# Down to business

Application of business models to help build a sustainable career in the classical and/or early music industry

Supervisors: Jan Van den Bossche, Bart van Oort



# Heleen Bongenaar

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## 1. INTRODUCTION

Musicians in a conservatory learn their craft in great detail. This demands their full dedication and shows their passion for the music. They practice hours on a daily basis to play better and better. They chose the path of pursuing music as a profession, so the ultimate goal for them is to make a living off their playing.

Ensembles are often dependent on funding from the government or private foundations. Generally, there is never enough budget to honour all applications. This is a problem for most ensembles, that don't generate enough revenue on their own to continue working without funding, or with minimal funding. Still, musicians are pushed towards a direction of refining and perfecting their craft. They want to reach the highest quality because if you're the best, it surely will work out in the end, right?

Even though the dedication and passion of musicians are admirable, there is a problem with the word 'quality'. Because how does one define quality? For musicians, quality is what works best with auditions, their own developed taste, their teachers, the conservatory, etc. It follows the strict etiquette of early and/or classical music. "Read the sources and you will know what to do" is a common perception in the field of early music, for example. But quality in business terms is most related to 'effectivity'.

Effectivity is the success the product or service has with the target audience<sup>1</sup>. There is a gap between these definitions that needs to be closed, since the musician won't be able to make a living performing music without an audience. To show this gap, maybe one can ask oneself: "Would the audience see more importance in having historically informed tierce de coulés or a free coffee at the entrance?" Musicians are prone to focus on rehearsing in great detail while barely thinking of the experience of the customer.

For this reason, the research question is:

"How can this research help musicians generate their own business models?"

There are different angles to look at this issue. This thesis will focus on helping musicians understand the business side of their craft and give them tools to understand business context and build their own business model. The research is not aiming for musicians to lose their passion and dedication for the music, but to enrich their knowledge in order to think in a wider context than solely their craft.

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<sup>&</sup>lt;sup>1</sup> www.ensie.nl

To see what is already being done in this field of research, an interview with Peter Peters from the Maastricht Centre for Innovation of Classical Music (MCICM) has taken place. They conduct experiments together with Philharmonie Zuid. The interview made clear that the point of view of the researchers is mostly sociological and musical. There is no business expert involved in the research. This is slightly surprising since the website states that the goal of Stefan Rosu (representative of Philharmonie Zuid) is 'to make open innovation possible and develop new business models for the symphony in collaboration with researchers'. The transcript of the full interview can be found in attachment I.

<sup>&</sup>lt;sup>2</sup> www.maastrichtuniversity.nl

## 2. GOVERNMENT FUNDING IN THE NETHERLANDS

The Dutch government values culture and offers subsidies and funding for artists, ensembles etc., to practice and perform their arts. Unfortunately there is limited funding, since there are more applications than vacancies. As can be seen in the infographic below, there is  $\\epsilon \\epsilon \\epsil$ 

## Culturele basisinfrastructuur 2021-2024

Het totale jaarlijkse bedrag voor de culturele basisinfrastructuur (incl. fondsen) bedraagt € 375,46 miljoen. De bedragen (afgerond) worden weergegeven in miljoenen euro's.



Source: Ministerie van Onderwijs, Cultuur en Wetenschap

To be eligible for the funding, one has to meet a few criteria. The government wants to ensure fair payment, good governance, compliance and diversity in culture, so the three knock-out criteria are following the *Fair Practice Code*, *Governance Code Cultuur* and *Code Diversiteit & Inclusie*. Next to that the application needs to fit one of the subcategories mentioned in the infographic above. All applications will be judged according to a frame of reference created by the 'Raad voor Cultuur'. *Beoordelingskader Basisinfrastructuur 2021-2024*. Next to the three knock-out criteria, the framework for evaluation mentions four other important criteria:

- 1. Artistic Quality
- 2. Innovation
- 3. Education and Participation
- 4. Geographic decentralisation

<sup>&</sup>lt;sup>3</sup> www.theater.nl 2020.

<sup>&</sup>lt;sup>4</sup> Raad voor Cultuur 2019, p. 11-17.

For this research, the criterion *Artistic Quality* will be explained. As previously explained in the introduction, the word *quality* brings confusion to the table. In the framework *Artistic Quality* is divided in multiple aspects. On the one hand it mentions the 'craftsmanship' that needs to be as developed as possible, thus the definition made by musicians. But on the other hand it mentions *zeggingskracht*<sup>5</sup>, which translates to 'power of expression' and points to the appeal of the proposal for the audience, thus the business side of the definition.

The aim for this research is to help musicians understand the business side of the word *quality.* Whether it is to operate on a free market or to apply for public funding, the appeal to the audience is always important.

<sup>&</sup>lt;sup>5</sup> See 3.

## 3. THE POSITION OF THE MUSICIAN ACCORDING TO DUTCH LAW

Many musicians in the field of classical and early music work as freelancers. The term 'freelancer' is not a legal term in Dutch law. Cambridge Dictionary defines freelancer as: "Someone who works on different projects with different companies instead of being a company employee." So the freelancer goes from project to project, which seems fitting in this line of work. Becoming a freelancer is easy since one just has to register at the Chamber of Commerce (Kamer van Koophandel). The law for freelance contracts is stated in articles 7:400-413 BW. The arrangement for freelancers is called 'overeenkomst van opdracht', literally translated as a 'contract for an assignment'. This section of the Dutch law offers the freelancer very little. Most of this section is also 'aanvullend recht', literally translated to 'supplementary law'. This means that with a written contract the client can ignore these laws and form new agreements with the freelancer.

The Cambridge Dictionary definition mentioned that a freelancer is not a company employee. To compare the company employee with the freelancer the relevant articles of the Dutch law need to be compared. The rights and obligations for a company employee are stated in articles 7:610-686a BW and in some other laws that will be mentioned later. These laws are mostly 'dwingend' (compulsory). This employee is working with an 'arbeidsovereenkomst', literally translated as a 'labor contract.8 The employee is very protected by these articles.

