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„Business Model Experimentation in the Recorded Music Industry“

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Eidesstattliche Erklärung

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(Kai Kirkkopelto)

There is no happiness except in the realisation
that we have accomplished something.

(Henry Ford)

First, and foremost, I would like to thank my parents for their endless support throughout my studies. I would also like to thank my sister and my girlfriend for being there for me. Furthermore, I am very grateful for the invaluable help that I received from MMag. Waldner and O.Univ.-Prof. Dr. Heidenberger during the writing process. Last but not least, I would like to thank Mr. Niemi, Mr. Pereira and Mr. Pöyhönen for participating in the research and sharing their insights.

Abstract

This research examined business model experimentation in recorded music industry. The purpose of the study was not only to describe the phenomenon but also to provide a multidimensional analysis of the complex subject by demonstrating: what caused the necessity for business model experimentation in the recorded music industry; who are the early adopters in terms of experimentation; and how one can successfully implement a business model experiment in the recorded music industry.

The research was conducted using the methods of qualitative research. The theoretical foundation used in this research provided the basis for examining the topic. The theoretical background consisted, most importantly, of literature concerning the business model, the disruption of the business model and business model experimentation. The empirical evidence was based on vast information acquired through case studies and in-depth interviews.

The results suggest that digital delivery of music – which is considered as the confluence of MP3 compression technology and Internet – disrupted the traditional business model in the recorded music industry and eradicated its profit potentiality. The disruptive innovation, instead of being a technological challenge, was most importantly a business model challenge to those committed to the conventional model. The disruption started an era of ferment and forced the industry to look for new business models to compensate for the falling revenues.

Independent record companies and independent artists were seen as the early adopters of business model experimentation in the recorded music industry. While the major record companies are being held captive by their traditional business models, new opportunities have arisen for independent parties to cope with the disruption and commit themselves in business model experimentation that requires a profound understanding of niche markets and positioning of recorded music as a secondary product.

The research suggests that successful business model experiments are based on offering recorded music as a promotional product – either for free or a very low cost – and bundling it with more lucrative value-added elements that provide personalised and unique value beyond the music. In the value-added model, the universal access to music is taken for granted, but as such, will neither create significant value nor contribute a considerable stream of revenue – therefore the value-added products are necessary to create new kind of value, and close the monetisation gap left by the falling sales of recorded music.

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1 Introduction

The first chapter works as an introduction to the research. First, I briefly explain the background of the topic and the underlying motivations for researching it. Subsequently, I introduce the research objective and the three hypotheses that are tested. Following, I explain the structure of the thesis and give a brief description of each chapter. In the end, I clarify the key terminology and present the methodology of the research.

1.1 Background

This research paper focuses on business model experimentation in the recorded music industry. The paper is written as part of the researcher's Master's studies in the Department of Innovation and Technology Management at the University of Vienna. The research does not only describe the phenomenon but it also aims to provide a multidimensional analysis of the topic at hand by demonstrating *what* in the first place caused the necessity for business model experimentation in the recorded music industry; *who* are the early adopters in terms of experimentation; and *how* one can successfully implement a business model experiment in the recorded music industry.

As it has become well known, the recorded music industry is going through one of the most prevalent turmoils ever since its inception. A decade after the industry's record-high year, 1999, the sales have plummeted from \$16.4 billion to \$6.3 billion (Rohter 2011); as a comparison, in 2010, the estimated spending on video games was \$51 billion, whereas the spending on movies was roughly \$31 billion (Hull, Hutchison & Strasser 2010, P.5). The traditional business model – based on distributing physical copies through brick and mortar – is facing significant challenges. It is clear that something needs to be done, but to be able to fix something, you need to first identify what is broken. There have been too many misleading reasons provided throughout the years. Though, to revive from the disruption – and to be able to experiment with new models – all actors in recorded music industry need to know the fundamental reasons that caused the disruption of the traditional business model.

The traditional business model was designed to fit the purposes of major record companies. They had superior resources in terms of production, manufacturing, distribution and marketing that were needed to operate the model. For that reason, the majors possessed a huge advantage over independent record companies and independent artists – it was close to impossible to break into the mass markets without signing a contract with one of them. Now,

with new technological advances enabling anyone to record at home, and distribute and market their music through the Internet, the bargaining power shifted. At the same time, the abundance of digital music scattered the market place into numerous niche markets that had traditionally been outside the major record companies' focus.

The challenges of the recorded music industry are strongly associated with the rise of MP3 compression technology and Internet – enabling the digital delivery of music. While the role of technology is clearly evident in the disruption of the traditional business model, little attention has been placed on researching how and why digital delivery of music was a *business model* challenge to major record companies that historically distributed the large majority of recorded music. I believe that digital delivery of music was not a technological challenge to major record companies – that aspect could have been overcome – but above all, a business model challenge that had profound impacts on all components of the traditional business model and, as I will later on argue, gave the inevitable impulse to start experimenting with new business models.

The major record companies clearly faced significant challenges because of the digitisation of recorded music. As one industry after another has showed, incumbents often ignore the disruptive change and fight against it trying to hold on to their established business models (Christensen 1997). While the major record companies were being held captive by their business models, in the same time, the new technological advances offered independent record companies and independent artists great possibilities to commit themselves in business model experimentation and compete against the majors. I believe that while the majors could not radically alter their existing business models, other actors outside the incumbents – namely independent record companies and independent artists – were better off utilising the new opportunities towards their own advantage.

Not only did the digitisation of recorded music scatter the market place, it also lowered the price point to zero. Because of the abundance of free content, recorded music lost its value in terms of money and consuming experience. For major record companies, this was especially devastating since their massive catalogue of copyrighted content was being freely distributed online without them getting their legitimate share of revenue. Artists and record companies were forced to re-evaluate their value propositions and revenue models. This, as we have seen, has lead many of them to offer recorded music as a promotional product and using it to upsell other ancillary products. As I will later on argue, I believe that there are huge profit

opportunities to be realised using recorded music as a low-margin secondary content and bundling it with value-added elements that add personal and unique value *beyond* the music.

Currently, the recorded music industry is in an extremely interesting phase. It is in a constant state of flux searching for the dominant design that has still not emerged. One cannot overemphasise that the industry is by no means dead – people are consuming more recorded music than ever before but they are just not willing to pay for it *per se*. Therefore, new business model experiments are continuously taking place and all actors from independent artists to online music platforms and record companies of all sizes are trying to figure out how to create value and derive revenues. There are countless opportunities to be seized, but it requires forgetting the past and adapting a new experimental approach. This research strives to shed more light upon how to accomplish this approach.

1.2 Research objective

In this thesis, I focus solely on the recorded music industry. The objective of the thesis is to provide a multidimensional analysis of business model experimentation in the recorded music industry. The results of the study are beneficial to both academics and practitioners. In the following, I present in details the three hypotheses that are tested.

Schumpeter (1934) was one of the first authors to note the disruptive nature of technological innovations. Ever since, a number of authors (Abernathy & Clark 1985; Tushman & Anderson 1986; Henderson & Clarke 1990; Hamilton & Singh 1992; Christensen 1997; Chandy & Tellis 1998) have tried to conceptualise the technological discontinuities that lead to the demise of incumbents. The tone of the conversation has been largely focused on the technological aspects and the performance trajectories of the product. Only later has the role of the business model been recognised and the function of disruptive technologies has been reformed as being more of a business model problem rather than a technology problem (Christensen & Raynor 2003; Christensen 2006; Sandström 2010). Nonetheless, little is known regarding how and why disruptive innovations are a business model problem (Sandström 2010).

In the same manner, substantial effort has been placed on researching the disruption of the recorded music industry as a technological challenge that lead to the demise of major record companies, while the fundamental reasons how and why the disruptive innovation – which in this research I consider as the confluence of MP3 compression technology and Internet – was

a business model challenge, has been somewhat ignored. In this research, I want to push the theory of disruption more towards the business model concept and argue that major record companies could have adapted to the digital delivery of music if only desired, but they found it contradictory with their traditional business model until there was no longer a choice.

Literature on disruptions (Teece 2010; McGrath 2010) shows how new business models start to emerge when an industry faces a disruptive change; the disruption begins an era of ferment that lasts until the dominant business model design is established again. The only way to overcome the disruption therefore lies in business model experimentation. I want to establish a link between the disruption of the traditional business model, caused by the digital delivery of music, and the necessity of business model experimentation. The disruption is analysed from the point of view of major record companies since they have historically distributed the large majority of recorded music. Therefore, hypothesis 1:

H1: Digital delivery of music disrupted the traditional business model in the recorded music industry and triggered the necessity for business model experimentation.

The theory of disruptive innovations (Christensen 1997; Christensen & Raynor 2003; Christensen 2006) describes how new entrants have better capabilities to survive the disruption and topple the incumbents. Christensen and Raynor (2003) argue that incumbents might be often reluctant to experiment with new business models since they have a business model that has evolved to its current form over the time and has been proven to work. Therefore, as experimenting with new business models would require changes to the traditional business model it is often overlooked.

The previous literature (Meisel & Sullivan 2002; Graham et. al 2004) acknowledges how digitisation of recorded music distorted the traditional market structure of the industry and brought down the previously dominant barriers for the creation and distribution of value. The disruption has therefore opened great opportunities for independent record companies and independent artists to commit themselves in business model experimentation and compete against the major record companies (Wikström 2012). I assume that independent artists and independent record companies have the best capabilities to be at the forefront of business model experimentation whereas incumbent record companies are likely to follow, but first, they need to fight their way out from the lock-in of their traditional business models. Therefore, Hypothesis 2:

H2: Early adopters of business model experimentation in the recorded music industry come from outside the incumbent record companies.

Digitisation has implied significant changes for companies working in all areas of the media industry, once characterised by tight centralised control and products that brought huge margins to those that had the resources to manufacture and distribute them. After the advent of the Internet, the flood of free digital content has faced one industry after another. Chris Anderson (2009), the former editor-in-chief of Wired and business author, has notoriously argued that anything that becomes digital will eventually become free. This, naturally, makes capturing value more difficult and forces companies to rethink their whole business models (Teece 2010).

As the value of owning recorded music is sharply declining, Wikström (2012) argues that the industry is shifting away from the model based on owning recorded music towards a model based on granting access to recorded music. While the access-based services are likely to witness a dramatic increase, Wikström (2012) argues that the model, as such, is destined to become commoditised in the future. As an alternative, and a way to overcome the saturation, Wikström (2012) suggests applying a “context-model” that creates value by offering contextual services and features that let consumers “do things with music”. While Wikström (2012) focuses on contextual digital services, I argue that the model can be extended to comprehend all elements – intangible or tangible – that add value beyond the recorded music and provide an incentive to pay a premium for.

Business model innovation, according to Osterwalder and Pigneur (2010, P.136) is based on creating new mechanisms to create value and derive revenues. Focusing on the above mentioned two components of the business model – value proposition and revenue model – I assume that successful business model experiments are based on treating recorded music as a promotional, secondary product that drives the sales of other value-added products that provide unique and personal value beyond the music itself. The analysis is limited to artist-driven business model experiments. Therefore, Hypothesis 3:

H3: Successful business model experiments are based on offering recorded music as a promotional product – either for free or a very low-cost – and bundling it with more lucrative value-added elements associated with the artist and the recording.

1.3 Structure of the thesis

This thesis consists of five chapters. The first chapter has so far introduced the reader to the topic and pointed out what makes it an interesting and valuable focus of research. It has also provided the reader with the research objective and the three hypotheses that are tested. After presenting the research structure, I explain the key terminology and the methodology of the research.

Chapter 2 introduces the reader to the theoretical literature that is needed to follow the rest of the research. First, I explain what is meant by the business model concept. I introduce the reader to the various definitions of a business model; then I reason with which conceptualisation I use as a framework in this research. After this, I move on to discuss about the literature concerning the disruption of the business model. The topic is approached from the technological perspective after which I explain why disruptive innovations are essentially a business model challenge. Then, I introduce the reader to the theoretical background of business model experimentation and describe why it often becomes essential after the disruption of the dominant design. I explain what is meant with business model experimentation, how it can be approached, and how can one implement an experiment and what are the barriers behind it. In the end of the chapter, I establish a link between the literature review and its relevance with the recorded music industry.

In Chapter 3, I focus solely on the recorded music industry. First, I explain the scope of my research; this includes defining the recorded music industry and the wider ecosystem it belongs to and briefly explaining its historical development. After this, the reader should have a better understanding of the background of the industry. Next, I explain the traditional business model practiced in the recorded music industry from a major record company's perspective; for this I use the theoretical framework given in Chapter 2. Then, I explain how digital delivery of music matches the characteristics of disruptive innovation (Christensen & Raynor 2003; Christensen 2006) and why it is essentially a business model challenge for major record companies – not a technological challenge.

In Chapter 4, I introduce the reader with new emerging business models in the recorded music industry and explain why the value-added model, as hypothesised, might lay the ground rules for future business models in the industry. After this, I argue why independent record companies and independent artists might be better at adapting to the new environment and experimenting with new business models. Next, I introduce three case studies that represent

best practices of artist-driven business model experiments in the recorded music industry; they help to shed new light on how to create a compelling value proposition and profitable revenue model. After the case studies, I present the findings from three in-depth interviews that I conducted to amplify and triangulate the previous findings and therefore produce more reliable results.

In Chapter 5 I present the research findings, and based on them, draw managerial implications. Furthermore, I assess the validity and reliability of the research and suggest future research recommendations that came up during the writing process.

1.4 Key terminology

Business model

Business model describes the money earning logic of a firm; how an organization creates, delivers, and captures value. It consists of nine interrelated components that cover the core areas of business. Those nine components are: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structures. (Osterwalder & Pigneur 2010, P.16-17)

Business model experimentation

Business model experimentation is a means of exploring alternative value creation mechanics that would not be possible within the company's current business model structure. It can be defined as the pursuit of growth through methodical examination of alternative business models and to the extent possible, through thought experiments. (Sinfield, Calder, McConnell & Colson 2011, P.85-86)

Disruptive innovation

Disruptive innovations characterise those innovations that improve a product or service in ways that the market does not expect; typically this is done by lowering the price or designing for a different set of consumers. Disruptive innovations often introduce a new value proposition. They either reshape existing markets or create completely new ones. (Christensen & Raynor 2003)

Music industry

Music industry is an intrinsic part of the larger entertainment industry. It consists of “those cultural industries that are primarily concerned with the creation, management and selling of music, either as a physical or a digital product, a performance, or as a bundle of intellectual property rights (Williamson & Cloonan 2007, P.305). The music industry should not be confused with the recorded music industry, which is a sub-industry of the larger business of selling music and other products and services related to it.

Recorded music industry

Recorded music industry can be defined as “those activities involved in developing, publishing, manufacturing, distributing, marketing and promoting recorded music and artists and performers” (PwC 2012, P.1). Given that a growing number of record companies and artists rely on recorded music to facilitate the sales of other ancillary products and services associated with the artist and the recording, the revenue from these products and services are also included in this study’s definition of the recorded music industry when bundled with the recording. Separate activities, such as live concerts, radio broadcasting, use of recordings in film and television and merchandise sold at concerts are excluded from this research.

Record company

Record companies act as the main investors and developers of music talent. They help artists to pursue a career in music by traditionally paying for the recording and mixing of the album as well as supporting with marketing and sales. They usually sign an artist with an agreement to retain exclusive rights for the recordings against a certain royalty payment (Hull 2010, P.45). In return they pursue high record sales and seek out alternative revenue sources. Record companies can be classified into two broad categories: major record companies and independent record companies that can be either “true independents” or “major-distributed independents” (Passman 2009, P. 64-65).

1.5 Methodology

In this chapter, I shortly describe the methodology of my research paper. First, I introduce the guidelines for the qualitative research. After this, I explain the theoretical background of conducting case studies and in-depth interviews. In the end of the chapter, I clarify the sources, gathering and analysis of the empirical evidence.

1.5.1 Qualitative research

A complex, interconnected family of terms, concepts and assumptions surrounds qualitative research. While no universal definition exists, many consider Denzin and Lincoln's (1994) definition as an authoritative contribution on qualitative research (Neergaard & Ulhøi 2007, P.5):

"Qualitative research is multi-method in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials such as case study, personal experience, introspective, life story, interview, observational, historical, interactional and visual texts. (Denzin & Lincoln 1994, P.2)

On contrast to quantitative studies, qualitative research puts emphasis on the *qualities* of entities and on processes and meanings that are not experimentally examined or measured in terms of quantity (Denzin 1994, P.10). In qualitative research the activities of collecting and analysing data as well as developing and modifying theory usually evolve simultaneously – the research design therefore does not follow a sequential linear path but is better characterised by a back and forth interactive approach (Maxwell 2004, P.2).

