Chapter VIII
A Tale of E–Business Models: From the Music to the Television Industry

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ABSTRACT

This chapter covers the concept of e-business models and how they relate to the music video and television environments. After identifying the value creation chain of music and video broadcasting to provide a context for the chapter, it assesses independent producers and aggregators of content, important new factors in the value chain of entertainment, as well as the various mechanisms through which content is reproduced. Following a comparison of the music and video/television business models, a case study is presented which exemplifies the reconfigured value chain presented herein. The background, development, and outputs of Current TV are presented in order to highlight the ultimate issue clarified in this chapter—that the changing nature of music, video, and television broadcasting markets combined with faster broadband connection—will continue to underpin radical changes in both music and television industries.

INTRODUCTION

Recent technological advances in video and television broadcasting over the Internet have signalled a period of radical transformations for the market, resulting in innovative services like YouTube and new applications like Television over the Internet Protocol (IPTV). The initial evidence
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of coupling audiovisual broadcasting with the Internet is already prompting a re-evaluation of frameworks and perceptions within the context of the network economy. In particular, changes in viewing preferences and habits have had a significant impact on what is broadcast and how this is done; effectively redefining what television is all about.

This chapter will focus on the value creation mechanisms and how new business models could underpin this ongoing transformation. We will use the experience gained since new business models were introduced in the music industry and discuss the similarities and differences when compared to the emerging models for video and television broadcasting using a number of examples and case studies.

E-BUSINESS MODELS

In this chapter we will adopt the definition by Afuah and Tucci (2003) who suggested that a business model is “the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so”. This definition encompasses two fundamental aspects, i.e. the transformation of resources into value and the extraction of profit from it. Following the dot com bubble, the element of profit extraction became more central for e-businesses, as a result of rationalising the selection of business models adopted for Internet-related ventures. What is often though difficult is how to identify where exactly the value is for the stakeholders, especially in complex markets, like the music and video/television broadcasting ones that we will be considering in this chapter. When it comes to presenting the case studies, we will also adopt their proposed taxonomy, which results in seven major business models, each having a number of variants: commission, advertising, mark-up, production, referral, subscription and fee-for-service.

INTERNET AND ITS IMPACT ON THE MUSIC INDUSTRY

The structure of the music industry at the end of the 20th century was totally dependent upon there being a strong copyright framework. The music industry was oligopolistic, with over 75% of market share owned by only four major labels. There were a handful of large independent labels and thousands of smaller independent labels. Copyright was crucial to all of them. It enabled them to recover the investment they made in songwriters and composers. Without copyright there would be no financial incentive for music publishers to invest in composers and musical works, and this could be to the detriment of artists, who depended upon publishers to manage the business of exploiting musical works and administering their royalty payments. Copyright was increasingly seen as a “pop commodity” (Frith, 1988); almost entirely defined in economic terms; a way of ensuring that revenue was derived from usage of a work and a means of establishing and enforcing legal ownership of a work. The privilege which came with this ownership was the exclusive right to make

If bandwidth is considered as a core element of the value generated by ebusiness models, one could argue that the video broadcasting business models and subsequently television business models could be seen as evolutionary models spawned from the music industry. If that was the case, though, then why have video broadcasting services like YouTube only recently become popular, when the vast majority of their content is comparable in size to MP3 files that have been around for many years? Before attempting to answer this question, it is worth putting the music and video markets in context, and following the directions set by the definition proposed by Afuah and Tucci, by discussing in more detail how resources are transformed into value and how this is extracted in order to benefit the stakeholders.