A few important protections of the employee are:

- The employer is obliged to pay at least the minimum wage.9
- The employee has the right to their wage during illness. 10
- The employee has the right to certain absences with continuation of their wage, for example holidays<sup>11</sup> and maternity leave.<sup>12</sup>
- The employer has to take into account prohibitions for dismissing employees, e.g.

<sup>&</sup>lt;sup>6</sup> Art. 5 Hrgw.

<sup>&</sup>lt;sup>7</sup> Art. 7:400 BW.

<sup>&</sup>lt;sup>8</sup> Art. 7:610 BW.

<sup>&</sup>lt;sup>9</sup> Art. 2 WML.

<sup>&</sup>lt;sup>10</sup> Art. 7:629 BW.

<sup>&</sup>lt;sup>11</sup> Art. 7:634-642 BW.

<sup>&</sup>lt;sup>12</sup> Art. 4:5-8 ATW; art. 3:1 Wazo.

the prohibition on firing employees during illness and/or pregnancy.<sup>13</sup>

- For a non temporary contract, the employer needs written permission for ending the contract. If this permission is not given, the employer needs to follow a strict procedure which makes sure that the dismissal of this employee is necessary and justified.
- For a temporary contract of 6 months or longer, the employer has a duty to notify the employee of continuation or cancellation of the contract at least a month before the end date. 16
- Because of the rule of renewing fixed-term contracts (ketenregeling) the employer needs to give the employee a non temporary contract after 36 months or more than 3 temporary contracts.<sup>17</sup>
- The employee often has the right to a transitional compensation if the contract is ended by the employer. The amount of this compensation depends on how long the employee has worked for this company or employer.

If one looks at the previously mentioned laws for the assignment, there is no mention of any such protections. This means freelancers can officially be underpaid, have no right to leaves of absence with continued payment, etc. The law states that the contract can be ended at all times, unless agreed upon differently in the contract.<sup>19</sup>

Because of the problem of underpayment he initiative for the Fair Practice Code came to life in 2017. The code is made to fight this problem and create a healthy and sustainable work environment for people in the cultural sector.<sup>20</sup>

The contract for assignment also gives a lot of freedom to the freelancer, which is why people in other lines of work deliberately choose it. According to the law, there is no hierarchical link between the freelancer and the commissioning party. This is not the case in a labor contract. The employee works in service of the employer. This states that there is a hierarchical difference between the two. 22 As a consequence the freelancer has

<sup>&</sup>lt;sup>13</sup> Art 7:670 BW.

<sup>&</sup>lt;sup>14</sup> Art. 7:671 BW.

<sup>&</sup>lt;sup>15</sup> Art. 7:671a, 671b, 672, 676, 677, 678 BW.

<sup>&</sup>lt;sup>16</sup> Art. 7:668 BW.

<sup>&</sup>lt;sup>17</sup> Art. 7:668a BW.

<sup>&</sup>lt;sup>18</sup> Art. 7:673 BW.

<sup>&</sup>lt;sup>19</sup> Art. 7:408 BW.

<sup>&</sup>lt;sup>20</sup> Breure a.o. 2019; www.fairpracticecode.nl.

<sup>&</sup>lt;sup>21</sup> Art. 7:400 BW.

<sup>&</sup>lt;sup>22</sup> Art. 7:610 BW.

the liberty to say no and to end contracts at any time. But the downside here is that most musicians don't get to choose to be a freelancer, they are forced to be. This is the only way for commissioning parties to avoid the employee benefits. This may not be a sign of malice on the organisers behalf, but it may mean that there is no certainty for the organisers to actually hire employees. The business model doesn't allow enough certainty for successful projects throughout the year to provide non-temporary contracts. Because of the 'ketenregeling'<sup>23</sup> using only temporary contracts is difficult, so the most sustainable option is the 'overeenkomst van opdracht'<sup>24</sup>.

Legally there is a way out for freelancers who have a pseudo contract, which states an assignment but is factually a labor contract. If the assignment contract is too much like a labor contract, the freelancer can start a legal procedure against the organiser based on article 7:610a BW. This article states the 'rechtsvermoeden van arbeidsovereenkomst', which is translated as 'lawful suspicion of labor contract'. But in reality this brings the musician freelancer nothing. If the musician wins the case, in most cases there still won't be any money to pay them. Even if there is, the musician wins the benefits for a while, but it's a small frame in which the musician operates. This means networking is very important. If organisers know that this legal procedure has happened, the musician is unlikely to get new assignments.

A double bass player from 'Het Balletorkest' started a legal procedure based on article 7:610a BW in the court of Amsterdam and won the case.<sup>25</sup> In 2013 her employment contract was changed into a freelance contract, but factually nothing in her work changed. The judge ruled that she didn't have enough autonomy in her work for it to fit the demands of a 'overeenkomst tot opdracht'.

An observation in the article from the newspaper is that the identity of the double bass player is kept anonymous. This makes one wonder: Would the musician maybe be afraid of getting a "bad" reputation? One of the subtitles of the news article states: "Gezien worden als lastpak", which literally translates to "being seen as a nuisance". This implies that it is risky to speak up in this line of work because one doesn't want to get the reputation of being hard to work with. Another option is that the writer of the news article didn't actually interview the double bass player, but got the information from the official document of the verdict<sup>26</sup>, because the identity of a natural person is always concealed in these documents.

<sup>&</sup>lt;sup>23</sup> See 16.

<sup>&</sup>lt;sup>24</sup> See 20.

<sup>&</sup>lt;sup>25</sup> Trouw 2020.

<sup>&</sup>lt;sup>26</sup> RBAMS 14th of July 2020 ECLI:RBAMS:2020:3420.

## 4. LEGAL FORMS OF BUSINESS

In the Netherlands one has to register their company with the Kamer van Koophandel. There are different forms to choose between, some more suitable for musicians than others. But this research doesn't want musicians to limit themselves to just the common practice.

First a list of all possible forms:

- Eenmanszaak (zzp)<sup>27</sup>
- Stichting<sup>28</sup>
- Vereniging<sup>29</sup>
- Besloten vennootschap (bv)<sup>30</sup>
- Naamloze vennootschap (nv)<sup>31</sup>
- Maatschap<sup>32</sup>
- Vennootschap onder firma (vof)<sup>33</sup>
- Commanditaire vennootschap (cv)<sup>34</sup>
- Coöperatie<sup>35</sup>

The 'eenmanszaak' has been discussed in the previous chapter.