Maxwell's (2004) argument supports Strauss and Corbin's (1998, P.12) ideas of "grounded theory", which states that a research theory is "derived from data, systematically gathered and analysed through the research process". In this way, the researcher does not begin with an explicit theory in mind but he/she begins with a topic of interest and allows the theory to emerge from the data; therefore data collection, analysis and eventual theory tend to emerge simultaneously.

Formulating hypotheses is normally associated with quantitative research and seen as incompatible with qualitative research. There is, however, no inherent problem with formulating qualitative research hypothesis. Hypotheses are a statement of tentative answers to research questions; the answers are normally implications of a prior theory or experience. While qualitative researchers typically state their research questions prior to the study, hypotheses are formulated *after* the researcher has begun the study and grounded and developed further as new data emerges. (Maxwell 2004, P.69)

1.5.2 Sources, gathering and analysis of empirical evidence

Conducting empirical research: case study and in-depth interview examined

Empirical research describes researches that derive their data by means of either direct observation or experiment; such research is then used to test a hypothesis or answer a research question. The empirical part of my research consists of three case studies and three in-depth interviews. Yin (1994, P.13) describes a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident, and in which relies on multiple sources of evidence are used”. Case studies excel at helping to comprehend a complex issue or object and increase experience or add strength of what is already known from previous studies. Using case study method, the researcher can emphasise detailed contextual analysis focusing on a limited number of events or conditions and their relationship. (Yin 1984, P.32) Case studies can be either qualitative or quantitative (Stoecker 1991, P.97-99).

In-depth interviews, on the other hand, are highly personal one-on-one interviews that involve greater reactivity than quantitative approaches (Patton 2002, P.407). In-depth interviews are one of the most important sources of information for many qualitative researchers (Carson et. al 2001, P.73). In-depth interviews consist of open-ended questions and yield direct verbatim responses about people’s experiences, perceptions, opinions, feelings, and knowledge. Because of the direct quotations, the data that in-depth interviews produce is context to be interpretable. (Patton 2002, P.2) In-depth interviews rely highly on the expertise of the researcher and they can vary from more informal conversations to very structured and directed interviews. (Carson et. al 2001, P.73) Although, in-depth interviews often appear very naturalistic, they bear little resemblance to everyday conversations (Ritchie & Lewis 2003, P.139).

Sources and collection of empirical evidence

To gain an in-depth understanding of the phenomenon in question, the use of multiple sources and methods – also known as triangulation – is encouraged (Denzin & Lincoln 2011, P.5). O’Donoghue and Punch (2003, P.78) describe triangulation as a “method of cross-checking data from multiple sources to search for regularities in the research data.” Data sources may include documentations, interviews, physical artefacts, archival records, direct observations or participant observations (Baxter & Jack 2008, P.554). Triangulation comprises the use of

multiple techniques within the method to collect and interpret the data (Denzin, 1978, P.301). Triangulation adds to the study's credibility and trustworthiness (Yin 2010, P.8-9) improving the validity and reliability of research or evaluation of findings (Golafshani 2003, P.603-604).

The case study subjects were chosen based on purposive sampling. Purposive sampling is a non-probability sampling method that is primarily used in qualitative studies to select units based on specific purposes associated with answering a research study's questions or hypotheses (Teddlie & Yu 2007, P.77). Maxwell (1997, P.235) further defines purposive sampling as a type of sampling in which "particular settings, persons, or events are deliberately selected for the important information they can provide that cannot be gotten as well from other choices". The material for the case studies was gathered from a variety of sources. These included most importantly academic journals, books, news articles and blog posts.

In-depth interviewees were chosen based on convenience sampling. Convenience sampling is a non-probability sampling method that involves selecting subjects that are both easily accessible and willing to participate in a study (Teddlie & Yu 2007, P.78.). In-depth interviews were conducted in three occasions; one of them was done face-to-face, two via *Skype*. The in-depth interviews followed an open-ended, semi-structured thematic interview guideline. Semi-structured in-depth interviews usually consist of a framework of themes to be explored but they enable new questions to be brought up as a result of what the interviewee responds (Lindlof & Taylor 2010, P.176). Semi-structured interview method is more flexible and gives more freedom for unexpected topics to arise than structured interviews.

Analysis of empirical evidence

Analysing qualitative data means a non-mathematical process of interpretation, carried out to discover concepts and relationships in raw data and organising them into a theoretical explanatory scheme (Strauss & Corbin 1998, P.11). The overall idea of analysing case studies is to become first intimately familiar with each case as a stand-alone entity and discover the unique patterns within (Eisenhardt 1989, P.540). It is possible to look for the patterns immediately while reviewing the document – called as direct interpretation – or as I did, to code the records, aggregate frequencies and then discovering the patterns. I aided this process by pre-establishing codes of patterns that I expected to occur. (Stake 1995, P.77-79) After gaining rich information from each case study, I moved onto the cross-study examination.

The in-depth interviews were recorded and translated into English (if it was necessary) and in the end transcribed into separate Word-documents. The transcriptions were then analysed by using inductive content analysis method. Unlike deductive content analysis, inductive content analysis does not use the analysis structure based on previous studies but the research questions (or hypotheses) are answered based on the statements that arise from the in-depth interviews. Inductive content analysis consists of three phases: preparation, organisation and reporting. (Elo & Kyngäs 2007, P.109)

I started the analysis process by first familiarising myself with the data. I read the transcriptions several times to form a good overview of the data. Then, as Elo and Kyngäs (2007) suggest, I chose the unit of analysis based on the theoretical foundation and the research objective of my study. The unit of analysis is described as a “segment of text that is comprehensible by itself and contains one idea, episode, or piece of information” (Tesch 1990, P.116). The unit of analysis chosen was one argument that typically consisted of one or two sentences that described the phenomenon.

While reading through the transcriptions, I created notes and headings into the text file. I repeated going through the transcriptions until I had written down all the necessary headings that described all aspects of the content. After the open coding process, I started to form categories of previously collected headings as they emerged. The purpose of categorisation of data is to reduce the number of topic categories and provide a means of describing the phenomenon. The categorisation of data was followed by the abstraction phase, which included formulating a general description of the research topic based on the categories and their sub-categories, each characterised by their content. In the end, the findings were reported. (Elo Kyngäs 2007, P.109-111)

2 Literature review

The objective of this chapter is to introduce the relevant literature and to form the theoretical foundation for the research. The literature review consists of three larger topics that are crucial for the research: business model, the disruption of business model and business model experimentation.

The chapter begins with the introduction to the *business model* concept. First, I provide the reader with an overview of the several conceptualisations of a business model. Then, I explain which one I think suits best for the needs of my research and explain it in great detail.

After this, I explain the theory behind the *disruption of business model*. The topic is approached from the technological perspective. The reader is introduced to the theory of incremental and radical technological disruptions as well as sustaining and disruptive technological innovations. This helps to lay the ground rules for the theory of disruptive innovations, and most importantly, to understand how and why disruptive innovations are essentially a business model challenge.

In the third part, I explain what is meant with *business model experimentation*. At first, I define the concept. Then, I introduce the reader to business model mapping, a method of discovering new business models. After this, I present how business model experiments can be implemented. In the end, I discuss about the several barriers of business model experimentation.

In the end of the second chapter, I conclude the main findings of the literature review and establish a link between the theory and recorded music industry.

2.1 Business model

Research focusing on business models is a relatively young domain that caught the mainstream appearance only until the advent of the Internet in the mid 90s. Since then, it has received plenty of attention from both academics and practitioners; between 1995 and 2010 1,177 peer-reviewed academic journals were published that addressed the notion of a business model. (Zott, Amit & Massa 2011, P.1-4) The Figure 1 shows how the interest towards the concept has dramatically increased after reaching its tipping point in 1995. PAJ in the area graph stands for articles Published in Academic Journals; PnAJ stands for articles Published

in non-Academic Journals. Interesting notion is that the academic research on business model is far behind practice.

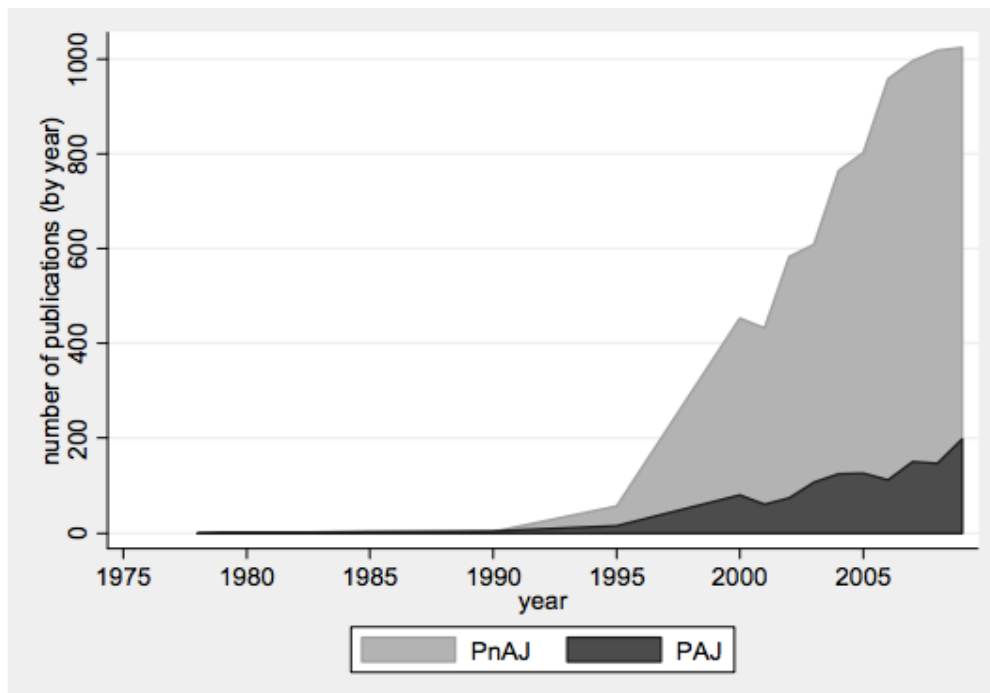


Figure 1: Business model articles in the field of business and management (Zott, Amit & Massa 2011, P.5)

While research concerning business models has undoubtedly gained a lot of attention, a business model itself is still lacking a common and widely accepted definition among academics and practitioners (Chesbrough & Rosenbloom 2002, P. 6). Scholars around the world have tried to conceptualise the essence of a business model in words, components or both, but failed to establish a universal agreement on what it addresses (Zott, Amit & Massa 2011, P.1). In general terms, a business model describes how a firm *creates and captures value* (Chesbrough & Rosenbloom 2002). For example, an online auction is not a business model – it is a pricing mechanism, which constitutes only a *part* of the larger business model concept (Osterwalder 2004, P.15). Magretta (2001, P.8) argues that “business model” is one of the most carelessly used terms in business that is often used to mean everything, but mostly ends up meaning nothing.

2.1.1 Ambiguity of a business model concept

Timmers (1998) was one of the first authors to explicitly define the business model. He proposed a classification scheme for e-commerce business models – although his definition

can be applied to other domains as well. Timmers argues that the business model is the architecture for the product, service, and information flows, a description of business actors and their benefits of being involved, and a description of revenue sources. A business model in itself is not sufficient to explain how the company realises its business mission; therefore it is useful to also identify the “marketing model” which is the combination of business model and marketing strategy. (Timmers 1998, P.4)

Afuah and Tucci (2000) argue that the business model can be conceptualised as a system that is made up of components, linkages between the components, and dynamics at different levels. A business model is therefore not only a sum of its components; it deals as much about the dynamics between the individual components. The authors list nine components that altogether describe a business model: customer value, customer segments, scope of products and services, pricing, revenue sources, connected activities, implementation, capabilities, and sustainability. The list can be applied to both e-commerce business models and “conventional” business models. (Afuah & Tucci, 2000, P.4)

Amit and Zott (2001) in turn provide a network-centred definition of a business model; they emphasize the design of transactions between a firm and its external stakeholders in the value creation process. The authors argue that a business model describes the content (exchanged goods), structure (the links between transaction stakeholders), and governance of transactions (the control of the flows of goods, information and resources) designed to create value by exploiting business opportunities. (Amit & Zott 2001, P.511)

Magretta (2002) takes a metaphorical stand explaining that business models are like stories that explain how organisations work. She argues that a good business model answers: who is the customer; what does the customer value; how the organisation makes money; and how does it deliver value to customers at an appropriate cost. Magretta distinguishes a business model from business strategy; where as, business models – as a system – describe how different pieces of a business fit together, they do not include competition, which belongs under strategy. (Magretta 2002, P.4-6)

Chesbrough and Rosenbloom (2002) argue that a business model is the construct mediating the value creation process between technical and economic domains – “the heuristic logic that connects technical potential with the realisation of economic value.” According to Chesbrough and Rosenbloom (2002, P.533-534), the functions of a business model are to:

articulate the value proposition, identify the market segment and specify the revenue generation mechanism; define the structure of the value chain; estimate the cost structure and profit potential; describe the position of the firm within the value network; and formulate the competitive strategy.

Johnson, Christensen and Kagermann (2008) argue that business model consists of four interlocking components that, taken together, create and deliver value. These components are customer value proposition, profit formula, key resources and key processes. According to the authors, the most important component to get right in the business model is the value proposition; in other words, to figure out how to create value to the customer. (Johnson, Christensen and Kagermann, 2008, P.60)

Teece (2010) argues that the business model defines how the organisation creates and delivers value to customers, and how it converts received payments into profits. A business model addresses the following questions: what customers want; how they want it; and how can the enterprise meet those needs, get paid for doing so, and make a profit. (Teece, 2010, P.172-173)

In a similar vein, Osterwalder and Pigneur (2010) explain that a business model describes the rationale of how an organisation creates, delivers, and captures value. According to the authors, business model can be described through nine components that address the logic of how the company intends to make money. The components are: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structures. Also Osterwalder and Pigneur (2010) distinguish business model from business strategy; the authors argue that the business model is like a blueprint for the strategy that is implemented through organisational structures, processes and systems. (Osterwalder and Pigneur, 2010, P.15-17)

In the following table, I present a summary of all those business model conceptualisations explained above. After the summary, I explain the business model framework from Osterwalder and Pigneur (2010) in more details.

Author	Definition	Components
Timmers (1998, P.2)	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 a description of the sources of revenues.”	N.a.
Afuah & Tucci (2000, P.4)	A business model can be conceptualized as “a system that is made up of components, linkages between the components, and dynamics.”	1. Customer value 2. Customer segments 3. Scope of products and services 4. Pricing 5. Revenue sources 6. Connected activities 7. Implementation 8. Capabilities 9. Sustainability
Amit & Zott (2001, P.511)	Business model depicts “the content, structure, and governance of transactions designed to create value through the exploitation of business opportunities.”	N.a.
Magretta (2001, P.4)	Business models are “stories that explain how enterprises work. A good business model answers Peter Drucker’s age-old questions: who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost.”	N.a.
Chesbrough & Rosenbloom (2002, P.533-534)	Business model is “the heuristic logic that connects technical potential with the realisation of economic value”	1. Value proposition 2. Market segment 3. Value chain 4. Cost structure and profit potential 5. Value network 6. Competitive strategy
Johnson, Christensen & Kagermann (2008, P.60-61)	A business model “consists of four interlocking elements that, taken together, create and deliver value.”	1. Customer value proposition 2. Profit formula 3. Key resources 4. Key processes
Teece (2010, P.172)	A business model “articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value.”	N.a.
Osterwalder & Pigneur (2010, P.14)	A business model “describes the rationale of how an organization creates, delivers and captures value.”	1. Value propositions 2. Customer segments 3. Distribution channels 4. Customer relationships 5. Key resources 6. Key activities 7. Key partnerships 8. Cost structure 9. Revenue streams

Table 1: List of the selected business model definitions described in Chapter 2.1

2.1.2 Osterwalder and Pigneur's business model framework

Osterwalder and Pigneur's (2010) business model framework has received a lot of support and is considered as one of the most comprehensive conceptualisations of the business model. The framework is based on vast data acquired through literature, case studies and interviews with practitioners, and its applicability has been tested, and proven to work, with several major corporations such as IBM, Ericsson and Deloitte. Osterwalder and Pigneur (2010) distinguish nine components that comprise the business model structure; together those components cover the four main areas of business, consisting of: offering, customers, infrastructure and finances.

