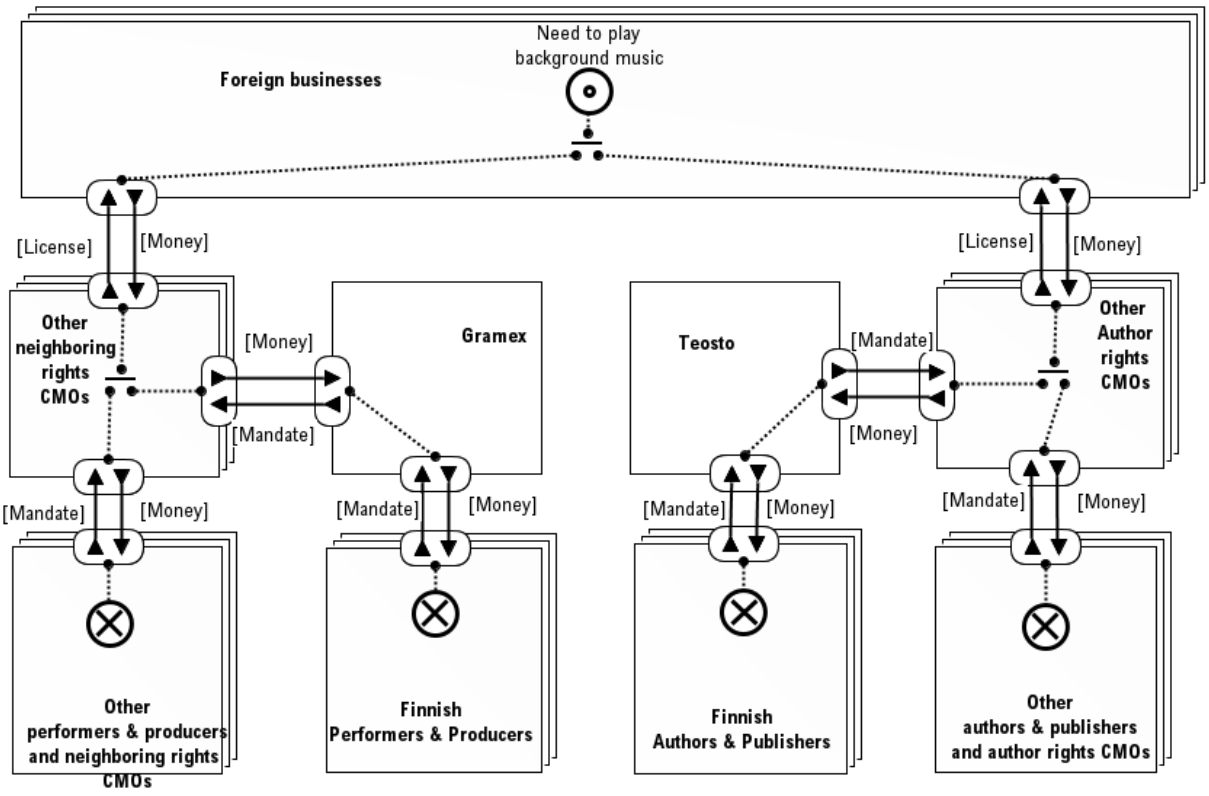
5.2. Finland

The Finnish revenue models are similar to the Dutch ones. GTM participates in the Music360 project. It collects money on behalf of Gramex and Teosto and provides services to businesses in the use of background music.



Gramex and Teosto collect money derived from the exploitation of neighboring and author rights, respectively, and distribute this to their members and forward the money of non-members to sister organizations, who distribute it to *their* members. GTM does the billing and collecting.