Most famous ensembles registered in the Netherlands choose the **stichting** as their legal form. Examples are the Netherlands Bach Society and the Royal Concertgebouw Orchestra<sup>36</sup>, With this form it is easier to apply for subsidies and other funding because a 'stichting' has to have a social or idealistic purpose for which it is registered<sup>37</sup> and one only gets extra money from the government or private funds if it is for a good cause. It is prohibited for 'stichtingen' to have a commercial main objective and the profit made can only have a destination that will benefit their chosen objective. A stichting is a 'rechtspersoon' (legal body) in Dutch law. This means that the law views this foundation

<sup>&</sup>lt;sup>27</sup> Art. 7:400-468 BW.

<sup>&</sup>lt;sup>28</sup> Art. 2:285-307 BW.

<sup>&</sup>lt;sup>29</sup> Art. 2:26-52 BW.

<sup>&</sup>lt;sup>30</sup> Art. 2:175-284a BW.

<sup>&</sup>lt;sup>31</sup> Art. 2:64-174a BW.

<sup>&</sup>lt;sup>32</sup> Art. 7A:1655-1688 BW.

<sup>&</sup>lt;sup>33</sup> Art. 16-34 K.

<sup>&</sup>lt;sup>34</sup> Art. 19 K.

<sup>&</sup>lt;sup>35</sup> Art. 2:53-63j BW.

<sup>&</sup>lt;sup>36</sup> www.handelsregister.nl

<sup>&</sup>lt;sup>37</sup> Art. 2:285 BW.

as a person with responsibilities. The biggest consequence for this is that the people on the board normally aren't personally responsible for the debts of the foundation, unless there is 'onbehoorlijk bestuur' (maladministration). The rules for the board are complicated and are not included within the scope of this research, but it is safe to say that the board members' private assets can not be claimed by creditors of the foundation, as long as the board's actions are within decency<sup>38</sup>. The foundation has to be founded through a notarial deed and registration at the chamber of commerce. This costs between  $\in$ 450 and  $\in$ 850.<sup>39</sup> In conclusion the stichting is suitable for a group that has an idealistic objective. If one has a more commercial objective a stichting is not permitted or even suitable because of the prohibition of dividing profit in that case.

A **vereniging** is a society with members that have a shared objective. <sup>40</sup> It is forbidden to divide profit between those members <sup>41</sup>, which makes this legal form a difficult one for a group of professional musicians with the idea to organize concerts and earn their living with it. But it might be applicable to ideas in different areas. This legal form is for example very suitable for unions. If for example someone wants to start a union that protects musicians, a 'vereniging' is the way to go. There are two types of verenigingen: formal and informal. The formal version is founded through a notarial deed and has all the benefits of a rechtspersoon. The informal one doesn't and this makes the board responsible for debts, etc. There are more complex layers to this rule but that extends the scope of this research. The difference between formal and informal came from case-law, remarkably even about music, called 'the Lord's Choir'<sup>42</sup>.

A society not registered bought a drum set and claimed to be the owner of it. The parish claimed that it is not possible for the choir to own anything because there is no official registration through notarial deed at the chamber of commerce. The first article that describes this legal form states that a vereniging is founded through a 'meerzijdige rechtshandeling'<sup>43</sup>, literally translated to a multi sided legal act. This article does not state it has to be a notarial deed, so the appeal judge decided that the Lord's Choir indeed was a vereniging. Thus the birth of the informal 'vereniging' as we know it.

<sup>38</sup> Art. 2:9 BW.

<sup>&</sup>lt;sup>39</sup> www.ondernemersplein.kvk.nl

<sup>&</sup>lt;sup>40</sup> Art. 2:26 BW.

<sup>&</sup>lt;sup>41</sup> See 38.

<sup>&</sup>lt;sup>42</sup> GHARN 14th of April 2009 ECLI:NL:GHARN:2009:BJ2178; HR 3rd of March 1967 ECLI:NL:HR:1967:AD5612.

<sup>&</sup>lt;sup>43</sup> Art. 2:26 BW.

If someone has the plan to start a company with a commercial objective, the **besloten vennootschap**, from now on referred to as *bv*, is a suitable legal form. There is no minimum start-up capital and the organisation is founded through a notarial deed. In the bylaws it states the capital for which the company is entering the market and in how many shares this is divided. It is possible to start a bv with one shareholder, but it is not recommended due to privacy issues. Even though the structure is a little bit more complicated than a stichting, the biggest benefit is the possibility to earn from the company's profit.

The rules for a **naamloze vennootschap** are mostly the same as for a bv but in a bigger form. An nv has a minimum start-up capital of  $\in 45.000^{45}$  and has stricter rules for founding the company. Since this is mostly a form for big companies, it seems more recommendable to go for a bv instead of an nv to start with a business idea. An example of an nv is 'het Concertgebouw', but this company manages building and rents out spaces. It has less to do with the musicians performing there.

Another possibility is a **maatschap**. The Orchestra of the 18th Century started as a *maatschap*. This form is an agreement between two or more people to share their means, profits, and risks together. This agreement states the value of those means and how the profit and/or debt is divided. The benefits of this legal form are the ease in which it can be founded and the possibility to share profit together. Members of a maatschap don't actually perform their craft together, but just share the means, risks and profit. They are responsible for the debt equal to their input.

If people want to work together under the same name, then the **vennootschap onder firma** is more suitable. In this form one can perform their craft together. The structure is similar to the maatschap but there is a big difference in liability. In the maatschap people are only responsible for what they bring to the table, but in the vof the partners have joint and several liability. This means creditors can make their claim for the full amount with all of the partners. If for example the vof goes bankrupt and a creditor wants to rightfully claim their  $\in$ 5.000, they can go to whichever partner they think has the most private capital, even if the other partner is responsible for the  $\in$ 5.000 debt. It is advisable to come up with regulations to prevent this in the bylaws of the organisation.

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<sup>&</sup>lt;sup>44</sup> Art. 2:175 BW.