Each of the business model components is designed to address a set of questions as described in Table 2. First, I want to briefly introduce the components and the respective topics they are addressing. Then, after the table, I explain each of the components in more details.

Business model component	Topics that the component addresses
Value proposition	What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are offering to each customer segment? Which customer needs are we satisfying?
Key resources	What key resources do our value propositions, distribution channels, customer relationships and revenues streams require?
Key activities	What key activities do our value proposition, distribution channels and revenue streams require?
Key partnerships	Who are our key partners? Which key resources are we acquiring from partners? Which key activities do partners perform?
Customer segments	For whom are we creating value? Who are our most important customers?
Customer relationships	What type of relationship does each of our customer segments expect us to establish and maintain with them?

Distribution channels	Through which channels do our customer segments want to be reached? How are our channels integrated?
Revenue streams	For what value are our customers really willing to pay? How much does each revenue stream contribute to overall revenues?
Cost structure	What are the most important cost inherent in our business model? Which key resources and key activities are most expensive?

Table 2: Osterwalder and Pigneur’s business model framework (2010, P.15-17)

Value propositions: what products and services are we offering to each segment that creates value?

Value proposition explains why a consumer should choose one product over another. It describes how items of value – products, services and complementary value-added services – are packaged and offered to solve a specific problem or fulfil a customer need (Osterwalder 2002, P.49). The solution is not in the product or in the service itself, but in the *value* they provide. The provided value may be quantitative (e.g. price, speed of service) or qualitative (e.g. convenience, design). Some value propositions provide a completely new or disruptive offering, while others add new features and attributes to existing market offerings. (Osterwalder & Pigneur 2010, P.22)

Examples of value propositions: *newness, performance, customisation, “getting the job done”, design, brand/status, price, cost reduction, risk reduction, accessibility, convenience/usability.*

Revenue model: how does our business generate cash from each segment?

The revenue model describes the ways a company generates cash from each customer segment. The company needs to find out *for what value* are customers willing to pay to generate one or more revenue streams from each segment. A business model may contain two types of revenue streams: recurring revenues from on-going payments, or transaction revenues from one-time payments. Each revenue stream can include different pricing mechanisms. Two categories of pricing mechanisms exist: fixed menu pricing and dynamic pricing. In fixed menu pricing, predefined prices are based on static variables, such as list prices, number of product features, types and characteristics of customer segments or volume. In dynamic pricing, prices change according to market conditions and as a result of, for example, negotiation. (Osterwalder & Pigneur 2010, P.30-33)

Examples of revenue streams: *asset sale, usage fee, subscription fees, lending/renting/leasing, licencing, brokerage fees, advertising.*

Customer segments: for whom do we create value?

The customer segments component describes the different groups of people the company wants to reach and serve. A company must make a deliberate decision on which customer segments to target and which ones to ignore; only after that, it can design the rest of the business model around the specific customer needs. Customer groups represent separate segments if: their needs require a distinct offer; they are reached through different channels; they require different kinds of relationships; they have different profitable margins, or they are willing to pay for different aspects of the offer. (Osterwalder & Pigneur 2010, P.20-21)

Examples of customer segments: *mass market, niche market, segmented market, diversified, multi-sided platforms.*

Distribution channels: How do we reach our customers?

Distribution channels describe how the company communicates with its customers and how it reaches them to deliver the value proposition. Channels comprise of the company's interface with its customers – the touch point that plays a crucial role in customer satisfaction. Channels have several functions, such as: raising awareness about company and its products, helping customers evaluate value proposition, allowing customers purchase products and services, delivering value proposition, and providing post-purchase support. Channels can be distinguished between owned channels and partner channels. Owned channels can be direct, such as web sales or using in-house sales force, or indirect, such as retail stores owned by the company. Partner channels are indirect and can include, for example, in wholesale distribution or partner-owned stores. Owned channels naturally lead to higher margins but also have higher operation costs; where as, partner channels have lower margins but enable further expansion through partner networks. (Osterwalder & Pigneur 2010, P.26-27)

Customer relationships: What kind of relationships do we maintain with our customer segments?

Customer relationships describe the different types of relationships the company wants to establish and maintain with each of its customer segments. Some relationships can be automated; some may require more personal care. Motivations to form relationships with

customers can range from customer acquisition to customer retention or upselling activities. (Osterwalder & Pigneur 2010, P.28-29)

Examples of customer relationships: *personal assistance, dedicated personal assistance, self-service, automated services, communities, co-creation.*

Key resources: What resources do our value propositions require?

Key resources describe the most crucial assets that are required to make the business model work. The resources are needed to create a value proposition, reach customers, maintain customer relationships and generate revenue. Different business models require different key resources and they can be owned by the company, acquired, or leased from outside partners. (Osterwalder & Pigneur 2010, P.34-35)

Examples of key resource categories: *physical, intellectual, human, financial resources.*

Key activities: What activities do our value propositions require?

Key activities describe the most important actions that must be accomplished to make the business model work. Just like key resources, key activities are needed to create a value proposition, reach customers, maintain customer relationships and generate revenue. Different business models naturally require different key activities. (Osterwalder & Pigneur 2010, P.36-37)

Examples of key activity categories: *production, problem solving, platform / network.*

Key partnerships: Who are our key partners and what do we want from them?

Key partnerships describe the network of the most important partners that are needed to make the business model work. Companies form partnerships to optimise their business models, reduce risk and uncertainty and acquire resources and activities. Companies can create four different types of partnerships: strategic alliances between non-competitors; strategic partnerships between competitors; joint ventures to build new business; and buyer-supplier relationships to assure consistent supplies. (Osterwalder & Pigneur 2010, P.38-39)

Cost structure: What generates costs in our business model?

Cost structure describes all the costs that are inherent in operating the business model. Costs are incurred while creating and delivering value, maintaining customer relationships, and generating revenue. The costs can be calculated after defining the three previously mentioned business model components: key resources, key activities and key partnerships. Two broader classes of cost structures exist: cost-driven business models that minimise costs whenever possible and value-driven business models that are less concerned about cost implications and focus on value creation. Most business models fall somewhere between the two mentioned cost structures. (Osterwalder & Pigneur 2010, P.40-41)

By now, the reader should have an overview of what is meant by the business model, and especially, how Osterwalder and Pigneur (2010) define it. This is important because from now on when I refer to “business model”, I mean the conceptualisation as Osterwalder and Pigneur (2010) define it. Even though a business model is often presented as a rather static concept within literature, it is subject to changes. As we will see in the next chapter, a business model that is presently competitive might be out-dated, or even obsolete, in the future. The world is full of examples of dominant business models that became crushed by the wave of disruptions; just taking a quick look at the media industry reveals the harsh reality. Therefore, one cannot underestimate the importance of interpreting a business model as a fluid, constantly evolving process (Osterwalder & Pigneur 2010, P.210).

2.2 Disruption of a business model

Much of the research focusing on disruptions is based on Schumpeter’s concept of “creative destruction”. In his famous book *Capitalism, Socialism and Democracy* (1942), Schumpeter described how technological innovations disrupt incumbent firms committed to old technology. In his early work, Schumpeter (1934) painted a gloomy picture of industries that were overtaken by new entrants who brought along a technologically superior product. The later work of Schumpeter (1950) began to place greater stress on the advantages that established companies possessed over new entrants. According to Schumpeter (1942, P.83), the process of creative destruction is an essential part of capitalism. As the later literature on the topic reveals, disruption is a diverse concept and there are several differing views on why established companies fail.

2.2.1 Theory of disruption

Technological progress is argued to follow an evolutionary path that is intersected by occasional discontinuous changes that cause a period of technological ferment (Tushman & Anderson (1986, P.440). Hamilton and Singh (1992, P.15) define technological discontinuity as “a major technological change resulting in the creation of a substitute technology for a particular industry’s products or processes”. Abernathy and Clarke (1985), Tushman and Anderson (1986) and Chandy and Tellis (1998) divide technological changes into *incremental innovations* and *radical innovations*.

Incremental innovations build on a company’s existing knowledge and resources within a product class; they extend the established technology and do not interfere with existing products’ competitiveness in the market. Introducing a number of incremental improvements, a company can lower the unit cost and achieve significant improvements in the quality and speed of the product. Radical innovations, on the other hand, require entirely new knowledge and resources in the development and production of the product. They involve great technological advancements and make the existing products non-competitive and ultimately obsolete in the market. When a radical innovation leads to better performance per dollar in comparison with current technology, customers are likely to abandon the company committed to the old technology. Radical innovations are referred to as competence-destroying innovations as they cause fragmentation within the industry. (Tushman & Anderson 1986, P.441-442)

Incumbents are in a better position to utilise new opportunities when the technological discontinuity builds upon the competence they already possess; incremental innovations therefore have a tendency to reinforce the industry leadership. New entrants, on the contrary, are in a better position to utilise radical innovations; they are not constrained by the knowledge and resources committed to old technology and do not need to change their whole knowledge background to restructure around the new technology. (Tushman & Anderson 1986, P.444-474)

Henderson and Clark (1990) complement Tushman and Anderson’s (1986) findings and classify innovations as either *modular* or *architectural*. Modular innovations replace a core component of a given product but leave the product architecture untouched. Incumbents are good at coping with innovations at a modular level because they do not cause changes to the

architectural knowledge. Architectural innovations, on the other hand, change the linkages between different components in a given product. Therefore, incumbents find it difficult to recognise and respond to these changes because the architectural knowledge has become so embedded in their organisational structures. (Henderson & Clarke 1990, P.9)

While the academic research on discontinuous technologies has mainly focused on the difficulties innovations cause to firm's resources and capabilities, Clayton Christensen (1997) pointed out the importance of looking *beyond* the company's boundaries and including the role of the market and the company's value network into the analysis. Christensen (1997, P.32) defines value network as "the context within which the firm identifies and responds to customers' needs, procures inputs and reacts to competitors". In his doctoral dissertation, Christensen (1992) studied the disk drive industry and found inconsistencies with the previous literature from authors such as Tushman and Anderson (1986) and Henderson and Clark (1990). According to Christensen (1997), the discontinuities in the disk drive industry that ultimately brought down several established firms were not competence-destroying, nor architectural innovations.

Christensen (1997) divides technological changes into *sustaining technologies* and *disruptive technologies*. Sustaining technologies improve the performance of established products and are designed to meet existing customers' historical preferences. Most technological advances are sustaining of character and hardly lead to the demise of established companies. Sustaining technological innovations are fairly similar to incremental innovations as described in the previous section; they both improve the performance of existing products and serve to consolidate the market position of leading firms. (Christensen 1997, P.18)

Disruptive technological innovations, on the contrary, are fundamentally different from radical innovations described by Abernathy and Clarke (1985), Tushman and Anderson (1986) and Chandy and Tellis (1998). While radical innovations were found to lead to better product performance, disruptive technologies often lead to *worse* product performance. They underperform established products but create new customer value in terms of cheaper, smaller, simpler and more convenient products. Disruptive technologies are initially aimed for small markets far from the mainstream. They are designed to serve the low end of the market that incumbents do not consider attractive enough to attain. Low-end disruptive innovations speak especially to the overserved customers that do not need all the functionalities that mainstream products offer. Because the products that are based on low-end disruptive

technologies are cheaper than the mainstream products, they also tend to generate lower margins to their manufacturers. (Christensen 1997, P.15-28)

Even though the products based on disruptive technology often begin in the low-end of the market, as disruptive technologies reach the level of demand that high-end customers require, they become fully competitive with the established products that usually overshoot their customers' needs. Eventually the disruptive technology distorts the existing market by replacing the current value network and displacing the earlier technologies. Paradoxically, as Christensen points out, great companies often fail – not because they do something wrong – but because they do everything *right*. By meeting customers' existing demands day after day, companies may ignore or reject disruptive technologies that create products of the future. Disruptive technologies are often launched by new entrant firms, because they have better capabilities to create a completely new value network and offer lower profit levels to serve the initially small markets. (Christensen 1997, P.15-28)

The following figure describes how disruptive technology (T2) eventually meets the performance demanded at the high end of the market and the products based on disruptive technology become fully competitive with the mainstream products based on sustaining technology (T1). As the figure well describes, technology often progresses faster than the market demand.

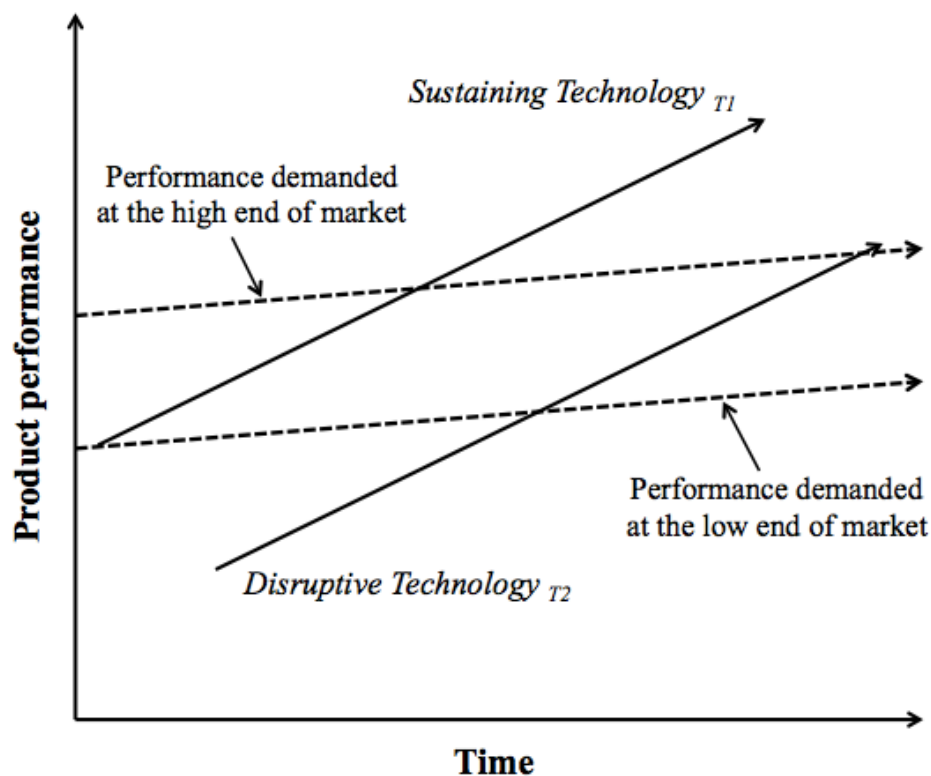


Figure 2: The theory of sustaining and disruptive technological innovations (Christensen 1997)

2.2.2 Disruptive innovation as business model challenge

While Christensen's theory of disruptive technology has received extensive coverage in academic business journals (Danneels 2004, P.246), it has also received criticism of over-emphasising the role of technology in the case of disruption. In his more recent work, Christensen (Christensen & Raynor 2003; Christensen 2006) reformulated his initial theory and acknowledged disruptive technologies as "a business model problem, not a technology problem". Christensen (2006) replaced the term disruptive technology by disruptive *innovation* to extend the applicability of the theory. Christensen and Raynor (2003, P.143) added that disruptive innovation does not necessarily have to include any major breakthrough in technology – it is rather the business model the technology enables that creates the disruptive effect. While many established companies are capable of reacting and adapting to disruptive technologies (Sandström 2010, P.6), they find it more difficult to adapt to the new business environment that disruptive innovations create (Meyer & Utterback 1995, P.302).

Sandström (2010, P.55) argues that disruptive innovations are a business model problem because of the issues related to “value creation and distribution as well as the impact on different actors, their incentives and their competences”. The initial theory of disruptive innovation was somewhat ambiguous on how disruptive innovations create value. Christensen (1997) for example mentioned that products based on disruptive technology are typically cheaper, simpler, smaller and frequently more convenient to use, while yet underperforming established products in the market. The definition focused largely on the performance trajectories of the product while it did not clearly address how the innovation creates economic value and utility for the consumer.