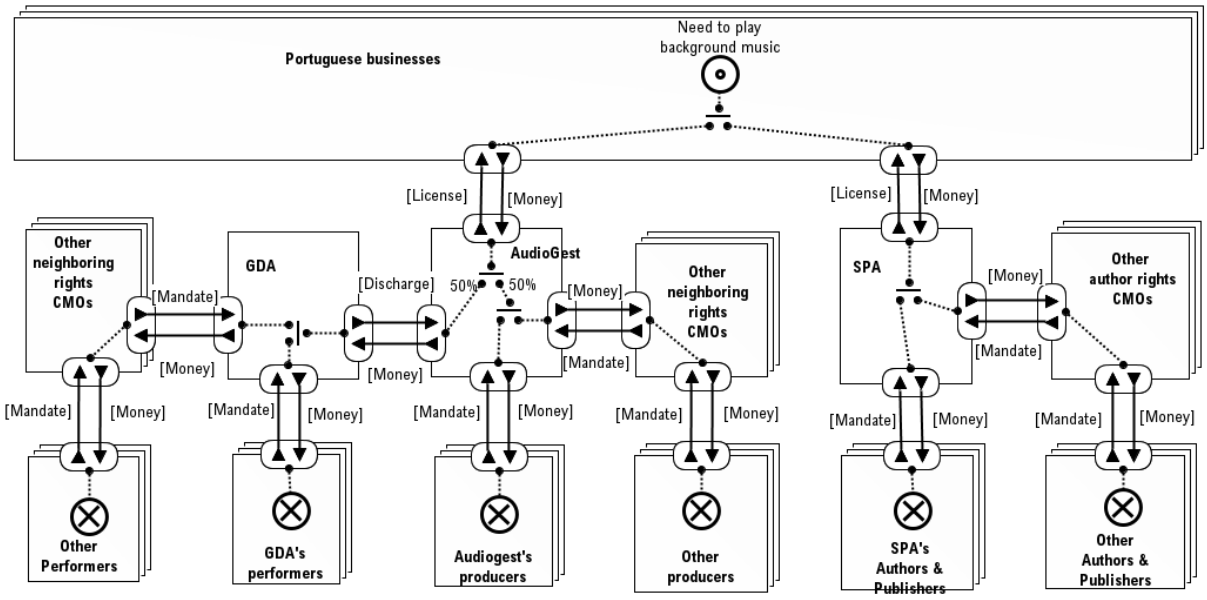
Figure 4-3 Gramex and Teosto collect neighboring and author money through GTM.



Gramex and Teosto receive the money of their members played in other countries from sister societies and distribute this to their own members.

Figure 4-4 Claiming from sister societies has the same configuration as in the Dutch revenue model.

5.3. Portugal

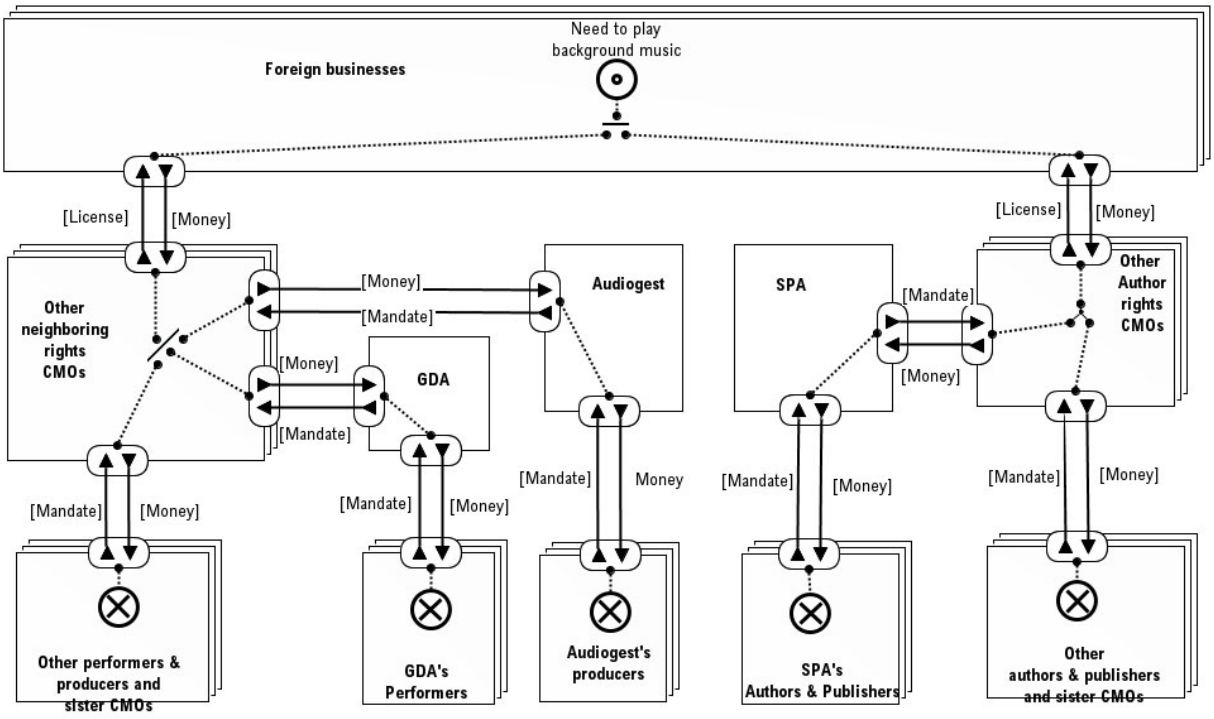


AudioGest collects money derived from the exploitation of neighbouring rights from Portuguese businesses and splits this 50-50 into two. Half goes to GDA. The other half is distributed to AudioGest's members (producers) and sends the rest to sister CMOs for distribution among their members. GDA distributes its part to its members (performers) and sends the rest to sister CMOs for distribution among their members.