<sup>&</sup>lt;sup>45</sup> Art. 2:67 BW.

<sup>&</sup>lt;sup>46</sup> www.meerjarigeadviezen.fondspodiumkunsten.nl

<sup>&</sup>lt;sup>47</sup> Art. 7A:1655 BW.

<sup>&</sup>lt;sup>48</sup> Art. 18 K.

The **commanditaire vennootschap** is similar to a vof but has silent partners. This means they are only liable for the amount of their input, so they don't join in the joint and several liability. <sup>49</sup> Mostly the silent partners are investors that have a right to a part of the profit. This makes the cv a bit more like a bv.

A **coöperatie** is built similarly to a vereniging but there is one big difference. This legal form is allowed to divide profit between the members.<sup>50</sup> The coöperatie needs to have the objective to meet a certain material need of its members.<sup>51</sup>

In conclusion there are different options for different situations. For more information, visit the website of the *Kamer van Koophandel*.

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<sup>&</sup>lt;sup>49</sup> Art. 20 K.

<sup>&</sup>lt;sup>50</sup> Art. 2:53a BW.

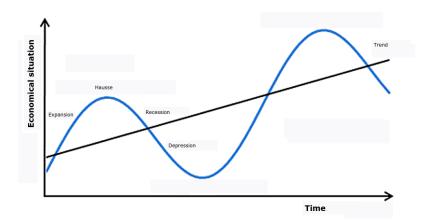
<sup>&</sup>lt;sup>51</sup> Art. 2:53 BW.

## 5. EXCURSUS: COVID-19 AND DUTCH ECONOMY

In current news there is overwhelming coverage of the economic crisis evoked by the pandemic of COVID-19. The pandemic has had a big impact on work for musicians and the way entrepreneurs manage their businesses. Basic knowledge about macroeconomics and the pandemic's effect on it is something that is not taught to students in a conservatory, but is relevant to this specific research subject. It will be helpful to take into account these external factors while building a business model. This chapter will guide one through the basics of macroeconomics and will explain what the oft-mentioned term 'corona crisis' embodies.

First of all, it's important to understand the standard **conjunctural developments in macroeconomics**.

- <u>Macroeconomics</u> embodies the economical situation as a whole, for example of a country. Microeconomics, on the other hand, focuses on individuals and firms and is placed in a smaller context.<sup>52</sup>
- Conjuncture is the development of the macro-economy.<sup>53</sup> It develops in waves, so the conjuncture can be in a high or low position on the wave. In a high conjuncture, the economic situation is good, and in a low conjuncture it is bad. When there is growth, it is called 'expansion'. After that growth there is a period of stagnation, which is called a 'hausse'. After a hausse comes the famous term 'recession' which indicates a decline in the economic situation. If a recession becomes severe it's called a 'depression'.



<sup>52</sup> www.encyclo.nl

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<sup>53</sup> www.economielokaal.nl

But how do countries determine if their economy is in a good or bad period? The situation is assessed by multiple factors. A few important indicators are:

- **Gross Domestic Product**, formally defined as: "The total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period." <sup>54</sup>
- **Unemployment rate**: A high unemployment rate leads to an inefficient economy where people have less money to spend and produce less goods and services.
- **Private consumption**: the economy gets a boost when people spend more money. In times of uncertainty people are prone to saving money and will postpone large expenditures.<sup>55</sup>
- **Interest rate**: The European Central Bank and Nederlandsche Bank lower the interest rate as a tool to boost the economy. When interest rates are lower, people will get a loan quicker than with high interest rates. An unfortunate reality of this crisis is that the interest rates are already as low as they can be, because of the boost that the European Central Bank wanted to give in 2015. 57

Every year in September the **CPB** (centraal planbureau) of the government publishes the **MEV** (macro-economische verkenning). It's a document in which they give a prediction of what the economic developments will be in the next year. They also publish a '**raming**' (estimate) a few times a year in which they correct that estimate and make a new estimate for the rest of the year. These documents give us a very clear estimate of the effect of the pandemic on the economy.

To compare the indicators of the macro-economical situation stated earlier, the numbers from the core data of September 2019<sup>58</sup> and November 2020<sup>59</sup> will be shown side by side. Next to that the special remarks from the estimates in between will be made to show the situations in the different months.<sup>60</sup>

<sup>&</sup>lt;sup>54</sup> Investopedia 2020.

<sup>55</sup> www.loi.webinargeek.com

<sup>&</sup>lt;sup>56</sup> See 55.

<sup>&</sup>lt;sup>57</sup> www.actuelerentestanden.nl

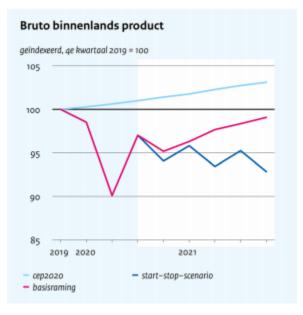
<sup>&</sup>lt;sup>58</sup> CPB September 2019, p. 11.

<sup>&</sup>lt;sup>59</sup> CPB November 2020, p. 12.

<sup>&</sup>lt;sup>60</sup> CBS June 2020, CPB August 2020, CPB September 2020.

#### **Gross Domestic Product**

The MEV 2020 made in September 2019 predicted a growth of 1,5%. This is a decreasing growth in relation to the previous years and is nearing a hausse in the conjunctural development. The November estimate 2020 states a decrease of 4,2%, which is a significant difference. This estimate was published before the lockdown of December, January, and February. The estimate shows possible scenarios, in which the current one is mostly leaning towards the 'start-stop-scenario'<sup>61</sup>, which would mean a more negative outcome than the baseline estimate of the report. As visible in the graph, the start-stop-scenario gives a worse foresight than the base scenario (pink line).