Sandström and Magnusson (2010, P.13) argue that disruptive innovations should not be thought in terms of technological parameters but in terms of the total utility they create. If the disruptive innovation increases the total utility for the consumer, they can also emerge in the mainstream or high-end markets (Danneels 2004, P.249). Companies can create new value in many different ways. Kim and Mauborgne (1996, P.103) argue that firms can make their competitors irrelevant through a strategic logic they call *value innovation*. The logic of value innovation is to provide customers a tremendous increase in value that significantly differs from the conventional business logic practiced in the marketplace. Kim and Mauborgne’s (1996) definition, as we can see, addresses the *total* value that the innovation creates. Companies can create a value innovation along the five basic strategic dimensions (see Table 3).

Five Dimensions of Strategy	Conventional Logic	Value Innovation Logic
------------------------------------	---------------------------	-------------------------------

Industry Assumptions	Industry conditions are given.	Industry conditions can be shaped
Strategic Focus	A company should build competitive advantages. The aim is to beat the competition.	A company should pursue a quantum leap in value to dominate the market.
Customers	A company should retain and expand its existing customer base through segmentation and customisation. Focus should be on the differences in what customers value.	A company should target the mass of buyers and create new customer value. It can willingly let some existing customers go.
Assets and Capabilities	A company should leverage its existing assets and capabilities.	A company should search and create new assets and capabilities.
Products and Service Offerings	Traditional industry constraints determine the products and services a company can offer. The aim is to maximise those offerings.	A company should look beyond the industry's constraints and offer the total solution customers seek.

Table 3: Comparison between conventional business logic and value innovation logic (Kim and Mauborgne 1996, P.103)

As disruptive innovation changes the way the value is distributed throughout the company's value network, it proposes another challenge that is related to the company's business model. According to Christensen's (1997) theory, company's existing value networks place insufficient value on disruptive innovations that hinder its incentives to invest in those innovations. While Christensen (1997, P.32) defined value network as "the context within which the firm identifies and responds to customers' needs, procures inputs and reacts to competitors", he added that companies' freedom of action is limited to satisfying the needs of primarily *customers*. The initial theory was very much focused on how leading firms are held captive by their existing customers because they provide the necessary resources that firms need to survive. However, as we are well aware of, customers comprise only one component of the business model structure. While the role of existing customers has been extensively researched, the question, how disruptive innovations affect other actors in the value network has received only little attention (Sandström 2010, P.50).

A business model is essentially a structural template that explains the organisation's transactions with *all* its external actors (Zott and Amit 2008, P.1). While neither the customer nor the firm possess control over all resources, organisations usually include a number of diverse actors within its network and those beyond the organisational structure. Due to the interdependencies between several actors, disruptive innovations cause a business model problem if they distort the established network constellations. The established links create resistance to change the business model because it has evolved to its current state over a period of time (Sandström 2010, P.56). Teece (2010, P.182) argues that incumbents may be reluctant to replicate the pioneer's business model if it involves upsetting important relationships with its stakeholders. Therefore, especially firms that are vertically integrated tend to manage the disruptive innovations worse than those entities that are not following similar methods (Afuah 2001).

In his initial theory of disruptive innovation, Christensen (1997) suggested that disruptive innovations overtake the old technology and make the existing products obsolete. Further literature, however, states that disruptive innovations may grow the businesses very quickly to a certain point, but hardly ever manage to overtake the market completely (Markides 2006, P.21). Therefore new business models rarely destroy the old ones but rather deflate the profit potential of them (Hamel 2002, P.69). The use of online travel agencies, for example, has undeniably deflated the profit potential of brick and mortar agencies but, yet, has not managed to completely overtake them. The physical agencies offer attributes, such as reliability, safe paying methods and face-to-face customer service, that some customers still value over the Internet.

Sandström and Osborne (2010, P.473) offer some managerial implications how firms can manage a disruptive innovation and renew their business models. They propose that, at first, they should map all relevant actors in their value network and their incentives, resources and activities. Once completed, the organisation should find out how the value is created and distributed among the actors, while identifying the critical actors towards adaptation of the innovation. In the end, companies should design a business model that aligns the incentives throughout the established network of actors.

2.3 Business model experimentation

Most industries operate within the boundaries of a given business model. However, business models, as we learned in the previous chapter, are subject to changes and even the strongest ones can disrupt. When an industry is struck by a disruptive change, the constraints of the previously dominant business model are lifted and new models start to emerge (McGrath 2010, P.253). Internet, especially, has notoriously broken many old constraints on how to create, deliver and capture value (Teece 2010, P.174). Disruption accelerates an era of ferment that lasts until the dominant business model design is established again. In most cases, it is impossible to make analytical plans which new models will supplant the old ones. Therefore, only business model experimentation will help to discover the most effective models. (McGrath 2010, P.253)

Sinfield, Calder, McConnell and Colson (2011, P.85) describe business model experimentation as “a means to explore alternative value creation approaches quickly, inexpensively and, to the extent possible, through thought experiments.” Treating a business model as a variable, companies can examine multiple alternative business models allowing them to anticipate, adjust to and capitalise on new disruptive innovations and customer insights. By engaging in business model experimentation, companies can achieve three goals:

1. Understand the implications of various business models and make better choices in which market and how they want to compete.
2. Identify those business models that create the most value for the customers and for themselves and which enable to leverage their existing resources
3. Use business model innovation to extract the maximum potential from their customer insights, technical R&D and strategic development efforts. (Sinfield et al. 2011, P.90)

2.3.1 Business model mapping

A promising approach to business model experimentation is to formulate maps of business models. The maps are used to portray the current business model and visually characterise and communicate new cognitive models. Constructing maps of business models helps to clarify the processes underlying them, which in turn, allows them to become a source of business model experiments regarding the different combinations of processes. (Chesbrough 2010, P.359) Most importantly, business model mapping allows experimenting with new business models *before* any real investments are required (McGrath (2010, P.259).

One such mapping approach comes from Sinfield et al. (2011) who propose that business model experimentation can be approached through a “business model development template” that helps companies to explore new business models by altering the core components of a business model (see Appendix A). Another approach, developed by IBM, suggests that business model mapping can be approached through component business modelling that represents a company’s entire business in a simple framework, which, in turn, works as the blueprint for experimentation (see Appendix B) (Chesbrough 2010, P.359).

The third approach to business model mapping – and the one that I use as a framework for this research – is based on the business model framework described by Osterwalder and Pigneur (2010) earlier. Osterwalder and Pigneur’s (2010) business model map consists of nine interrelated business model components that help the company to map, test, and iterate alternative business model ideas (see Figure 3). The approach is not about only outlining ideas to be implemented, it is about internalising a mind-set – or as Osterwalder and Pigneur call it, a *design attitude* – that aims for an “uncompromising commitment to discovering new and better business models” (Osterwalder & Pigneur 2010, P.165).

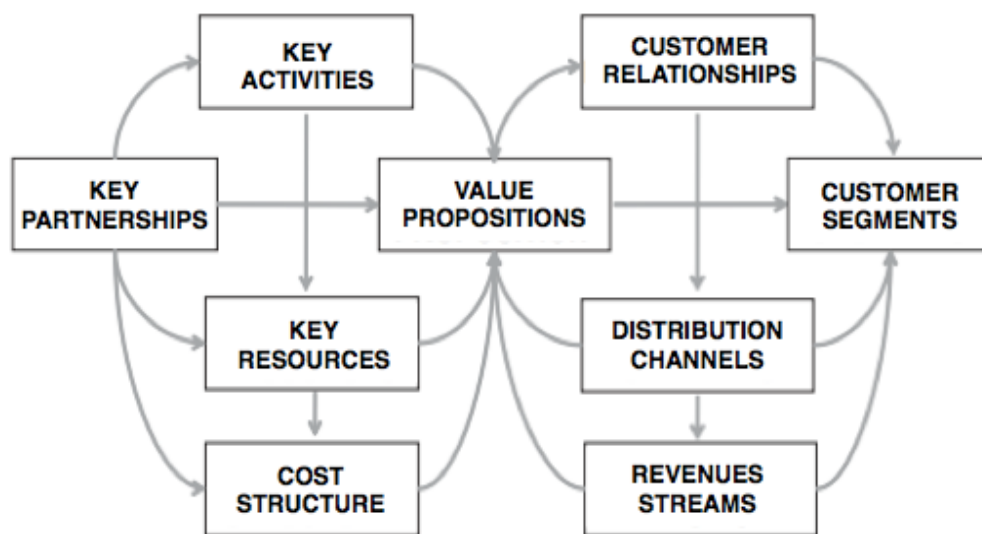


Figure 3: Osterwalder & Pigneur’s (2010) business model mapping framework (Chesbrough 2010, P.359)

Each business model component represents a series of decisions that has an impact on the final outcome. By selecting one possible alternative from each component and linking them together, a company can explore possibilities of business model innovation that would not be possible within its current business model structure (Sinfield et al. 2011, P.85). Manipulating

the business model, companies can construct multiple prototypes that become the signposts for the future. Only a deep inquiry of alternative business models enables to later refine and execute the most viable. Companies that fail to evaluate alternative business model opportunities, face a risk of being side-lined or overtaken by their more dynamic competitors. (Osterwalder & Pigneur 2010, P.162-165)

Realistically, a company does not have an infinite number of options but many of the combinations are interrelated with each other. Therefore, a company can lock in some components that it does not consider worth changing, and investigate those components that are not locked in more details (Sinfield, et al. 2011, P.85). Osterwalder and Pigneur (2010, P.167) reinforce the point by arguing that business model maps rarely describe all aspects of a business model but instead focus on illuminating some particular components of the model, such as value proposition and revenue model, and thus indicating new directions for exploration.

2.3.2 Implementing business model experiments

What is good on paper does not necessarily mean it will work in real life. Business model mapping provides a useful tool to evaluate alternative business models but, *as such*, does not promote experimentation and innovation. Not surprisingly, the highest fidelity is provided when experimenting with a new business model on real customers, charging real money. (Chesbrough 2010, P.360)

Implementing business model experiments can be approached through a real options investment approach. The approach is based on an idea that a company makes small initial investments with limited downsides until it has acquired enough evidence to find out if the ideas behind the investments functions. The goal is to increase exponential knowledge as new information is revealed. If some of the ideas work out as planned, the company substantially invests to support the functional ideas. (McGrath 2010, P.255-256)

Applying the real options investment approach to business model experimentation, a company introduces a series of small-scale business model experiments until there is enough data to show which experiments work out as planned and which do not. The ones that fail to provide a desired return on investment are cut off; the ones that are proven successful are scaled up vigorously to ensure the first-mover advantage. (McGrath 2010, P.255-256)

McGrath (2010, P.254-255) argues that business model evolution follows a path that can be shaped by early experiments. Therefore, engaging in business model experimentation as early as possible, firms are able to generate useful data that can be used to shape the trajectory for future models. Developing superior capabilities at experimentation is a source of competitive differentiation – companies that can build better and faster models than their competitors, become the pioneers of the dominant business model of the future (McGrath 2010, P.260).

To clarify the above-mentioned approach, the following figure (see Figure 4) shows how the business model for Internet searching has evolved throughout the decades as technological opportunities have increased. Internet searching started with the transaction-based model with an aim to get customers to pay per each search. Later on, it was changed to subscription model based on charging a monthly fee for unlimited searching, but ending up with the current free advertising-supported model in which Google has achieved a major first-mover advantage. Google’s success is based not only on its superior search engine algorithm but also to a number of *previous* experiments that have shaped the path to the current, very profitable, model. (McGrath 2010, P.254)

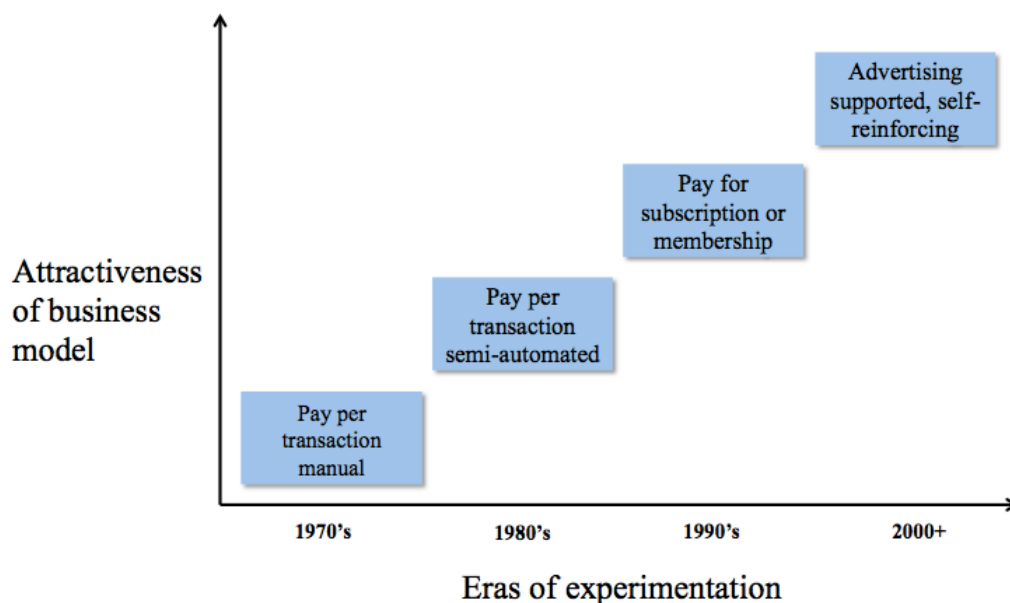


Figure 4: The evolutionary nature of business model experimentation – case: Internet searching (McGrath 2010, P.254)

McGrath (2010) calls business model experimentation based on cumulative learning “discovery driven planning”. Companies, committed to discovery driven planning, model

uncertainties by updating their financial projections as new information is created. As new information is learned while implementing the experiments, it is crucial to distinguish failures from mistakes. A mistake occurs when the experiment is poorly planned or badly conducted; they create sparse new or useful data. Failures, on the other hand, *do* contribute to new learning and should be treated as possibilities to gain new knowledge to conduct better experiments in the future. (Thomke 2003, P.213) The methodical process of business model experimentation decreases the risk of choosing a less potential strategy for an investment that is typically lower than the potential gains (Sinfield, et al. 2011, P.85).

2.3.3 Barriers to business model experimentation

While business model experimentation is seen as a potent source of competitive advantage, one could assume that companies would actively probe for alternative value creating mechanics – especially the incumbents that have superior resources to do so. Yet, only few organisations have managed to successfully plan and implement a business model that would be significantly different from their current business model – even fewer have succeeded more than once (Sinfield et al. 2011, P.85).

The barriers for business model experimentation are often analysed from the point of view of an incumbent firm. Christensen (1997) and Christensen and Raynor (2003) describe how disruptive innovations create a conflict between the established business model designed for the existing technology and the new emerging business models that require different technology. Emerging business models might require different distribution channels and a different set of customers and they typically produce lower margins. The incumbents are reluctant to experiment with new emerging business models because that would require changes in the *current* model, which has evolved over time and proven to work. As a consequence, the incumbents favour the established business model disproportionally leaving little or no resources available to develop any alternative business models.

In a similar vein, Chesbrough (2010) argues that there are powerful cognitive barriers to business model experimentation. Organisations tend to look for information that fits with their current business logic and forgo information that conflicts with it. Not to mention, emergent opportunities may also lack enough data to justify the investments and are ignored. This can lead to crucial mistakes in missing potentially valuable new technologies because they conflict with the current business model. (Chesbrough 2010, P.358) One such example is with

large booksellers that missed the opportunity to monetise the Internet before Amazon entered the market. Although they did carry out some actions, they were merely based on adapting the traditional brick and mortar business model to the Internet. (Cavalcante, Kesting & Ulhoi 2011, P.1336)

Some barriers of business model experimentation are related to the distribution of organisational decision-making, which ultimately comes down to the question: who is responsible for leading the change? Organisations must make sure that there is no ambiguity regarding the leadership issues within business model experimentation. Furthermore, they must address how the results coming from those experiments lead to action in the organisation. Relying solely upon the CEOs may not be the best solution – they are, after all, likely to have risen to their position through the current business model. Functional operations, on the other hand, may lack authority to roll out such organisational changes and they might also have differing goals and motivations. (Chesbrough 2010, P.361) Doz and Kosonen (2008, P.96) argue that business model experimentation requires strategic agility that is combined of three meta-capabilities: strategic sensitivity for the surrounding environment, leadership unity of the top team, and rapid resource fluidity.