SPA collects money for the authors' share and distributes this to their members and forward the money due to non-members to sister organizations, who distribute it to their members.

Figure 4-5 AudioGest distributes money derived from the exploitation of neighboring rights directly to producers. Money derived from the exploitation of performers' rights is distributed through GDA.

In Portugal, AudioGest collects money derived from the exploitation of neighbouring rights. The part to be distributed to Portuguese rights holders is split 50-50 over producers and performers. The performer part is distributed through GDA.

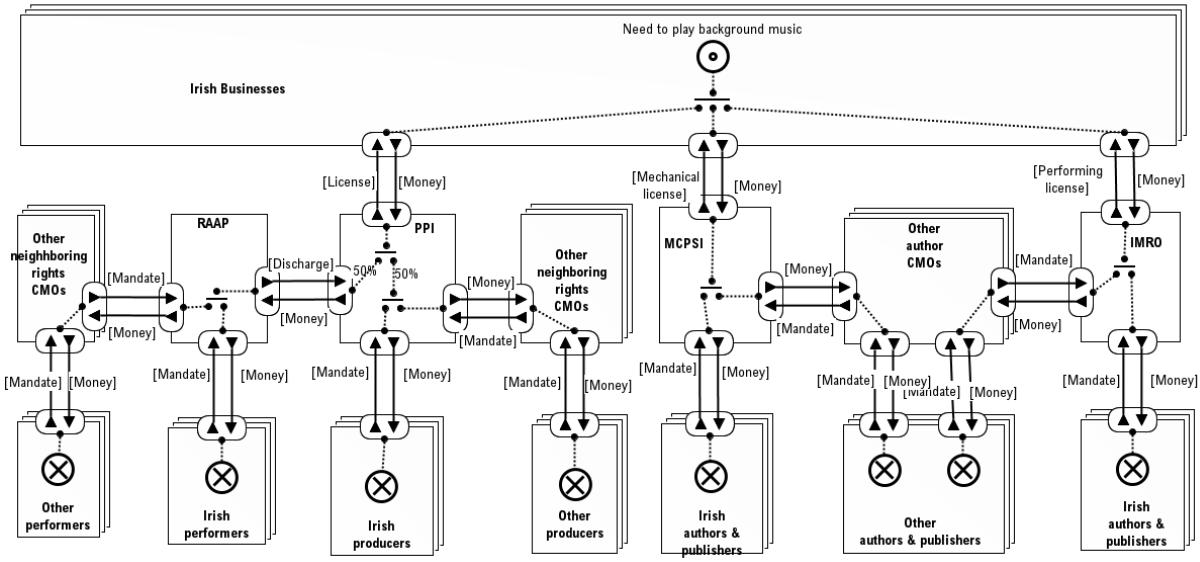


CMO's in other countries collect for background music and distribute it to their members and sister CMOs. Money derived from the exploitation of the neighbouring rights of members of AudioGest and GDA is forwarded to AudioGest and GDA, respectively, who distribute it to their members. Money derived from the exploitation of the author rights of members of SPA is forwarded to SPA, who distributes it to its members.

Figure 4-6 Other neighboring rights societies distribute money to AudioGest and GDA separately.

5.4. Ireland

IMRO collects in respect of all rights and forwards the neighbouring part to PPI, under an outsourcing relation that PPI has with IMRO. By law, it forwards the performer part to RAAP. PPI and RAAP pay the Irish producers' and performers' money, respectively, to their members, and forward the rest to sister societies.