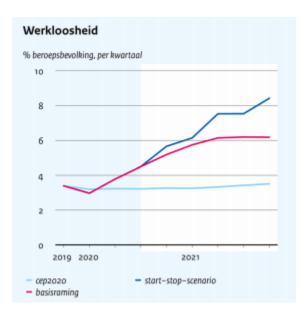
Source: CPB

#### **Unemployment rate**

The MEV 2020 predicted an unemployment rate of 3,4% for the working population. The November-estimate states an unemployment rate of 4,1% for 2020 and 6,1% for 2021. The June-estimate and the MEV 2021 (September 2020) mention that freelancers will be affected the most by the increasing unemployment and that the recession hits hardest in the weakest spots and that if one works as a flexwerker, zzp'er or in events, the foresights might be completely different than for the ones with a non-temporary labor contract. <sup>62</sup> Next to that is the unemployment rate also affected by the start-stop-scenario painted in the graph.

<sup>&</sup>lt;sup>61</sup> CPB November 2020, p. 3.

<sup>&</sup>lt;sup>62</sup> CPB Juni 2020, p.10, CPB September 202, p. 17.



Source: CPB

## **Private consumption**

The MEV 2020 predicted a growth in private consumption of 1,9% with an inflation of 1,3%. The November-estimate 2020 stated a decrease in private consumption of 7% with an inflation of 1,2% over 2020 and an increase in private consumption of 3,7% with an inflation of 1,3% with an increase in purchasing power of 1% over 2021. So some recovery is expected in private consumption in 2021.

The June-estimate 2020 and the MEV 2021 (September 2020) showed a decrease of 27% in consumer confidence.<sup>63</sup> This means a risk for less private consumption since people are scared to keep purchasing, which is bad for the economy.

#### **Interest rates**

Interest rates have been zero or nearly zero since 2016. This makes it impossible to use them as a tool to boost the economy.

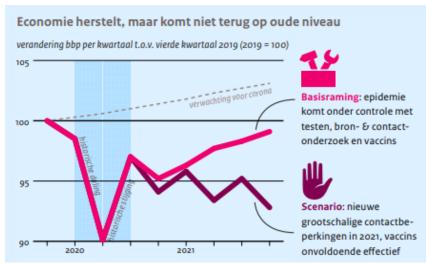
<sup>&</sup>lt;sup>63</sup> CPB June 2020, p. 12, CPB September 2020, p. 30.

#### Schematic overview:

	September 2019	November 2020
GDP 2020	+ 1,5%	+ 4,2%
Unemployment rate 2020	3,4%	4,1%
Unemployment rate 2021 (estimate)		6,1%
Private consumption 2020	+ 1,9%	- 7%
Private consumption 2021 (estimate)		+ 3,7%
Inflation 2020	+ 1,3%	+ 1,2%
Inflation 2021 (estimate)		+ 1,3%

The November-estimate 2020 mentions **2 possible scenarios**<sup>64</sup> for 2021:

- The base-estimate (pink) assuming the pandemic will be under control, which means the economy would start recovering.
- The start-stop-scenario (purple) in which vaccines will be slow and there will be more waves to come, which would mean no recovery yet.



Source: CPB

 $<sup>^{64}</sup>$  CPB November 2020, p. 2.

Most of these indicators point towards a worsened economic situation. Why is this important for a business model builder? Because consumer behavior depends on it. In uncertain times like these, one has to either market their product/service in a way that brings hope to the consumer, or one can choose to postpone their launch and start operating the model in better economic times. As much as people need music in their lives, it is not as important as a roof over their heads or food on the table. The frequent cancelation of events also means that consumers postpone buying tickets, for fear that this particular event too will be canceled. The fear of getting the virus is a reason why concert-goers cancel their own tickets, especially since the audience consists mostly of an older demographic who are in general more vulnerable to the virus.

The government does have tools and budgets to help certain sectors that are damaged by this crisis. But unfortunately the amount of **emergency funding** of  $\in$ 782 million <sup>65</sup> for the cultural sector is not enough to fight the damage. There have been many protests and news items dedicated to this problem. The government added  $\in$ 482 million to the initial  $\in$ 300 million of funding in the second support package. Next to that, zzp'ers in the Netherlands can apply for temporary unemployment assistance, called TOZO<sup>66</sup> in case they can not work because of measures against COVID-19. This might help the arts survive, but it will not fix the economic damage which is expected to have an impact on the cultural sector.

Next to that ensembles and musicians still receive their 'normal' subsidies. This means they also actually have to use this money and organise projects. This creates a risk for an unbalanced situation of on the one side funded ensembles with somehow too much money, trying to do anything taking into account corona regulations. On the other side there are ensembles with no subsidies and a more market based business model, who see their income disappear because of the measures. This is of course a demotivating situation to try and develop working business models in a private market. But one has to assume this situation will not last forever and these regulations will disappear, hopefully within the year 2021. So, maybe if someone has a good idea, they could start developing it now and execute it in 2022.

<sup>65</sup> www.rijksoverheid.nl

<sup>&</sup>lt;sup>66</sup> See 65.

**Going online** would seem an option for musicians. Many live streams are given but it is very hard to make a profit out of this business model. There are too many free options online for consumers to choose from, that they will probably pay nothing or little amounts for live streams and other online options.

## 6. COMPETITIVE STRATEGIES IN BUSINESS

When a business wants to develop and launch a new product or service, there is research beforehand where they research the market and choose operating strategies. Often musicians focus mostly on their craftsmanship and don't think about competitive business strategies. This results into a default setting, without them knowing it, of following either Porter's differentiation strategy or Treacy and Wiersema's product leadership strategy, without it always being efficient and/or effective.

A big name in the world of business strategy is **Michael Porter**. He developed models and tools to help analyze business models. His view on competition is that one has to focus in excelling in one of three ways<sup>67</sup>:

- 1. Cost leadership: This strategy is all about efficiency. This means producing as much as possible while using as little means as possible.
- 2. Differentiation strategy: This strategy is all about effectivity. It is focussed on reaching the highest quality possible.
- 3. Focus strategy: This strategy is focussed on niche-markets and tailoring to the specific needs of these niche customers. Within the focus strategy a choice can be made between cost focus and differentiation focus.

Porter's view is that if one doesn't choose one of these strategies, their business will be 'stuck in the middle' and not interesting for customers.

Michael Porter also developed the *5 forces model*.<sup>68</sup> It gives insight on the potential for success when launching a new product or when entering a new market.