Committing to business model experimentation may require a parallel co-existence of two or more business models; the company must continue performing well in its current business while, at the same time, experiment with new models. The decision when to shift resources to the new business model is a great managerial problem, which may have career consequences for those involved. (Chesbrough 2010, P.361) Furthermore, the new business model may possess a risk of cannibalising the established business, which quite naturally hinders the shift of resources to the new model. This has been one of the major reasons why a number of media companies, for example, have been reluctant to start distributing digital content because it does not generate as much revenues as selling physical products. (Osterwalder & Pigneur 2010, P.232)

As we have learned, there are powerful barriers slowing down the adaptation of business model experimentation. The great dilemma is that, while it may be possible to foresee new trends in the market, it is extremely difficult to know in advance how to take advantage of those changes via business model innovation. The only way to overcome the barriers is to adapt an experimental mind-set towards business model innovation and break down the barriers that protect the existing business model. (Chesbrough 2010, P.362)

2.4 Summary of the literature review and its link with recorded music industry

The literature review was divided into three interrelated concepts: business model, the disruption of a business model and business model experimentation. The order of the topics does not suggest linearity, although, a number of companies have undergone the path from a once stable business model through its disruption to the new revival through experimentation.

At first, I covered the concept of the *business model*. I introduced the reader to the various definitions of a business model and hopefully cleared some of the ambiguity surrounding it. In the end, I used my own discretion and chose Osterwalder and Pigneur's (2010) business model conceptualisation as the suitable theoretical framework for this study. Osterwalder and Pigneur (2010) define a business model as the rationale of how an organisation creates, delivers, and captures value; and their model consists of nine interrelated components that address the logic of how the company intends to make money.

The dominant business model in the recorded music industry, as we will soon see, held its ground for decades. It was especially profitable for major record companies since they had superior resources to run the model; for that reason, artists faced little or no opportunities to survive without signing a contract with one of the few majors. The traditional business model in the recorded music industry will be covered in Chapter 3.2 using Osterwalder and Pigneur's (2010) framework and analysing each of the nine components.

After having explained what a business model means and which concept I use for the rest of the study, I introduced the reader to *the disruption of a business model*. Here, I wanted to highlight that business models should be seen as variables that are subject to discontinuous changes that sometimes cause the business model to disrupt. First, I introduced the theory of disruption from the technological perspective; I explained how radical technological innovations occasionally disrupt the evolutionary progress and cause a period of technological ferment that make existing products obsolete. Then, I pointed out how disruptive technological innovations – unlike radical innovations – often lead to worse product performance but create a new kind of value in terms of significantly cheaper and simpler products. In the end, I explained how and why disruptive innovations have been later on acknowledged as a business model challenge rather than a technological challenge to incumbents.

It has become clear that the traditional business model in the recorded music industry is in turmoil. A number of different things have been accused of having caused the disruption of the traditional model – sometimes not seeing the wood for the trees. Capitalising on the theoretical background of business model disruption, I will analyse what caused the degradation of the traditional business model in the recorded music industry – and why major record companies had a particularly hard time adjusting to the change. Furthermore, I want to explain why the fundamental challenges were not technological, but they dealt with the profound challenges that the digital delivery of music presented to the prevailing business models of major record companies.

Next, I moved on to discuss about *business model experimentation*. First, I explained how business model experimentation often becomes essential after the conventional business model disrupts; the disruption causes an era of ferment that lasts until the new dominant design emerges. Business model experimentation was described as the means of exploring alternative value creation mechanics. A promising approach to experimentation, as I pointed out, is formulating maps of business models; here again, using Osterwalder and Pigneur's (2010) framework to illustrate how companies can explore possibilities of business model innovation. After this, I moved on to introduce how business model experiments are implemented and how business model experimentation is an evolutionary process which path can be shaped. Business model experimentation, although seen as a potent source of competitive advantage, is relatively rare and faces severe barriers, especially from the incumbent's point of view.

Currently, the recorded music industry is in an extremely interesting phase. While the traditional business model is becoming increasingly irrelevant, new models are needed. Record companies and artists are constantly trying to find new money-earning logics to compensate for the falling revenues caused by the disruption. Putting the theory to work, I want to show why business model experimentation is an inevitable means of survival for the recorded music industry. The experimentation, however, requires radical changes to the conventional business logic. I believe that independent record companies and independent artists have the best capabilities to experiment with new models while the major record companies will continue fighting their way out from the lock-in of their traditional business models. Furthermore, focusing on two business model components, value proposition and revenue model, I intend to analyse if successful artist-driven business model experiments share any resemblances regarding their mechanisms to create value and derive revenue.

3 Recorded Music Industry

People will never stop listening to music — they'll just change how they find it, hear it, and pay for it. (Hany Nada, Founding Partner, GGV Capital)

In the third chapter I focus on the recorded music industry. The chapter is divided into two larger parts. In the first part I explain the scope of the research. This includes defining the wider ecosystem of the recorded music industry, as well as the recorded music industry itself. After this, being familiarised with the extent of the research, I describe the chain of activities and the different actors that have traditionally been involved in delivering recorded music to end consumers. The first part is concluded with a summary of the historical development of the recorded music industry so that it is easier to understand the recent happenings unfolding in the industry.

In the second part, I move on to discuss about the traditional business model in the recorded music industry. For this, I use the theoretical framework of Osterwalder and Pigneur (2010). Following the framework, I introduce the reader to the disruption of the traditional business model. First, I explain how digital delivery of music matches the characteristics of Christensen's (1997; 2006) theory of disruptive innovation and after that, I argue how and why digital delivery of music was essentially a business model challenge for the major record companies committed to the conventional business logic. In the end of the second part, I point out the exact effects that digital delivery of music had on the traditional business model and its nine components.

3.1 Scope of the study

3.1.1 Defining the ecosystem

Before discussing about the recorded music industry in more details, it is good to first describe the wider ecosystem it belongs to. Let me start from the big picture. The entertainment industry is a trillion-dollar global business that monetises the function of leisure time. It is comprised of several sub-industries that are devoted to various forms of entertainment. Even though each sector in the industry creates a distinguished product (motion picture, album, video game etc.) they are very interconnected and they all share similar characteristics: high capitalisation, advanced intellectual property protection requirements, oligopolistic nature and globalisation tendencies. All companies working in the

entertainment industry are influenced by external variables such as technological changes, social trends and the current state of the economy. (Hull, Hutchison & Strasser 2011, P.1-5)

However, the music industry is an intrinsic part of the wider entertainment industry and, just like the entertainment industry, it is a sum of its counterparts. Music industry consists of “those cultural industries which are primarily concerned with the creation, management and selling of music, either as a physical/digital product, a performance, or as a bundle of intellectual property rights” (Williamson & Cloonan 2007, P.305). The music industry is often wrongly used as a synonym with the recorded music industry, which constitutes only a subset of the larger business of selling music and everything interconnected. The two terms are treated interchangeably because recorded music sector has historically been a dominant part of the music industry and it has played an important role in generating revenues. (Williamson & Clooney 2007, P.313-314)

The music industry, as already mentioned, is currently in an interesting phase; while the sales of recorded music have been declining for years, other sectors, such as live music is constantly increasing, even though the concert tickets have reached record-high prices. Because of the heterogeneous nature of the industry, it is extremely crucial to state that music industry *in general* is not in crisis. It is rather a part of it – namely the recorded music industry – that is struggling to understand the new business environment created by technological and communication advances. (Williamson & Clooney 2007, P.308-314)

3.1.2 Defining the recorded music industry

The recorded music industry is the sole focus of my thesis. For the purpose of my thesis, I define the recorded music industry as “those activities that are involved in developing, publishing, manufacturing, distributing, marketing and promoting recorded music and artists and performers” (PwC 2012, P.1). Given that a growing number of record companies and artists rely on recorded music to facilitate the sales of ancillary products and services associated with the artist and the recording, the revenue from these products and services are also included in this study’s definition of recorded music industry when bundled with the recording. According to the above definition, artists and record companies generate revenue through:

1. The sales of physical products (albums, single sound recordings)
2. Digital distribution of music (music downloaded from the Internet through licensed services, music streamed through licensed online streaming services)
3. Ancillary products and services (tangible and intangible value-added elements bundled with the recording).

As Williamson and Cloonan (2007) propose, I distinguish the recorded music industry from the broader music industry. Therefore, separate activities, such as live concerts, radio broadcasting, use of recordings in film and television and merchandise sold at concerts are excluded from this study's operational definition of recorded music industry.

Now that recorded music industry is properly defined, next, I present a simplified version of the traditional product flow that is taking place in the industry – from the creation of recorded music all the way to the point of sale (see Figure 5). The process describes the chain of activities and the different parties that have historically been involved in delivering the recorded music (physical or digital) to the end consumer. After reading this, the reader is able to form a clearer view of recorded industry.

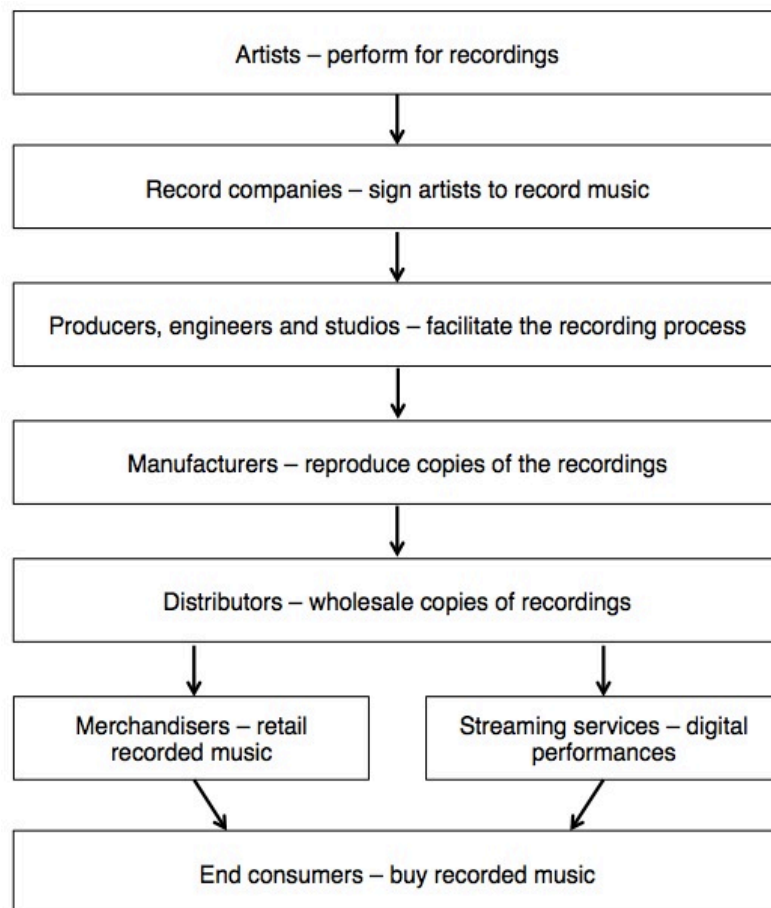


Figure 5: Recorded music product flow from creation to point of sale (Hull, Hutchison & Strasser 2011, P.44)

Recording artists

The process starts from the recording artists. They are the individuals who perform for recordings by singing and/or playing instruments. The recording artist may not necessarily be the songwriter, or the live performing artist. Most recording artists make income by receiving a royalty payment from their record company based on the sales of copies of their recordings; some artists, however, act independently and make and sell their own music, thereby circumventing the record company. (Hull, Hutchison & Strasser 2011, P.45)

Record companies

Record companies act as the main investors and developers of the music talent. They help artists to pursue a career in music by traditionally paying for the recording and mixing of the album as well as supporting with marketing and sales. They usually sign an artist with an agreement to retain exclusive rights for the recordings against an agreed-upon royalty

payment. (Hull, Hutchison & Strasser 2011, P.45) In return they pursue high record sales and seek out alternative revenue sources (Passman 2009, P. 64-65).

By the time of writing, the global recorded music industry has narrowed down to only three major record companies (Sony Music Entertainment, Universal Music Group and Warner Music Group) that distribute the majority of recorded music, and numerous small and medium sized independent record companies (Tschmuck 2012, P.180). Independent record companies are not owned by a major and come in two forms: *major-distributed independents* that sign artists and contract with a major record company to take care of all activities except recording, and *true independents* that distribute their own records through independent distributors and are being financed by their investors and/or owners. (Passman 2009, P. 63-64)

Producers, engineers and recording studios

Producers are in charge of creating a marketable product. They help artists to give their best performance by guiding them with material, studios and assistants as well as arranging recording sessions. Engineers, in turn, help artists and producers to acquire and run the best possible equipment to capture high-quality audio; they also assist in the post-production of the recording. Studios provide the place and the equipment for artists to produce their master recording. (Hull 2004, P.22)

Manufacturers

Manufacturers are often the same as the record company. Once the master recordings are created, manufacturers reproduce copies of the recordings – either hard copies or electronical copies – that are ready to be sold to end consumers (Hull, Hutchison & Strasser 2011, P.46). In addition to the above-mentioned services, manufacturers may also offer some other additional services, such as graphic design for the packaging or production of limited edition discs. A significant portion of record companies' investments fall into manufacturing activities. (PwC 2012, P.10)

Distributors

Record companies often act as distributors for their own musicians (PwC 2012, P.10). Distributors handle the copies of the recordings; they make sure that the albums are available in retail stores so that customers can buy them (Hull, Hutchison & Strasser 2011, P.46). To

ensure that the records end up to the shelves, distributors use advertising support and other promotional tactics to convince the retailers to stock their products. Distributors come in three forms: general distributors that carry a wide range of different products, specialised distributors that carry a limited selection of popular products, and independent distributors that carry products for companies unaffiliated with large multinational corporations. (PwC 2012, P.10)

Merchandisers

Merchandisers are retailers that sell the recordings to the public. They include both brick and mortar retail stores that sell physical copies of recorded music as well as Internet retailers, such as iTunes and Amazon.com, that sell electronic copies. (Hull, Hutchison & Strasser 2011, P.46) Sometimes physical retail stores (such as Walmart) have also an online store and Internet retailers (such as Amazon.com) ship physical copies of recorded music.

Streaming services

Subscription-based streaming services grant an access to an online music catalogue. Most of the services are ad-supported that offer a basic version for free and an option to upgrade to a premium version with additional functionalities. Recording performing rights organisations monitor the performance of digital recordings and collect royalties for streaming of those recordings that belong to artists and record companies (Hull, Hutchison & Strasser 2011, P.46). SoundExchange is a non-profit performance rights organisation that collects and distributes digital performance royalties on behalf of recording artists, master rights owners (like record companies) and independent artists who record and own their master copies (SoundExchange 2012).

End consumers

In the end of the product flow is the most important link of the whole process – the fans. No artist or record company will survive without paying customers; they are the people who purchase physical and digital copies of recorded music, stream it online and pay for ancillary products and services associated with the artist and the recording. End consumers consist of various different segments with different needs and desires. Consumers are driven by current trends and their preferences and tastes drive the development of recorded music and the

activities conducted throughout the process of creating a recording and marketing it to the public (PwC 2012, P.11).

3.1.3 The history of the recorded music industry

To be able to understand the recent happenings in the recorded music industry, it is crucial to understand the historical development of the industry. Even though the recorded music industry is arguably going through one of the biggest turmoils ever since its inception, it has got its fair share of crises also before. The recorded music industry has existed for more than a hundred years and evolved in cycles of about 20 years. The first period of growth started in 1889 with the introduction of the first commercial recordings (Hull, Hutchison & Strasser 2010, P.31). In the advent of the recorded music industry, there were two standards that were competing against each other: wax cylinder invented by Thomas Edison, and disc-based gramophone, developed by Emile Berliner. The gramophone technology went to dominate the European market and soon Edison followed, establishing gramophone as the standard for sound recording. (Tschmuck 2006, P.24-25)

The recorded music industry witnessed its first boom in 1909 when the Copyright Act was filed which meant that anyone could produce a mechanical copy of music by paying a flat-rate fee of 2 cents per copy to publishers (Sanjek & Sanjek 1996, P.22-23). This enabled the record companies to record and distribute popular songs and the value of the recorded music industry skyrocketed. In the US, the number of companies selling recorded music grew exponentially from 3 to 166 between 1913 and 1919 (Tschmuck 2006, P. 26). By 1921 the recorded music industry had evolved into a mass consumer market with record sales of \$106 million in the US alone (Tschmuck 2006, P.41).