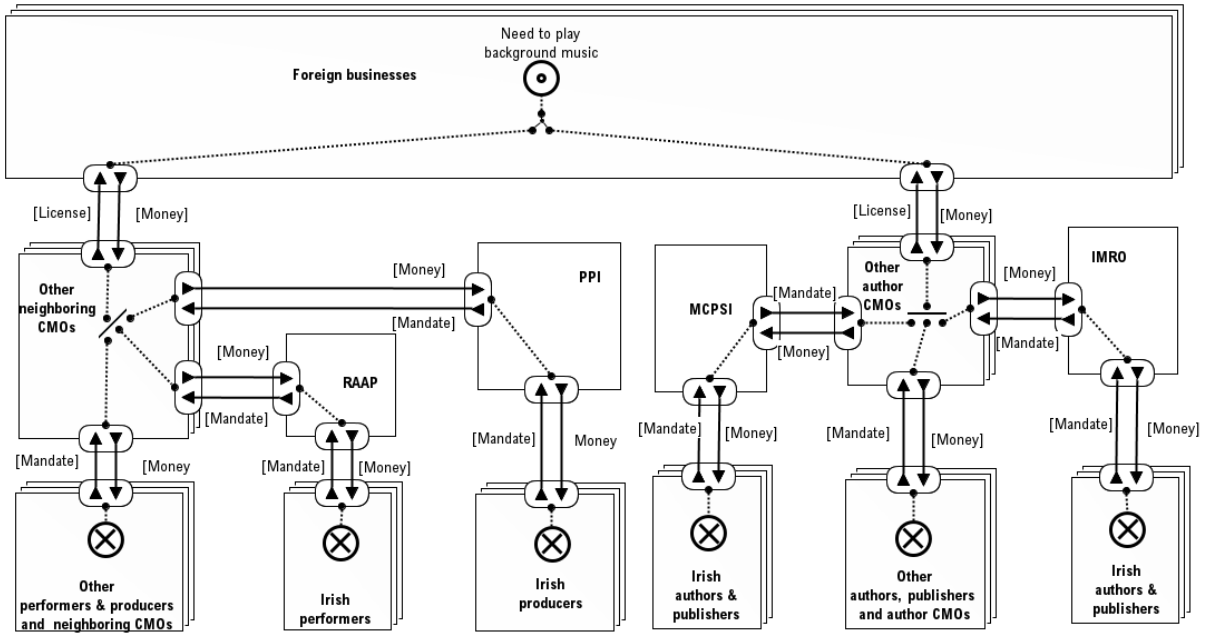


IMRO and MCPSI sell performing and mechanical licenses, respectively, to Irish businesses. They distribute the proceeds among their members and send the rest to sister societies.

PPI sells neighbouring licenses to Irish businesses and splits the revenue 50-50 with RAAP. Each of them distributes this to its members and sends the rest to sister societies.

IMRO provides a billing service to MCPSI and PPI, but this is not shown in the diagram.

Figure 4-7 IMRO collects in respect of all rights and forwards the neighbouring parts to PPI under an outsourcing agreement. By law, the performer part is distributed through RAAP.



Authors rights and neighbouring rights CMOs collect revenue from foreign businesses. Author rights societies distribute this among their members and sister CMOs, forwarding the part of IMRO and MCPSI to these CMOs.

Neighbouring right societies distribute revenue among their members and sister CMOs, forwarding revenue of the members of RAAP and PPI these CMOs.

Figure 4-8 IMRO, PPI and RAAP claim money from sister societies.

6. Conclusion

We have presented the business ecosystems for handling intellectual property rights on background music in various European countries, namely Finland, The Netherlands, Ireland, and Portugal. The ecosystems can be expressed as instantiations of the dimensions outlined in section 2. So, although the business ecosystems in the considered European countries share the same terminology, their configuration in terms of *e³value* business ecosystems significantly differ as can be seen from the country-level diagrams. It also illustrates the complex configuration of the music ecosystem in Europe. The Music360 platform should cater for these differences.

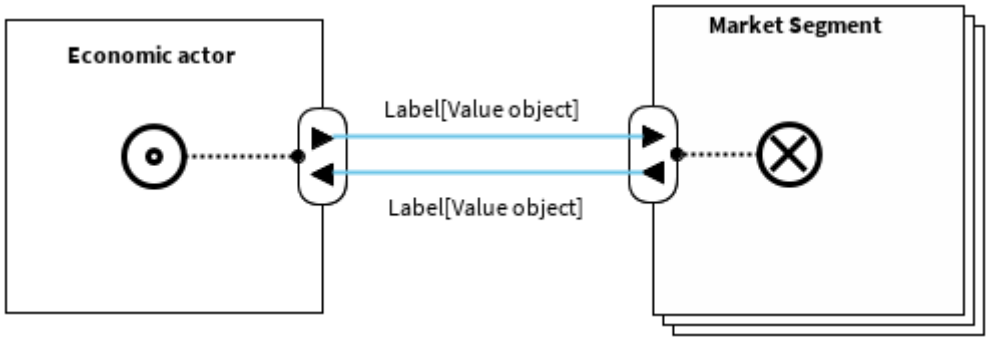
The modelled ecosystems, as well as the terminology to describe them, is instrumental for WP2, where an ontology for the value of music is developed. Furthermore, the ecosystem models are the foundation for WP3, where we will build an ecosystem-level value reporting dashboard, based on the *e³value* software platform. It also provides the necessary scoping for the national living labs in WP6. And finally, the national business ecosystems are the point of departure to develop a business model ecosystem for the Music360 platform.