- 1. Competitive rivalry: How many competitors are there and how does their product or service compare to the others?
- 2. Supplier power: What suppliers does one need for their service of product? Do they have much power over the price they set? This also depends on the number of suppliers and the rivalry among them.
- 3. Buyer power: What power does the customer have on price setting? If there are a lot of customers and fewer providers, the customer doesn't have much power. But if there are a lot of providers and fewer customers, the customer can always choose for a different provider.
- 4. Threat of substitution: Can customers easily choose for other options?

<sup>67</sup> www.mindtools.com

<sup>&</sup>lt;sup>68</sup> www.strategischmarketingplan.com

5. Threat of new entry: How easy is it for new businesses to enter this field? Is there need for a lot of seed money, knowledge, etc.?

A similar competitive strategy is developed by **Treacy and Wiersema**.<sup>69</sup> Their strategy mentions focusing on one out of three options as well:

- 1. Operational excellence: a low-cost strategy focussed on efficiency.
- 2. Product leadership: a strategy focussed on innovation and quality.
- 3. Customer intimacy: a strategy focussed on the customer journey. This is a strategy not often chosen by musicians because they are so focussed on the product itself. It is important to really empathize with the customer and follow their journey. In the next chapter the *Service Blueprint* will be explained. This can be a useful tool in developing a service.

A strategy that claims one doesn't have to choose between limited options is the **Blue Ocean Strategy** created by Renée Mauborgne. He thinks businesses shouldn't try to compete with others but create a new market instead. He claims that too many businesses try to fish in a red ocean full of competitors when they should be looking for uncharted territory, the blue ocean. This is easier said than done of course, but there is an interesting aspect to this approach, namely *Value Innovation*. This puts the focus on innovating products and services to service the customer and thus create demand. In this strategy there is no mandatory choice between product leadership and customer intimacy. It puts the customer demands in the center and innovates the product/service with collected knowledge about these demands.

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 $<sup>^{69}</sup>$  www.strategischmarketingplan.com

<sup>&</sup>lt;sup>70</sup> Huizingh 2019, p. 82-84.

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in <b>existing</b> market space	Create <b>uncontested</b> market space
<b>Beat</b> the competition	Make the competition <b>irrelevant</b>
Exploit <b>existing</b> demand	Create and capture <b>new</b> demand
Make the value-cost trade-off	<b>Break</b> the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in <b>pursuit of</b> differentiation and low cost

Source: B2U

There are many more theories but that would reach past the scope of this research. All of them stress the importance of having something that the competition doesn't have, or finding demand where there isn't any yet. It would be wise to take this into account when building a business model.

## 7. A GUIDE TO BUSINESS MODEL GENERATION SUITABLE FOR MUSICIANS

Now the importance of thinking about context in business models is established, it's time to explain the actual building of the models itself. The goal of this research is not to scare musicians off, but to help them bring their ideas to life from a business point of view and with this to collectively find ways to create customer satisfaction. This model can also be used to improve or give insight in already existing and working business models. For this research the *Canvas Model* is the chosen method.<sup>71</sup> It is accessible, easily understandable and suitable for business ideas where the initial capital is little to none, which is the case for most musicians.

#### The Canvas Model

This model helps people to explore their idea and look at it from various sides. It exists of nine building blocks:

#### 1. Customer segments

The first question one needs to ask themself is: "Who are customers?" Without customers, no profit. That sounds very logical and everyone knows this, but musicians are so easily seduced to only think about the music, in this case the service. There are a few different strategies for customer segments:

#### - Mass:

In this case the entrepreneur targets a big group of customers and makes no differentiation in product for those customers. An example is a 'Christmas hits CD' made to sell to anyone for the holidays.

#### - Niche:

The entrepreneur targets a very small group of customers and caters to their every needs and expects a lot of customer loyalty in return. An example is an opera house that sells VIP tickets for a higher price and the customer gets their own personal box and is catered during intermissions.

#### - Segmented:

The entrepreneur targets different groups and tailor their product/service every time to each specific target audience. An example is having a standard program for a general audience and tailoring it to give a concert especially for children.

<sup>&</sup>lt;sup>71</sup> Osterwalder and Pigneur 2009.

#### - Diversified:

The entrepreneur targets different groups with completely different needs. For example someone builds websites and as a pianist in a chamber music ensemble. In this case the services are fulfilling different needs.

## - Multi-sided platforms:

The entrepreneur target two or more different customer segments which have some form of interdependence. It's possible for example that a company pays a musician to advertise their product at a concert they give. In this case the entrepreneur sells concert tickets to one customer segment and advertisement space to the other.

It doesn't matter if the chosen customer segments don't exactly fit one of the mentioned strategies, as long as it is clear who the valuable customers are.

## 2. Value propositions

In this step the entrepreneur defines the value their product/service brings to the chosen customer segments. they have to put themself into the shoes of the customer and explain their journey to the product or service. What problem does it solve for the customer? What needs does this customer have? How would the product or service help this customer? Think of key words that explain the value propositions. Some examples are<sup>72</sup>:

- Performance: very high quality
- Customization: tailored to the customer's needs
- Novelty: the customer gets to experience something new
- Lower prices than the competition
- Customer experience/journey
- Brand/status
- Accessibility

 $<sup>^{72}</sup>$  Osterwalder and Pigneur 2009, p. 23-25.

#### 3. Channels

"How will the entrepreneur reach their customers?" is the most important question in this building block. There are 5 channel fases<sup>73</sup> in which this is described:

- 1. Awareness: Explain how the customers will know that the product or service exists. Find out where the target audience is and advertise on the right spots. For example it's possible to advertise through Google Clicks, Facebook, Instagram, Youtube, etc.
- 2. Evaluation: Explain how the customers can help evaluate the value propositions and how they judge the product or service before buying it. An example is checking the amount of visits to the website and seeing how many of those visitors actually proceed to purchasing the product or service.
- 3. Purchase: Explain with what steps the customer can purchase the service or product. An example is selling online tickets via a website owned by the entrepreneur.
- 4. Delivery: Explain how the product or service will reach the customer. Since musicians mostly offer services instead of products, this may seem less relevant. Nonetheless it is good to explain to the customers, for example, how they can reach the concert venue. In case the target audience is of an older demographic, for example, it would be good to check how accessible the location is for wheelchairs.
- 5. After sales: Explain how the entrepreneur will support the customer after they purchased and/or used the service or product. Also explain how they can reach the company afterwards with questions or remarks.