After the first boom, the growth slowed down. The recorded music industry was faced by a period of overproduction and a growing number of new companies fiercely fighting for their market shares (Tschmuck 2006, P.44). However, these matters turned out to be smaller obstacles than the introduction of commercial radio in the early 1920s. Radio established itself quickly as the primary medium for listening to recorded music and record companies became afraid that people would stop buying recordings if they could hear them for free via radio. The technological innovation, along with the Great Depression in the 1930s, put the industry close to its demise. In 1933, the recorded music industry generated only \$6 million

worth of sales – a huge downgrade from 1921 when the total sales were still over \$100 million (Tschmuck 2006, P.41).

The industry saw its rebirth in the 1940s and 1950s. This was because of the gradually improving economy, especially in the US, and the introduction of LP (long playing) that turned out to be a success and soon became the *de facto* standard of the entire recorded music industry. Recorded music was primarily sold as whole albums, which helped to boost the total revenues. The sales of recorded music grew back from \$6 million in 1933 to \$189 million in 1950. The new growth was facilitated by the birth of rock and roll in the mid-1950s. A new generation of consumers had more money to spend, and rock and roll helped them to redefine their identity in the post-war environment. By 1960 the sales of recorded music had already tripled to \$600 million. (Hull, Hutchison & Strasser 2011, P.31)

During the 1960s, the recorded music industry enjoyed massive success, which triggered a period of consolidation that lasted for decades. Large record companies grew even larger and they established control over the distribution system. Even another technological shift, the introduction of the compact cassette in the mid-1960s, did not disturb the growth. Just like the introduction of radio, record companies saw home taping as a threat that would destroy the industry – not surprisingly it did not. Actually a study from The Copyright Royalty Tribunal found that home tapers were among the most active record buyers. (Kot 2009)

The 1970s continued the consolidation trend. Independent record companies became under major financial pressure and many of them went bankrupt. By the mid-1980s even the largest remaining independent record companies went out of business and the record distribution remained highly concentrated. (Alexander 1994, P.9) The introduction of the Compact Disc (CD) started to push LPs and cassettes away, which drove the industry to its new heights that lasted for almost twenty years. By the end of the century, in 1999, the recorded music industry sold 1.2 billion units that generated \$14.6 billion worth of revenue – a record yet to be beaten. The large majority of the recorded music industry had fallen into the hands of only five major record companies: Sony, Warner Music, EMI, BMG and Universal/Polygram; together, they accounted for approximately 80% of the entire recorded music sold worldwide (Zhu & MacQuarrie 2003, P.264).

As Christensen (2006) explained, the disruptive character of an innovation creates a challenge to the established business model. Even though the recorded music industry underwent

significant changes due to new devices and new ways of recording, storing, playing and distributing music, none of the changes were so strong that they would have broken the structural organisation of the recorded music industry and disrupted the traditional business model (Clemons, Gu & Lang 2002, P.272). In the end, the appearance of commercial radio, the rise of pre-recorded cassettes or the introduction of CDs only consolidated the leading market position of major record companies and helped them grow even larger and more powerful because they were all sustaining innovations.

3.2 Traditional business model in the recorded music industry

As we have learned, the control in the recorded music industry has been slowly slipping towards only a few major record companies, transforming the industry practically into an oligopoly. These companies have exerted their control over the most valuable assets that artists have typically needed in order to pursue a career in the industry. Because the majority of recorded music has historically been distributed through major record companies, I explain the traditional business model in the recorded music industry from their point of view. I focus on the peak time of the industry, 1989-1999, when the CD became the dominant release format.

The long period of consolidation left record companies with huge pressures to produce profit. Shareholders ran the companies, and their sole concern was to receive a steady quarterly return on their investment. "The long-range career-building was out – instant payback was in", as Kot (2009, P.4) described the prevalent mind-set of the industry during the nineties. Record companies rather invested in few artists that had the potential to produce instant hits than to up-and-coming acts that had not yet proven their star potential.

The charts in the late nineties were dominated by acts, such as Britney Spears, Backstreet Boys and N Sync that were results of colossal marketing efforts from their respective major record companies. Recorded music was a highly standardised mass-market product that was sold to consumers with similar needs and problems. (Kot 2009, P.3-4) The goal was to build a strong portfolio of star artists and control their copyrighted content; with these critical assets, major record companies aimed to create competitive advantage that would be difficult to duplicate by their rivals (Clemons & Lang 2003, P.274).

Record companies accumulated revenue through one-time transactions resulting from the sales of physical records and a large majority of the revenues came from only a few star

artists. Very little price discrimination was practiced; usually the prices were based on predefined standards applied across the companies and releases. In a typical record company deal, the record company retained 35% or more of the revenues received from retailers while the artist got a 10%-15% royalty from each recording sold. Therefore, if the average retail price for an album was around \$15, the artist received less than \$2 for each album sold, while the record company and the retailers divided the rest. (Clemons, Gu & Lang 2002, P.13) Selling CDs became such a lucrative business for the record companies that they basically turned down every choice concerning other products or alternative pricing mechanisms (Kot 2009).

Record companies' key activities were focused on discovering and developing star artists and arranging the recording, manufacturing, distribution, and marketing activities – reciprocally they exploited artists' recordings commercially by pursuing high record sales. The governing position of major record companies was based on vertical integration and growth-through-acquisition. By purchasing backwards and forwards along the supply chain, they took control over the most important links in the supply chain and achieved economies of scale that smaller record companies could not achieve. Because of this, the major record companies possessed great advantages in terms of bargaining power. (Graham et. al 2004, P.1095-1096)

The manufacturing of physical copies required massive fixed cost capital investments that not many independent artists could afford. The distribution was based on limited access and major record companies retained control over it. Establishing an own distribution infrastructure required significant investments and it was difficult to get shelf space from the retailers without the help of major record companies. Because of this, it was nearly impossible to break into the mass markets without signing a deal with one of the majors. (Graham et. al 2004, P.1095-1096)

Besides the great overhead costs related to recording, manufacturing and distribution, record companies were spending substantial amount of money to market and promote their artists. Furthermore, per every record sold, they were obliged to pay the corresponding royalty payment to the artist. (Kot 2009) While some of the artists did get extremely successful, a vast majority of them never managed to break even. The record companies still had to subsidise the unsuccessful artists, which naturally burdened their cost structure.

Major record companies had traditionally very good relationships with radio, music TV

channels and retail stores. Especially the commercial radio and MTV had become crucial channels in generating exposure and driving sales. They delivered the majority of the new music that consumers got to hear and what they ultimately bought. Due to the high expenses on receiving airplay on radio channels, or producing and airing a music video, the above-mentioned channels became the voice of only a handful of major record companies. While the majors were the main distributors of recorded music, they were able to make sure that they received enough shelf space in the retail stores, again, gaining an advantage over independent record companies, let alone independent artists. (Graham et. al 2004, P.1091-1094)

In the following table, I summarise the traditional business model in the recorded music industry from the point of view of major record companies using Osterwalder and Pigneur's (2010) business model framework. After the summary, I move on to explain what caused the disruption of the business model that once was so powerful.

Business model component	Topics addressed by major record companies
Value proposition	Latest hits from star artists in a familiar full-length format
Key resources	A strong portfolio of star artists and their copyrighted content Superior financial and human resources, access to manufacturing and distribution
Key activities	Discovering and developing talent Recording, manufacturing, distribution, marketing and promotion
Key partnerships	Manufacturing facilities and distribution channels
Customer segments	Mass markets
Customer relationships	Little or no
Distribution channels	Retailers, TV and Radio
Revenue model	Transaction revenues from one-time payments Huge sales from few star artists, small sales from many artists
Cost structure	Recording, manufacturing, distribution, marketing and promotion Royalty payments to artists Subsidising unsuccessful artists

Table 4: The traditional business model in the recorded music industry from the point of view of major record companies

3.3 Disruption of the traditional business model in the recorded music industry

The recorded music industry, having remained relatively stable until the late 1990s, was shaken by the appearance of digital delivery of music. In this research, the digital delivery of music is understood as the confluence of MP3 compression technology and Internet. MP3, short for MPEG-1 Audio Layer 3, represents an encoding technology that allows the compression of a digital audio with little or no loss of sound quality. MP3, alone, was not enough to change the way people obtained music – it took the availability of Internet to enable the digital distribution of audio.

MP3 format quickly became the most popular method of distributing music over the Internet because of its minimal cost and relatively good audio quality (Anestopolou 2010, P.320). For the first time, the new technology enabled "dematerialisation" of recorded music, which led to an abundance of digitised music offered via illegal peer-to-peer networks, such as Napster, Kazaa and eMule, and later through legal services, such as iTunes and Amazon.com (Moreau 2009, P.2). The long growth had come to an end and recorded music industry entered a period of declining sales (see Figure 6).

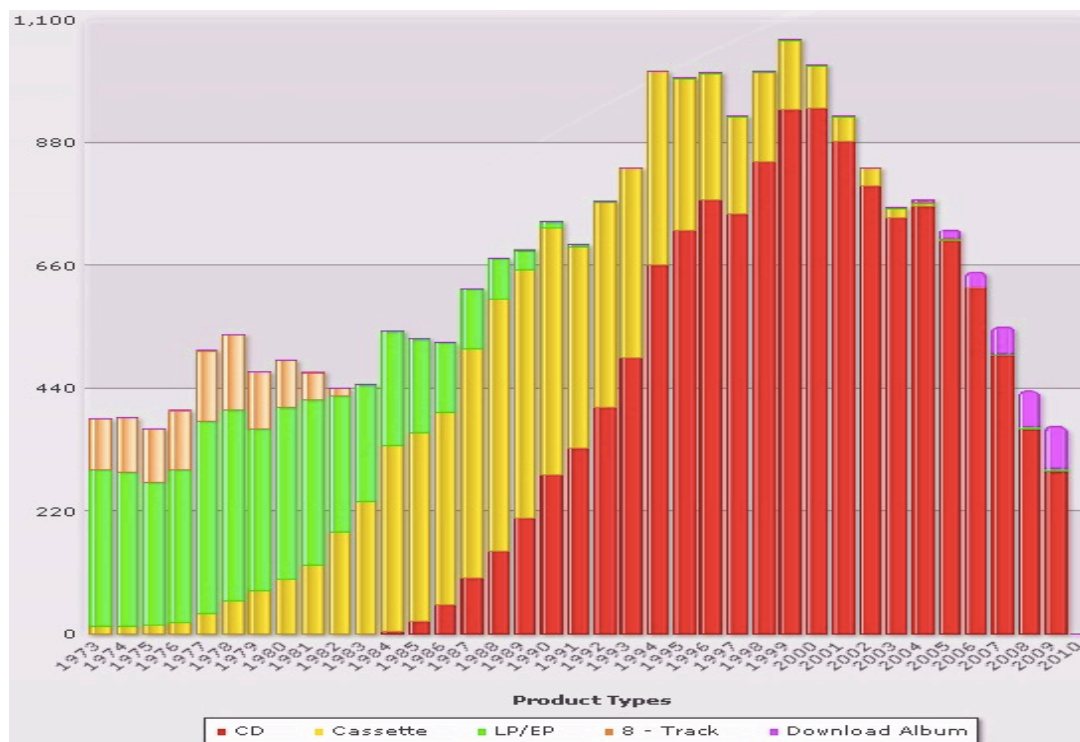


Figure 6: Units shipped in US - in millions of units (Recording Industry Association of America 2011)

3.3.1 Digital delivery of music as disruptive innovation

The emergence of the digital delivery of music matches the characteristics of Christensen's (1997; 2006) theory of disruptive innovation. In the 1990s major record companies had phased out singles from their offerings and, instead, they all offered similar full-length albums with thick booklets against a relatively high fee. Consumers were practically left with no means to purchase individual songs. If they happened to like only two or three songs out of the album, they had to purchase the whole album to be able to listen to those few songs. File-sharing services proposed an extremely attractive alternative to the major record companies' offering; unbundling digital music while lowering the price point to zero.

Digital delivery of music did not appear out of the blue – quite the opposite – major record companies were well aware of the technological advances. The German Fraunhofer laboratories introduced MP3 format to them already in the mid-1990s. MP3 technology, however, was a low-end innovation that was not suitable for major record companies targeting the mainstream market (Knopper 2009, P.106). They faced fundamental problems justifying the shift from a good-quality and high-margin CD, to a lower-quality product that would generate smaller margins. MP3s also lacked the tangible aspects of physical copies, such as album sleeves, booklets and artwork that were seen as an essential part of the album. The initial market for digital music was small and it was evolving far from the mainstream. In 2001, only less than 10% of American households had broadband Internet access, which was needed to download digital music. It neither encouraged the adaptation that MP3s were mostly associated with piracy and, at this point in time, no proven mechanism to charge for digital music existed. (Moreau 2009, P.7-8)

However, even though the MP3 technology initially offered lower quality than CDs, it started to gain more interest in the mass market. As the rate of Internet penetration grew, more and more people had access to download and upload MP3s, which fed the growth of digital music markets. Also an increasing number of artists, such as *Beastie Boys*, *They Might Be Giants* and *Garbage* began utilising the new technology by putting their music online to preview and promote their new material (Goodman 1999). In 2003, Apple finally proposed a way to charge for digital music. It rolled out its online music store, iTunes, which offered legal, high-quality MP3s against a small fee. After the launch of iTunes, the sales of digital singles skyrocketed, which reflects that major record companies were not adequately satisfying their customers' needs properly. Instead, they were over serving their customers with albums that

held too many songs in them; also the tangible aspects, such as artwork and booklets, were nice-to-have things but far from necessities to many.

MP3s reached the "good enough" level in the high-end segment of the market exceeding CDs in terms of convenience and, of course, price point. The fast growth of Internet broadband access facilitated the adaptation of digital delivery of music – both illegal and legal. In the US, for example, 55% of the households already had broadband Internet access in 2008; at the same time, the share of digital music sales from the total sales of recorded music rose from 1.5% to 23% between 2004 and 2007 (Moreau 2009, P.8). Therefore, the initial small niche market had turned into a mainstream market.

3.3.2 Digital delivery of music as business model challenge for major record companies

Retrospectively, the transition to the digital delivery of music would have caused no technical difficulties for the major record companies. The technology itself presented great opportunities in terms of significantly lower manufacturing and distribution costs. As already mentioned, major record companies anticipated the change and proposed some ways to monetise it. One of them was the notorious Madison Project in 1999, a consortium of major record companies alongside IBM that were testing a method to purchase, download and distribute music through the Internet (Goodman 1999). Sony, also proposed plans to set up an online retail outlet to allow Internet users download songs from its own catalogue against a fixed fee (Moreau 2009, P.7). Major record companies saw the future of the digital delivery of music coming, but instead of fully adapting to it, they settled to offer low-quality digital samples of their recordings, intimidated that high-quality MP3s would cannibalise the sales of the physical albums (Easley, Michel & Devaraj 2003, P.94-95).

The challenge, as we can point out, was not in the technology – that aspect could have been overcome – but it was rather in the profound challenges the digital delivery of music presented to the industry's prevailing business model. Even though the major record companies were seemingly positioned on Internet, their initial offerings reflected a lack of understanding of Internet and new consumer expectations (Meisel & Sullivan 2002, P.22). To benefit from the disruptive innovation, the major record companies would have had to make radical changes to their current business model but lacked the intent to do so. (Moreau 2009, P.7-8) Instead, the efforts were more focused on how to adopt the brick and mortar business model to the new digital market space – not the other way around.

Sandström and Magnusson (2010, P.55) argued that disruptive innovations are a business model challenge because of the issues related to “value creation and distribution as well as the impact on different actors, their incentives and their competences”. While digital delivery of music certainly created value in terms of cheaper and more convenient products, more importantly, it provided customers a tremendous increase in total utility. The value proposition that peer-to-peer services (and later legal providers of online music) introduced was significantly different from the conventional business logic practiced in the recorded music industry. Adapting Kim and Mauborgne’s (1996) framework, I can analyse the value innovation that peer-to-peer services (Napster, eMule etc.) and legal providers of digital music (iTunes etc.) introduced and how it conflicted with the conventional business logic practiced in the recorded music industry. By providing a significant leap in the total utility, the value innovators eradicated major record companies’ market share and eventually disrupted their traditional business model.

