The Innovation of Online Music Business Model From the Perspective of Industrial Value Chain Theory

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ABSTRACT

The emergence and development of online music have brought a great update to traditional music industrial value chain. As consumers know, record sales, media dissemination, and peripheral income like concerts are three major sources of income of traditional music industry. Compared with that, the music industry now possesses an extensive consumer group, a new growth point, and a new development direction. Meanwhile, as laws and business rules of online music industry improving, the new online music business model need to be established. Based on value chain theory, this article sets up a brand new online music business model and analyzes the operation strategy, and services mode of the business model applying internet thinking.

KEYWORDS

Business Model, Internet, Online Music, Value Chain

INTRODUCTION

Nowadays, knowledge is becoming the predominant productive force. As an important part of cultural industry, music industry also grows prosperously. As is estimated in Annual Research and Consultation Report of Panorama Survey and Development Strategy on China Music Industry 2016-2020 issued by China’s Investment Advisory Network, in 2016, the market size of China’s music industry will reach 295.2 billion and it will keep climbing to 319.9 billion in 2020. In the next five years (2016-2020), the average annual growth rate will be approximately 2.02%. In Internet era, due to the disappearance of physical media and decline of reproduction cost, the number of Internet users and apps present an exponential growth. In addition, there are 200 million music downloads in Internet every day in China making China the largest online music market in the world. It is possible to estimate the paid market of Internet music in China could exceed 10 billion. The trend of digital music is unpreventable.

However, facing with the great pressure of copyright payment, domestic digital music platforms still rely on network flow monetization which is passive and needs quite long period. In this way, profits come from subscription fee, high quality version fee and value-added services such as ads, game operation, online and offline performance, etc. (Liu, 2006). Due to low conversion rate of ads and high copyright and operation cost, most online music platforms either hardly maintain break-even, or turn to external investment because of deficit. Compared with online video or other similar industries, the output of online music is still too small with most income is from coloring ring back tone (CRBT) of telecom operators rather than Internet operation (Xue, 2014). The main cause that
constraints the development of domestic online music industry is lack of feasible profit models to cover musicians and operations.

In 2015, the bringing forward of “Internet Plus” makes business model become one of the hot spots among the theoretical and industrial circles. New industry chains created by Internet require new business model to reform music industry. At present, most researches of online music business model in China focused on profitability, charge system and macro level. Few researchers yet attempted to innovate online music business model systematically. Therefore, this article discusses the demand-oriented strategies of online music business and initially attempts to establish new online music business model which centers on online music comprehensive services platform.

LITERATURE REVIEW

Online Music Industrial Value Chain

The industrial value chain is a relation chain of strategic alliance (Hou, 2008), whose essence is supply-demand relationship. According to the theory, industry chain can be divided into several separated value-creating activities, and what core factors can affect these activities and how they organized are directly related to the total value of the industrial value chain (Lu & Li, 2004). Integrality and systematisms are main characteristics of the theory. One suitable structure of industry chain which is consistent with the value chain can enhance the profitability and competitiveness of all the companies of the industry chain (Liu, 2006). Moreover, Industrial value chain covers all processes inside of industry including creation, distribution, transmission and implementation. Using industrial value chain theory to study a specific industry can promote the integration of resource upstream and downstream, improve the coordination mechanism among each links and create new value, product and service. Further, it will make the distribution and appreciation of value more reasonable.

Music industry chain refers to the relationship of creation, transmission and consumption departments in music industry based on music products (Hou, 2008). And defining, analyzing and researching activities of each links of music industry from the perspective of value formed the music industrial value chain. Online music industry chain is a special case of music industry chain. In traditional music industry value chain, there are several ways to realize the value. Firstly, selling records and other music products is the major way to profit. Also, selling music copyright to various medias, such as radio, television and movie, authorizing them to broadcast in the program takes another large part of revenue. To some extent, the media is not only a profit source of record company, they also play the part to publicity and promotion. Secondly, cooperating with the management company, the record company arrange the singers to participate in various performances including advertisement, film and television works to earn huge profits. Not only direct income, singers can also win more exposure and preference to stimulate fans to buy more records as well (Liu, 2006). Traditional online music industry value chain can be demonstrated in detail in following Figure 1.

With the rapid development of online music, traditional music industry value chain has suffered great impact from online music and is giving away to online music industry chain whose major revenue source is online music products and services. In China, online music industry chain has developed even larger, which is equipped with multiple mature methods of payment, strictly protection on music copyright and over 600 billion Internet users. Since the formation of online music industry chain greatly promotes the convenience of consumers to get music products and services, online music industry chain will become more and more important and finally become the most essential chain. (Tong, 2012; Blackburn, 2012).

Online Music Business Model

Business model refers to the core logic of a company to create value (Johnson Christensen & Kagermann, 2010), which can be deemed as the foundation of business activity and implement of business strategy on the concept and structure (Linder & Cantrell, 2000). The nature of the business
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