## 4. Customer relationships

First the entrepreneur has to define the incentive relevant to the customer relationships. Possible angles are:<sup>74</sup>

- Customer acquisition: gaining new customers.
- Customer retention: keeping the customers already purchasing from the

<sup>&</sup>lt;sup>73</sup> Osterwalder and Pigneur 2009, p. 27.

<sup>&</sup>lt;sup>74</sup> Osterwalder and Pigneur 2009, p. 28-29.

entrepreneur.

- Upselling: trying to get the customer to purchase a product or service with a higher price point than they originally intended to. An example is opera houses that sell tickets with a higher price for better seats.
- Cross-selling: offering products or services to the customer fitting to the product or service they intend to buy or are buying at that moment. With musical tickets for example there are often VIP arrangements with a bite and a drink before the show.

The entrepreneur also explains how they will or won't work together with the customer. If the relationship is very personal, the entrepreneur needs to be reachable at preferably every given moment during the day. An example is helping the customer decide on the phone which concert they should visit fitting to their preferences. If the relationship is focussed on self service, the pathway to purchasing the product or service needs to be clear for the customer, for example when buying tickets online. This is a crossover with automated services. Another example of automated services is the section often seen on sites like Amazon, which say: "Recommended for you". These recommendations are based on one's previous purchases or product viewings and delivered to them by the website with an algorithm. If the relationship is community based, it's important to facilitate a platform for this community. It's a platform where customers can communicate with each other as well. Another option is co-creation, where the entrepreneur has a basic service or product and with the ideas of the customer they bring this to a finished product customized to the customer's needs.

#### 5. Revenue streams

In this step the entrepreneur explains how they will collect revenue from their previously mentioned steps. Which model they will choose depends on the preferred format for their business idea. Examples of revenue models are the following:

- The subscription system: Here the entrepreneur asks for a set price per time unit for certain products or services. An example is a subscription to a magazine.
- Advertising model: Here companies pay the entrepreneur for advertising their products when the customer uses the service or product. An example is ads before watching a YouTube video.

- Crowdfunding: The entrepreneur asks people to contribute to a certain project or goal. This is done a lot by ensembles that for example want to collect money to record a cd.
- Dynamic or discriminatory pricing: The entrepreneur alters the prices according to the circumstances. An example is making the tickets cheaper for the younger audience to make the product more attractive for them.
- The transaction model: The entrepreneur has a direct exchange with the customer: money for product/service.
- Ingame selling: This is mostly applied to the gaming industry where a gamer can purchase things while playing the game to enhance the experience.
- The freemium-model: The initial costs of joining for a customer are little to none, but they can purchase a premium membership for a higher price. This model is closely affiliated to the subscription system.
- Bootstrapping: The entrepreneur asks the customers to help them with a specific issue. In exchange the customers get a discount. A small example is the "bring your own mug" concept that gets the customer a small discount on a coffee if they bring their own mug.
- Tied selling: In this case the entrepreneur pairs a highly wanted or cheaply priced product or service with a less wanted or highly priced product of service. The customer can't buy them separately.
- The long-tail model: The entrepreneur offers an enormous range of different niche products or services, that separately don't sell that well. Examples are Netflix or Amazon.
- The bait and hook model: The customer gets lured in with a relatively cheap starting product or service, but maintenance and/or continuation is expensive. This is a questionable model, since it is based on misleading the customer.
- The brokerage-model: The entrepreneur facilitates a transaction and takes a part of the fee of that transaction, most of the times a fixed percentage, for example agencies.
- The plain-service model: The entrepreneur invents new services or products that make the main product or service more valuable, for example the travel app from

NS that shows which train the traveler needs to take. This model is an indirect model, since the direct model is still the transactional model in the mentioned example.

- The rent or lease model: The customer can pay to use a product for an amount of time. An example is a leased car.
- The insurance model: To make the customer feel safer, the entrepreneur sells them an insurance on the bought service or product.
- Yield management: In this case the entrepreneur adjusts the price to the supply and demand of that moment, so the full capacity of the service or product isn't lost. An example is sprinter concert tickets that are cheaper the day of the concert itself.

There are many more models than this, but explaining all the revenue streams models extends the reach of this research. The ones mentioned before are the most common income models.

Another important factor in this building block is the price setting. First of all the entrepreneur can choose between fixed or dynamic pricing. With fixed pricing they pick a price and stick with it. These prices can be derived from advice fees, product characteristics, customer segment characteristics, etc. With dynamic prices they adapt the price to specific circumstances. This happens when they have to negotiate for example. With the previously explained yield-management they also apply dynamic pricing to their service or product.

Fixed pricing is rarely applicable in the music sector because circumstances often vary greatly. This is why musicians often have to *negotiate*. Sometimes prices vary because of the difference between the funds and subsidies available throughout time. And the view on the value of live music varies a lot from person to person. It is something intangible and holds more emotional than practical value. A general advice for negotiating a fee with a concert organiser is to support one's case with numbers and quantify the work process. This can be done by showing the other party how many hours one has to work to come to their end product and state a reasonable fee per hour. This way the other side of the negotiation table will know how the entrepreneur came to the final fee, which may have seemed a bit high for the organiser before. The other side of the story is that the number needs to fit the revenue streams that are expected of the concert. Sometimes there just is not enough money in the budget, but the musician would still like to perform. It's an art to balance guarding one's boundaries and working with the means

available. Guidelines for fees can be found on the document about 'tarieven en salarissen' of the 'Ntb' (union for musicians).<sup>75</sup>

<sup>75</sup> www.ntb.nl

Ensembles joined together in the BIS (culturele basis infrastructure), are currently discussing the possibility to form a *CAO* (a collective agreement for labor circumstances and fair pay). Most sectors outside of the artistic realm have a *CAO* and they are often binding for all companies in the same sector. If the *CAO* were to happen, it would mean a lot less negotiations for musicians. In a short talk with Tineke Steenbrink, who is involved in the meetings, it quickly became clear that it is very difficult to create the collective agreement for musical ensembles and that she has little confidence in it succeeding because of the lack of a joint culture and shared values within the ensemble sector. A full transcript of the interview can be found in attachment II.