Five Dimensions of Strategy	Conventional business logic in the recorded music industry	Value innovation logic of digital music providers (including legal providers and illegal peer-to-peer services)
Industry Assumptions	Recorded music is created, manufactured and distributed to consumers as a physical full-length album and sold to mass markets against a considerable fee. Record company is the necessary middleman in the process.	Recorded music is created, manufactured and distributed to consumers as a digital unbundled stream of bits for free or a significantly lower fee. Middleman is not necessary in the process.
Strategic Focus	Offering recorded music that has a guaranteed hit potential. Building a portfolio of star artists creates competitive advantage.	Offering all the music in the world from the hits to “long tail”. Building the best platform to download and access music creates competitive advantage.
Customers	Regional customers that are served through brick and mortar retailers.	Global customers that are served through the Internet.
Assets and Capabilities	Recording, manufacturing, distribution, marketing and promotion need capital investments and human resources and record companies are providing those activities.	Recording and manufacturing costs are minimised because of new technologies. The greatest asset is the ubiquitous platform that provides a cheap distribution channel and works as a marketing tool for artists.
Products and Service Offerings	Limited range of standardised physical products that contain a full album of songs.	Unlimited selection of digital music that is unbundled to individual songs.

Table 5: Comparison between the conventional business logic in the recorded music industry and the value innovation logic of digital music providers

Digital delivery of music not only increased the total utility for consumers, it also distorted the major record companies’ network constellation and the linkages between different actors in the distribution of value. The largest record companies, as we know, have traditionally been built by vertical integration and growth-through-acquisition. Creating a recording, manufacturing it and delivering it to the public includes a vast number of different actors with their own specific competences. Digital technology did not create just another source of easy access to recorded music – it made companies rethink their whole business models again (Teece 2010, P.174). Digital delivery of music was not problematic because major record companies’ *customers* did not demand it – it was rather problematic because it imposed changes to the current business model, which would not facilitate major record companies’ control over the value network.

While MP3 compression technology enabled the digitisation of recorded music and while Internet made it possible to distribute and market it via web, it eliminated the need for physical manufacturing and distribution through retailers. The most crucial impact was that it destructed major record companies' role as the necessary middleman between the musician and consumers (Meisel & Sullivan 2002 P.16). The disruptive innovation brought down the previously high entry barriers and gave an increasing number of artists a possibility to circumvent the record companies and the physical retailers. Major record companies quite naturally did their everything to fight for their existing business model by searching for technological solutions to prevent piracy, suing for copyright infringements, offering their own authorised digital distribution joint ventures, and introducing new legislations to preserve their market power, but as we know by now, with very little success (Meisel & Sullivan 2002, P.16).

Internet gave cheaper and more direct means of marketing and promoting artists. Before, the direct link between the consumer and the artist was interrupted by the record company and no meaningful customer relationships were being built – now artists could communicate directly with their fans through social networking services, such as MySpace (and later via Twitter and Facebook), and market and distribute their music for significantly lower costs. Because Internet gave an opportunity to link artists and consumers directly, they both gained an increase in bargaining power, while major record companies were being circumvented by new digital services (Graham et. al 2004, P.1095-1097).

During those four years between the emergence of Napster in 1999 and the launch of iTunes in 2003, record companies missed the opportunity to monetise the new consumer behaviour. Even after iTunes started unbundling albums and offering individual songs for less than a dollar, for many it was simply not as attractive as \$0 – after all, iTunes sold essentially the same product that anyone could pirate for free (Stolpmann 2011, P.7). At the same time, the value of major record companies' portfolio of star artists was melting because illegal peer-to-peer services were facilitating copyright infringement by allowing extensive distribution of copyrighted music without the record companies' authorisation (Anestopoulou 2001, P.319).

As Hamel (2002, P.69) argued, disruptive innovations rarely overtake the complete market but rather deflate the profit potential of the old model. While digital music has arguably become the main format of consuming recorded music, it has not killed the old business model; recorded music is still being bought from brick and mortars, but to a large extent, for

different reasons than before. At the time of writing, the sales of vinyl records, for example, have increased four years in a row – not because vinyl would be a more convenient listening format or a cheaper product, but because it has become a collectible design item that has sentimental value that the digital file might be missing.

In Table 6, I summarise how and why digital delivery of music was fundamentally a business model challenge in the recorded music industry. Again, I use Osterwalder and Pigneur's (2010) business model framework to describe the changes it proposed.

Business model component	Traditional business model in recorded music industry	Changes proposed by the digital delivery of music
Value proposition	Latest hits from star artists in a familiar full-length format	Latest hits keep dominating the charts, the rest of the market scatters and music becomes endlessly available as unbundled digital songs.
Key resources	A strong portfolio of star artists and their copyrighted content Superior financial and human resources, access to manufacturing and distribution	Copyrighted content loses its value because of vast copyright infringements. Recording becomes cheaper and access to manufacturing and distribution becomes irrelevant.
Key activities	Discovering and developing talent Recording, manufacturing, distribution, marketing and promotion	Talent is being discovered through other mechanisms in the Internet. Recording, manufacturing, distribution, marketing and promotion can all be done independently circumventing the record company.
Key partnerships	Manufacturing facilities and distribution channels	Partnership network is distorted because of cheaper and more direct ways of manufacturing and distribution.
Customer segments	Mass markets	Countless small markets are born around various sub-cultures.
Customer relationships	Little or no	Various online platforms facilitate direct relationships between artists and consumers. Consumers can give content-specific feedback directly to the artists.
Distribution channels	Retailers, TV and Radio	Traditional distribution channels become irrelevant as new digital distribution channels are born.
Revenue model	Transaction revenues from one-time payments Huge sales from few star artists, small sales from many artists	The revenue from one-time transactions of full albums plummets as piracy offers a free alternative. The sales of digital single songs rise. The long tail becomes more important.
Cost structure	Recording, manufacturing, distribution, marketing and promotion Royalty payments to artists Subsidising unsuccessful artists	Recording, manufacturing, distribution, marketing and promotion costs decrease significantly as cheaper ways arise. Royalty payment structure changes in the digital market place.

Table 6: Digital delivery of music as a business model challenge in recorded music industry

4 Business model experimentation in the recorded music industry

Show me 1,000 talented musicians, each with a unique style and personality, and I'll show you 1,000 ways to make a career in music (Amanda Palmer, Singer & Songwriter)

In the fourth chapter, I focus solely on business model experimentation in the recorded music industry. The chapter is divided into four parts. In the first part, I explain the shift in the overall trends and argue that the dominant business model in the recorded music industry is moving from an ownership-model via the access-based model towards the value-added model. After that, I explain why the independent record companies and independent artists have the best abilities to monetise this shift and be the early adopters of business model experimentation in the recorded music industry.

The next part consists of three case studies. Each case study describes one best practice of an artist-driven business model experiment from the past five years. First, I describe each case so the reader has the necessary background knowledge. Then, I explain the outcomes of the experiment. In the end, I cross-analyse the cases trying to find commonalities regarding their value propositions and revenue models as Osterwalder and Pigneur (2010) described them.

As the last part of chapter four, I conduct three in-depth interviews and present the main findings of them. The interviewees are chosen so that they would provide a wide perspective on business model experimentation in the recorded music industry. One interview was done with an independent artist, one with an owner of a record company and one with a sales manager of an online music service.

4.1 From ownership via access towards value-added model

Digital delivery of recorded music fundamentally changed the way people find, listen to, and pay for music. The global market for recorded music decreased by over 40% between 1999 and 2010, forcing the industry to look for new ways to compensate for the losses (Wikström 2012, P.38). While it is clear that the traditional business model of the recorded music industry is in deep turmoil, it is far from clear what the business model of the future will look like (Chesbrough 2010, P.357). However, this should not be seen as bad news – certainly not for musicians. As the long-time musician and songwriter David Byrne (1997) argues: "with all the ways to reach an audience, there have never been more opportunities for artists". The only way the industry can overcome the disruption is to start experimenting with new

business models – *only* experimentation will help to identify new emerging business models in the recorded music industry (Chesbrough 2010, P.357).

The recorded music industry is relying on digital music to compensate for plummeting sales of physical albums. Even though the sales of digital single-song downloads have been increasing for several years in a row, it has not been able to offset the losses of physical album sales (see Figure 7). The fundamental flaw in the business of selling single-song downloads is that it is mimicking the traditional model of selling recorded music; the physical product has been replaced by a digital file but the basic model is essentially based on charging a fixed fee for an ownership over a highly standardised product that contains recorded music. (Wikström 2012, P.8-9) The sales of digital downloads is slowly losing its momentum. People have finished updating their old record collections to MP3s and they do not consider owning recoded music as important anymore. As the Managing Director of Nielsen music, Jean Littolff states: “It's certainly not the fact that we have lost digital stores or that consumers have fewer places to buy music. It's more that we have reached saturation point.” (Vizard 2010)

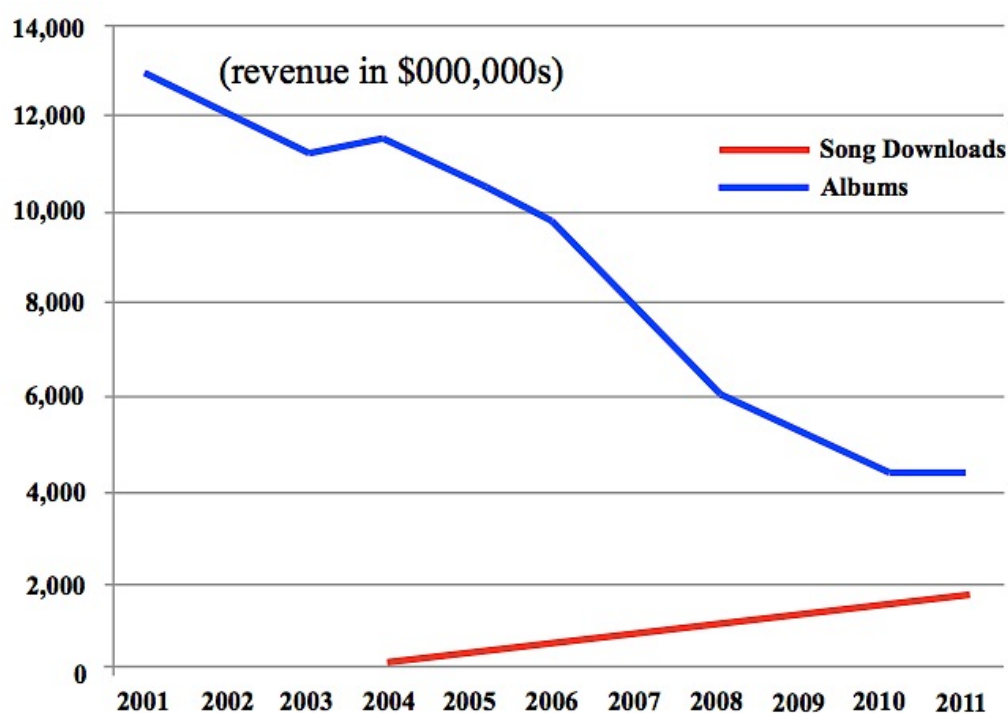


Figure 7: Total revenue (in \$000,000s) of single-song downloads compared to total revenue of full-length physical albums between 2001-2011 (Digital Music News 2012)

The concept of ownership is becoming increasingly irrelevant while new methods of listening to recorded music are emerging. The industry is slowly but steadily tilting towards the access-based model. Instead of owning music, consumers want to access music *whenever* and *wherever* they want, with *whatever* device they prefer. An increasing number of technology companies, such as Spotify, Rhapsody and Grooveshark, offer access-based services that, instead of owning the music file, let users access a wide catalogue of recorded music. In return, these services normally give the basic ad-supported version for free and for the premium version they charge a monthly subscription fee ranging typically from \$5 to \$10. Instead of paying a fixed royalty payment, access-based models generate revenue to the rights holders through licensing deals. The payments are variable and they are usually made to record companies that distribute the money to the artists. An article in Hypebot (2012), a blog focusing on music business and technology, explains the basics how music streaming services generate revenue to the rights holders:

"Boiled down to basics, interactive streaming services pay a mechanical royalty rate of 10.5% on the revenue they generate, minus any amounts for performance royalties. In other words, services like Rhapsody and Spotify are subject to both a mechanical and performance royalty, but the entire compensation for songwriters and publishers from any limited download or interactive streaming site is "capped" at 10.5% of the site's revenue." (Hypebot 2012)

Access-based services have received criticism for their allegedly low royalty payments to the rights holders and for offering major record companies better deals than independent record companies, not to mention independent artists. While all the contracts are wrapped with strict non-disclosure agreements, even more controversy, and often wildly exaggerated rumours, have been surrounding the access-based services. While the access-model is still in its infancy it has already proven to be a solid revenue generator. In Sweden, for example, streaming services, such as Spotify, accounted already for 90% of all digital revenues in 2012 driving the digital music market to its new heights (Peoples 2013).

Despite the obvious benefits to consumers and major record companies – or more accurately *because* of that – Wikström (2012, P.11) argues that the access-model is destined to eventually saturate, and therefore, is unable to serve as a long-term solution for the recorded music industry. While the demand for access-based services grows, more and more companies will enter the market and end up offering identical catalogues of music, same

technical quality, and services that are available for every conceivable mobile device. In the end, the only way to compete is pricing, which causes the prices to plummet and the market becomes commoditised. (Wikström 2012, P.11)

As a solution, Wikström (2012, P.11) argues that a way to overcome the commoditisation of access-based services is by differentiating through services and features that provide a context to the music that the user can access. "Context model" – that Wikström (2012) argues is the next natural step after the access model is exhausted – is based on experiences and "doing things with music" by providing contextual services that allow the co-creation of value. Waldner (2012, P.14) shares similar arguments in his paper by explaining how the nature of music is changing from a static concept to software that allows consumers to be a part of the creative process and co-create value.

A good example of the shift from the access-model to the context-model comes from Spotify, one of the largest online services providing access to recorded music. Spotify has transformed from being purely an online music provider to a platform that grants access to music but also lets consumers "do things with music". In 2011, Spotify rolled out its *Spotify Apps* platform that lets developers create music applications using its open API (Application-Programming Interface). By doing this, Spotify gives artists and record companies an opportunity to introduce contextual services that extend and enhance the listening experience. In an interview, the CEO of Spotify, Daniel Ek, hinted that in the future it would branch out of the subscription-based service by offering recorded music only as *one part* of the service and allow artists and record companies offer contextual services and features via its platform.

"We want a platform where we can allow lots and lots of experimentation. We don't know what will work for an individual artist. Some will benefit from scarcity. Some will benefit from it being widely available, even free. They might make their money by giving away all their music for free ... In the best of world, Spotify will become the platform where you manage your music and because you do that, we will figure out what kinds of offerings you're interested in. For certain types of artists, you might be interested in something unique. You might do a meet-and-greet. It might be that you want it on vinyl because it feels better. Or just go and see the show. Or have the merchandise." (Masnick 2010)

A number of artists have implemented their version of the context model and offered their fans a new kind of listening experience that involves them in the creative process and allows

them to do different things with music (Wikström 2012, P.15). One of the recent examples of this comes from the Icelandic musician, Björk, who released her newest album *Biophilia* as a mobile application. The album was offered as an interactive multimedia game that allowed users to create new sounds and discover the musical and visual landscape of Björk's unique art. The experiment was not only heralded as an important new release, but also as the "future of the entire record industry" (Petridis 2011).

The greatest asset of the context model is that it proposes a fundamentally different value proposition than the ownership or the access-model. It does not only offer recorded music – it offers value *beyond* the recorded music. I argue that Wikström's (2012) suggestion of the future direction of recorded music industry can be extended outside the contextual digital services to *all* tangible and intangible elements that add value to the recording and provide an incentive to pay a premium. For some, it can be the interactive multimedia game that lets you discover new music, for others, it can be a limited edition vinyl signed by the artist or perhaps a private concert – the possibilities here are endless but the value-added elements need to have a natural association with the artist and the recording and provide something personal and unique value beyond the recording.