There are number of follow up actions based on this deliverable:

- Check the Music360 ontology on the value of music and include the insights of this deliverable (WP2).
- Use the models to build ecosystem level value reporting (WP4).
- Extend the scope of the models with the Music360 platform (WP5).
- Further detail the country models in terms of processes (the how) and the data exchanged between the various parties.

7. Appendix: The *E³value* Notation

The *e³value* notation is defined in the *E³value User Guide* available from our web site [3]. Here we give a brief summary. Here is the simplest possible *e³value* model.



A box represents an **economic actor**. A stack of boxes represents a **market segment,** a set of actors that can perform the same commercial transactions.

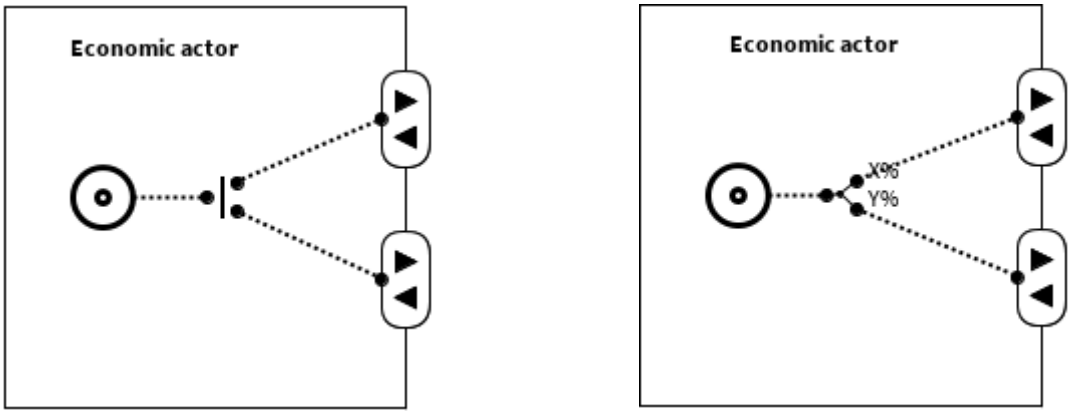
Boxes and market segments can be connected by **value transfers**, annotated by the transferred value object between square brackets. An optional label before the value object indicates the meaning of the transfer.

Value transfers connect oval interfaces of actors or market segments. The oval interfaces indicate that the transfers in these ovals together form a single commercial **transaction.** This means that the transfers in one transaction are triggered as a whole. If one of the transfers in a transaction is triggered in a market scenario, then all of them are triggered in the same scenario. An *e³value* diagram makes no statement about when these transfers occur, except that they happen in the contract period of the market scenario.

A bull's eye in an actor or market segment represents a **need** that the actor or all members of the market segment can have. The bull's eye is connected by a dashed line to an interface. This means that when the need occurs, this interface is triggered. We can then trace the value exchanges that occur in the diagram until we reach a cross. A cross represents a **boundary element,** meaning that we do not trace economic transactions any further. A boundary element is always part of a boundary actor.

The path from the need to a boundary element is called a **transaction path.** It connects all transactions in the value network that must be executed to satisfy the need. We use transaction paths to do cash flow computations. A **revenue model summary** describes a transaction path in words.

A transaction path can contain and-splits and or-splits, a show in the next diagram.



If an and-split is triggered, all its branches are triggered. If an Or-split is triggered, then one of its branches is triggered. In a quantification we must specify the distribution of choices over the Or-split.

8. Bibliography

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[2] Music360, “Deliverable 6.1. Stakeholder Needs for Understanding the Value of Music - Version 1,” HORIZON-CL2-2022-HERITAGE-01-05 project number 101094872, 30th April 2023.

[3] J. Gordijn and R. Wieringa, E3value User Guide. Designing Your Ecosystem in a Digital World., Available from https://www.thevalueengineers.nl: TVE Publishing, 2021.