#### 6. Key resources

What resources does the entrepreneur need to get their value propositions to their customers? These resources can be physical, intellectual, human or financial. Does the entrepreneur need seed money, specific knowledge, databases, a good website, etc. to start their business idea? It is recommended to make a list with all the needed resources.

#### 7. Key activities

What will be the most important activities the entrepreneur or their partners need to do to make their business idea work? Typical activities for most companies are:<sup>76</sup>

- Research and development: creating new services or products to add to the company's portfolio or perfecting other services or products already existing in their portfolio.
- Production: making the products, but as far as services go practicing, rehearsing, etc.
- Marketing: in the early and classical music scene as it is, this is mostly public relations.
- Customer service.
- Infrastructure and logistics.

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<sup>&</sup>lt;sup>76</sup> www.strategischmarketingplan.com

## 8. Key partners

Who are key partners the entrepreneur needs to make their business model work? There are four types of partnerships:<sup>77</sup>

- Strategic alliances between non-competitors;
- Coöptation: alliances between competitors;
- Joint ventures to develop new businesses and share costs;
- Buyer-supplier relationships.

When forming alliances, partners reduce risks by sharing costs, profits and losses.

#### 9. Cost structure

What are the costs of starting up the business idea and what are the costs of the key activities and infrastructure? Make a list of the fixed costs (that stay the same no matter the size of the sale numbers) and the variable costs (that vary proportionally with the volume of sale numbers).

Now the business idea is explored through multiple angles, it's time to visualize it on the canvas. The canvas can be found in attachment III. Print this (large size) and put keywords in every building block to visualize the idea. A hypothetical business concept worked out via the steps of the Canvas Model can be found in attachment IV.

Because most musicians will be prone to think about business ideas for services rather than products, the **Service Blueprint** comes in handy. It is a tool to think through the activities of the service on different levels. The technique consists of *five elements*<sup>78</sup>:

- 1. Physical evidence
- 2. Actions of customers
- 3. Visible actions of staff
- 4. Invisible actions of staff
- 5. Supportive processes

From these five elements, a blueprint is made. An example can be found in Attachment V. The attachment showcases the service blueprint of a concert of the Canberra Symphony Orchestra.

<sup>&</sup>lt;sup>77</sup> Osterwalder and Pigneur 2009, p. 38.

<sup>&</sup>lt;sup>78</sup> Huizing 2019, p. 204.

## 8. EXAMPLES

To show how working business models function in the classical music sector, the unique selling points of a few organisations will be explained. A unique selling point is the essence of what makes the product or service special.<sup>79</sup>

**Pieter-Jan Leusink** is the artistic leader of the Bach Choir & Orchestra of the Netherlands. Scandals aside, he does have a very clear business strategy, which is quantity over quality. For him efficiency is key. He doesn't need a lot of rehearsals for a large number of concerts of the same "classical classics", repertoire often performed in the classical music scene. This of course reduces costs. He has a huge personal network and works with private sponsors. The #Me-Too movement caused trouble for him, with good reason. The organisation is built on one person, so if either the reputation of that one person is ruined or he quits, the continuity of the organisation will be endangered.

L'arpeggiata is a famous early music ensemble with Christina Pluhar as artistic leader. The leader does own some name fame, but the ensemble name is very known as well. There is less 'rockstar feel' than with Pieter-Jan Leusink and that is safer for continuity after Christina retires. The unique selling point of this ensemble is the fact that it is very easy and pleasant to listen too, also for non classical music lovers. Her 'poppy' arrangements of passacaglia and chaconne bass lines work well with an untrained ear. And still she remains interesting to listen to as a professional musician and is known and respected in the Early Music scene.

**Holland Baroque** finds new ways to make early music interesting for the public. Their use of crossovers and their own arrangements are an example of that. Their marketing strategy is also interesting since it is very different from other ensembles. They use mainly (high quality) photos and videos as marketing, which speaks to a younger demographic. It shifts the focus from only on music to a group identity with actual people. In a world of influencers and celebrities, this could work well in their favor.

**Twoset Violin** has a very interesting business model for the world of classical music. They follow all the trends that a young demographic follows and with that have millions of followers. They are vloggers, make memes and have a famous Reddit page. They incorporate humor in their videos and also tour the world with their shows. Still they manage to even educate people on concert etiquette, encourage people to listen to

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<sup>&</sup>lt;sup>79</sup> www.optimizely.com

classical music, while still entertaining them. They sell merchandise and are very active on social media.

**Fermatelive** is an organisation that provides music at funerals. The company is led by Lieven Cooiman. There are no subsidies or funds involved which is quite rare in the field of classical music. The unique selling point is the big focus on the journey of the customer. In the interview held with Lieven Cooiman, he said that the idea of the company is: "U vraagt, wij draaien" (you ask, we deliver). He really tries to give the customer exactly what they want. Lieven doesn't have any business degrees and hasn't followed any courses in it, but from the interview it became clear he is quite the natural in thinking in business terms. He has a good website, a thought out logo, great networking and budgeting skills, etc. He thinks about how he can reach his target demographic and succeeds. The transcript of the full interview can be found in attachment VI.

## 9. CONCLUSION

The research question was: ""How can this research help musicians generate their own business models?" To answer this question there needs to be some testing where musicians use this research as a tool for building their own business models. This will take years, but hopefully this research can give a better understanding of business aspects in the musical sector. With broadening of knowledge from an economical, legal and management point of view, this research will hopefully inspire and motivate musicians to develop their own business ideas.

## 10. SUGGESTIONS FOR FURTHER RESEARCH

This research focuses on finding needs of customers that exist. Another point of view can be education and how that inspires the younger generation to listen to more classical and early music. There has been a lot of research in this field but maybe there is room for more.

Another interesting topic could be diving deeper in the world of cross-overs and the linking of communities with that.

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