What Has Been Learned from Emergent Music Business Models?

Savvas Papagiannidis, Newcastle University, UK
Joanna Berry, Newcastle University, UK

ABSTRACT

The article investigates lessons learned from the emergence of new music industry business models and assesses how these might inform the rapidly developing online video and television marketplace. It describes the background and traditionally prevailing business models for both content processes, providing a context against which technologically mediated changes can be understood. The practical effects of technological changes are illustrated through a series of case studies, subsequent to which alternative frameworks for music and video content online are proposed. The initial results of these changes are thus demonstrated, and the article identifies requirements for further research in this rapidly changing and increasingly turbulent field of research.

Keywords: digital media; emerging ebusiness models; e-value frameworks; online music industry; online video industry

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 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 article will focus on the value creation mechanisms and how new business models could underpin this ongoing transformation. Our discussion will be complemented by short case studies that will be compared with similar cases from the music industry. This will allow us to 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 broadcasting.

The article starts by outlining a few influential definitions of e-business models before putting the online music, video, and television markets in context. While doing so, we ask what “television” is and look at how video broadcasting has been affected by technology and more specifically by the Internet. Answers to these questions are presented by adopting a four
level discussion framework. For each level we present cases from both the video broadcasting market and the music industry. We then move on to discuss their similarities and differences, before concluding with opportunities for future research.

**E-BUSINESS MODELS**

In 1985 Porter and Millar highlighted the strategic significance of information technologies, which were:

Transforming the nature of products, processes, companies, industries, and even competition itself. Until recently, most managers treated information technology as a support service and delegated it to EDP departments. Now, however, every company must understand the broad effects and implications of the new technology and how it can create substantial and sustainable competitive advantages.

Importantly, Porter and Millar (1985) identified three ways in which technology directly affected competitive advantage: by altering industry structures, supporting cost and differentiation strategies, and creating entirely new businesses. The concept of the business model is of particular importance in this regard and many definitions have been proposed. To start with, Timmers (1998) suggested that a business model is “an architecture for the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; and descriptions of sources of revenues,” while Applegate (2001) proposed that a business model is “a description of a complex business that enables study of its structure, the relationships among structural elements, and how it will respond to the real world”. Osterwalder and Pigneur (2002) defined a business model as:

*a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenues streams.*

Yip (2004) suggested that “a business model embraces the target customer, the nature of the business and how revenues (and hopefully profits) are generated”. Rappa (2004) stated:

*a business model is the method of doing business by which a company can sustain itself – that is, generate revenue; the business model spells-out how a company makes money by specifying where it is positioned in the value chain.*

Finally, Mansfield and Fourie (2004) proposed that “a business model most commonly describes the linkage between a firm’s resources and functions and its environment; it is a contingency model that finds an optimal mode of operation for a specific situation in a specific market”.

In the context of this article 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 elements on which most of the aforementioned definitions agree, that is, 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 rationalizing the selection of business models adopted for Internet-related ventures. What is often thought difficult is how to identify where exactly the value is for the stakeholders, especially in complex markets, like the markets we will be considering in this article. 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.

If bandwidth is considered as a core element of the value generated by e-business models,
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