I argue that the industry will move from having universal access to recorded music – which will be taken for granted – towards the *value-added* model, which can be seen as an extension to Wikström's (2012) previously presented context-model. In the value-added model recorded music, *as such*, does not have great value but the value is created through bundling it with different value-added tangible and intangible elements. Therefore, the recording works as a promotional product that drives the sales of more lucrative value-added products. According to CapGemini's (2008) study, much of the music consumption is currently being undermonetised. Over half of the consumers say that they would be willing to pay a premium for recorded music if they thought the value proposition was compelling and the packaging was right (CapGemini 2008). Bundling recorded music with value-added elements can help close this monetisation gap, and it should be seen as a major opportunity for artists and record companies searching for new ways of making money in the industry.

4.2 Independent record companies and "entrepreneurial artists" as the early adopters of business model experimentation

Christensen (1997; 2006) explained how incumbents often ignore the disruptive change, or fight against it, and therefore are not able to make significant changes to renew their existing business models. While major record companies wanted to preserve their market dominance, they were forced to come up with new means to justify their relevance as the middleman. Instead of radically altering the existing business model, they introduced the 360-model as a solution. 360-deals, also known as multiple rights deals, aim to maximise not only the record sales but also the sales from all the other possible revenue sources, such as live concerts and merchandise – hence the name that refers to 360 degrees. In 360-deals, the major record company promises to provide financial support for marketing, touring and merchandising – in return the artist gives the record company a portion of every single transaction (Ostrow 2010).

The idea behind the 360-deal is, as the long-time musician and songwriter David Byrne (2007) explains it, to achieve wide saturation and sales, facilitated by a hardworking machine that stands to benefit from everything the artist does – the artist therefore becomes a brand, owned and managed by the record company. The 360-model, just like the previously dominant business model, is designed to target mass markets and needs significant investments in order to operate. All the major record companies are offering 360-deals and a number of very famous acts, such as the Pussycat Dolls, Madonna, Korn and Robbie Williams have signed such deals (Karubian 2009, P.423).

Pursuing 360-deals was not a surprising reaction from the major record companies' side. 360-deals essentially aim to preserve the traditional business model and maintain the majors' dominant position as the necessary middleman between the artist and the consumers. Major record companies act as the sole providers of finances and knowhow needed to run the model, and in return seek to maximise the return on their investment in terms of collecting a provision from everything that is sold. Established artists naturally enjoy more favourable terms signing a 360-deal because they have proven their capability in generating revenue. Meanwhile, new artists that have *not* proven their capabilities yet are subject to less favourable terms because of their minimal bargaining power. While less known artists have difficulties in establishing a favourable deal, independent record companies have a major advantage in acquiring some of those acts. (Karubian 2009, P.442-443)

While 360-deals did not provide a viable alternative to independent record companies, they had to start developing new business models that would help them "weather the storm", as stated by Simon Dyson of Music & Copyright. Independent record companies began to gradually take some of the market share from the major record companies, and as the figures from 2011 show, they had already acquired over a fourth of the market share regarding the physical and digital revenues – more than EMI and Warner Music Group combined. (Toren 2012)

One reason why independent record companies have gained back market share is that, instead of targeting the mass markets, they try to avoid head-to-head competition with the majors by targeting smaller niche markets that have less competition. As Tim Quirk, the Executive Director of Rhapsody argues: "It's no longer about a big behemoth beaming something at a mass audience. It's about a mass of niche audiences picking and selecting what they want at any given time." (Leeds 2005) Niches, when aggregated, make up a significant market and, therefore, it is possible to realise great profits out of selling smaller quantities of niche products to many consumers, instead of selling large quantities of a reduced number of popular items (Anderson 2008).

In addition to targeting niche markets, Wikström (2012, P.41-42) argues that independent record companies have great chances to compete against the majors record companies by treating recorded music as "secondary content". The research conducted by CapGemini (2008), one of the largest management consulting companies in the world, states that independent record companies, as a matter of fact, are already increasingly looking at recorded music, not as the primary source of revenue, but as the *driver* for other income sources. While major record companies' answer was to compensate for the declining sales of recorded music by offering 360-deals, they were not ready to commit themselves in a business that would treat recorded music as secondary, promotional content – instead they considered all music industry segments with an equal emphasis (Wikström 2012, P.18).

Besides the growth of independent record companies, there has been a soaring increase in artists dropping a record company completely and deciding to work independently. Previously, artists were restricted from independently distributing their music because major record companies acted as the gatekeepers possessing the control over the supply chain – independent artists either had to join a major record company or remain small in an insignificant niche market (Parikh 1999, P.3; Graham et. al 2004, P.1087). Now that the niche

markets are growing in importance, independent artists face great opportunities to pursue a career in the recorded music industry on their own without ever even trying to break through to mass markets.

The digital delivery of music, as we know by now, destroyed the previously dominant value network and gave artists an opportunity to break away from the record companies and embrace a do-it-yourself (DIY) approach. DIY approach, which would be in the other end of the continuum from the 360-deal, is a self-distribution model, in which music is self-produced, self-played, and self-marketed completely circumventing the record company. (Byrne 2007) While major record companies are losing their market dominance, artists have more alternatives than ever before to signing with a major record company (Graham et. al 2004, P.1100-1101).

DIY approach enables enormous chances in terms of experimenting with new business models. Since the artists act independently, they are not constrained by the conventional business logic but they are able to experiment with models that otherwise would not be possible under a traditional record company deal. As Dr. Jeff Cornwall (2011), an entrepreneurial instructor at Belmont University, argues: "there is still a large market for music, but success requires an entrepreneurial approach that is built on fundamentally different business models. What we have seen in the past years is what I like to call as the rise of "entrepreneurial artists". In the following, I describe three best practices of real-life entrepreneurial artists that both planned and implemented a successful business model experiment.

4.3 Case studies: artist-driven business model experiments

Each of the three case studies describes one artist-driven business model experiment from the past five years. First, I explain the case so the reader has the necessary background knowledge. Then, I explain the outcomes of the experiment. Lastly, using Osterwalder and Pigneur's (2010) business model framework, I cross-analyse the experiments to find out if they share any resemblances regarding their mechanisms to create value and derive revenue. I deliberately decided to focus only on the two above-mentioned components since business model innovation, according to Osterwalder and Pigneur (2010, P.136), is based on creating new mechanisms to create value (value proposition) and derive revenues (revenue model).

With the case studies, I can test if it is possible to create a successful business model experiment by offering recorded music as a low margin product and bundling it with more lucrative value-added (tangible or intangible) elements associated with the artist and the recording. The case studies also help to shed light upon why the early adopters of business model experimentation come from outside the major record companies. The following experiments are presented chronologically from the oldest one to the most recent one, so that the reader can see the evolution of the value-added model. All the quotes included in the case studies are directly from the artists.

4.3.1 Radiohead: In Rainbows

Case description

Radiohead are a rock band from England, formed in 1985. The band consists of Thom Yorke, Jonny Greenwood, Colin Greenwood, Phil Selway and Ed O'Brien. Radiohead released their debut album *Pablo Honey* in 1993, which included the popular song *Creep*. By 1995, *Pablo Honey* had sold two million copies in the UK alone. After the successful debut, Radiohead released their next album, *The Bends* in 1995. The album was commercially not as successful as its predecessor but received greater critical acclaim. However, the major breakthrough happened in 1997, when Radiohead released their third studio album, *OK Computer*. (Elberse & Bergman 2009, P.1-2) The album was praised worldwide and made Radiohead "one of the most inventive and rewarding guitar rock bands of the '90s" (Erlewine 1997).

In 2000, Radiohead released their fourth studio album *Kid A*, which became the band's first release to debut at number one in the U.S. (Rolling Stone 2011). With *Kid A*, Radiohead abandoned the usual promotional approach foregoing a single, a traditional music video and an accompanying U.S. tour (Elberse & Bergman 2009, P.2). In 2003, after the release of Radiohead's sixth studio album, *Hail to the Thief*, the band's contract with their long-time major record company EMI expired. The two parties failed to agree on new terms and the band decided to continue on their own (Elberse & Bergsman 2009, P.1). Radiohead was set to defy the conventional wisdoms of the recorded music industry. In an interview for New York Times, Thom Yorke, the frontman of Radiohead, blatantly mentioned that the band had earned the privilege of "doing things their way". (Marzorati 2000) Radiohead decided to self-release their next album, *In Rainbows*, directly via their website and retain all copyrights for the songs that previously belonged to EMI (Walker 2008).

"I like the people at our record company, but the time is at hand when you have to ask why anyone needs one. And, yes, it probably would give us some perverse pleasure to say 'F___ you' to this decaying business model." (Tyrangiel 2007)

In October 2007, *In Rainbows* was released on Radiohead's website. The visitors were invited to pre-order the album for digital delivery and decide upon the amount they wanted to pay. (Chesbrough 2010, P. 357) In return, the customer would have to provide a valid e-mail address and settle on a relatively low bit rate version (160kbps) of the album. This was a significant break from the traditional fixed pricing-method conducted in the recorded music industry – typically charging \$0.99 for a digital song and \$9.99 or more for a complete album. The album was made free from any digital rights management (DRM) restrictions; in other words, there was no limit for the number of devices and computers the album could be played from. (Elberse & Bergsman 2009, P.1-5)

"Our idea was that everybody paid as much for the music as they felt it was worth to them. If you think our songs are no good after listening to them, that's a pity indeed. But if you enjoyed listening to the songs, it would be fair to pay something for them afterwards." (Walker 2008)

In addition to the digital album, Radiohead self-released a set of limited made-to-order discboxes via their website. The discboxes included a second CD with additional songs, a vinyl LP record, a booklet of artwork, lyrics and a digital download code. The discboxes were packaged in a hardcover book and slipcase. They were essentially designed as collectible items and sold for \$82 (Ryzik 2007). Only 100,000 copies of discboxes were manufactured and offered to customers.

After two months, the pay-what-you-want download offer was discontinued and the album was released as a physical CD through an independent record company XL (Moreau 2009, P.13). The band stated that they wanted to offer an alternative to those fans that wanted to buy the album in a "casual" way; therefore, the album needed physical distribution to get to the hands of as many people as seemingly possible. The physical album also offered better audio quality than the digital download option. However, Trent Reznor argued that Radiohead's decision to discontinue the download experiment was "insincere" and "very much bait-and-switch" to promote traditional record sales. (Sandoval 2008) The album was later released through multiple online channels, such as iTunes, Amazon and 7Digital.

"The band think they [are] incredibly proud of this record and feel that it deserves to be brought into the mass marketplace. That's why we need a record company who have that infrastructure to deliver the CD." (Sandoval 2008)

Outcomes of the experiment

To address the challenges of the declining recorded music industry, Radiohead implemented a business model that challenged the prevailing wisdoms of how to create value and derive revenues. The experiment with *In Rainbows* was "widely considered to have been a success" (Chesbrough 2010, P.357). While Radiohead has not announced any official numbers regarding the pay-what-you-want download experiment, comScore's (2007) global database of two million people reveals the economics behind the digital downloads (see Table 7).

According to comScore (2007), 62% of the people downloaded the album without paying anything and the remaining 32% contributed, on average, \$6. Therefore, the average payment per *all* digital downloads was \$2.26 (comScore 2007). The discboxes sold out all 100,000 copies generating \$8.2 million in revenue. After releasing the CD through the traditional distribution channels, the album sold over 1.7 million CDs in 21 months (Chesbrough 2010, P.358). In this research, I include the digital downloads, limited edition discboxes and physical CDs into analysis, as they formed the core of this experiment.

Price paid per download	Share of Downloaders	Share of total revenue
\$0.00	62%	0%
\$0.01 - \$4.00	17%	8%
\$40.1 - \$8.00	6%	12%
\$8.01 - \$12.00	12%	52%
\$12.01 - \$20.00	4%	27%

Table 7: Distribution of prices paid per downloaded album (comScore 2007)

What value did Radiohead offer and how did they derive revenues: value proposition and revenue model revisited

Starting from the digital downloads; Radiohead acknowledged the fact that the monetary value of recorded music is approaching zero, and that it is extremely difficult to set a price tag

for an album that people would consider “correct”. With this in mind, Radiohead offered their newest, arguably excellent, album for free and gave people the freedom to name the price they felt was appropriate – if, they thought the album was worth paying for in the first place. Not only did Radiohead lower the price point of the album to zero, they also stripped it from DRM-restrictions and made it legally and directly available through the band’s website.

Even though *In Rainbows* was available as a cost-free legal copy, without any DRM restrictions, and the only thing the customer had to do was to provide a valid e-mail address, the offer did not manage to overcome piracy. More people *still* pirated the album than downloaded it from Radiohead.com (Kreps 2008). Will Page, the Chief Economist of MCPS-PRS Alliance, and Eric Garland, the CEO of media measurement company Big Champagne (2008) argue that the reason why file-sharing websites remain popular, is because of their superior value proposition, brand reputation, convenient location, and ease of use. Even when the price of an album approaches zero, all other things being equal, people are more likely to continue acting habitually and use file-sharing services than break the habit and change the venue (Green 2008). Only asking for a valid e-mail address could have turned some people from downloading the album legally and switch back to using more familiar services.

Being well aware that people might not be willing to open up their wallets for the digital download, Radiohead added another element in the offering. Discboxes – that were sold as premium products – created value in different ways. With discboxes, the band was not just offering music – that, was available for free – but more importantly, with discboxes, Radiohead offered value *beyond* the music. Discboxes offered exclusivity to those fans that were willing to pay a premium in order to receive a scarce tangible design product that could not be pirated. It is crucial to note that each discbox came with the digital album because that, no matter what, is the most common format of listening to music but as such not worth paying the premium for. In this experiment, the physical CDs were also considered as premium products because they added value in terms of significantly better sound quality and tangible elements that turned them into collectible items.

It was not a huge surprise that over 60% of the people downloaded the album without paying anything, but what *was* surprising, was that the rest paid without any obligations whatsoever. Kim, Natter and Spann (2009) have researched similar kinds of participative pricing mechanisms and come to the conclusion that customers do not behave nearly as rationally as traditional economic theory suggests when they possess full control over the price; in many

cases the pay-what-you-want model actually leads to *increasing* returns. While Radiohead has not announced any official sales numbers, it has been reported that despite the low average payment, the band generated more revenue through the digital downloads of *In Rainbows* than they did with their previous album *Hail to the Thief* (NME 2008). The experiment showed that even though the monetary value of recorded music *is* approaching zero, some still consider it worth paying for. It may not be much – and for most bands, smaller than Radiohead, far from enough – but it is still something.

On the other hand, the discboxes widened Radiohead's existing product portfolio and turned out to be a massively successful new revenue stream. Whatever might have been lost due to the pay-what-you-want experiment was more than compensated with the sales of discboxes. While consumers collectively valued the digital album worth \$2.26, each and every discbox sold for \$82, generating over \$8 million in revenue. In comparison, even if 100% of those 1.2 million visitors that visited Radiohead's website during the first 29 days of the experiment downloaded the album, it would have generated less than \$3 million dollars according to comScore's (2007) analysis. The CDs also helped compensate for the sales of digital downloads and ended up selling over 1.7 million copies in less than two years – even though exactly the same album was offered for free as a digital version. However, the CDs being collectible items combined with a higher audio quality, attracted people paying a premium price in order to receive added value to their recording.

4.3.2 Trent Reznor: Ghosts I-IV

Case description

Trent Reznor is an American singer-songwriter, composer and record producer. Reznor forms a post-industrial trio How to Destroy Angels with his wife, and a fellow composer Atticus Ross. He is also an award-winning composer for motion pictures, such as *The Social Network* and *The Girl With the Dragon Tattoo*. Yet, Trent Reznor is best known as the frontman and the only official member of Nine Inch Nails, an industrial rock group. Nine Inch Nails was formed in 1988 and their debut album *Pretty Hate Machine* was released in 1989. The album was a commercial and critical success. The second album, *The Downward Spiral*, was released five years later, in 1994. The album reached the second place in the Billboard 200 and finally broke Nine Inch Nails into mainstream. (NIN Wiki 2012) In 1998, Reznor

appeared in Time Magazine's (1997) list of the most influential people in the world and Spin Magazine called him "the most vital artist in music".

Trent Reznor and Nine Inch Nails had been partnering with their long-time record company Interscope Records since the release of *The Downward Spiral* in 1994. In 2007 the band had fulfilled their contractual obligations with the company and decided to release their forthcoming album independently. The decision came as a consequence of a fierce and bitter battle between Trent Reznor and the Universal Music Group, the parent company of Interscope Records. Reznor had accused Universal Music Group of "ripping of the band's true fans" with the pricing and distribution policy for Nine Inch Nails' 2007 album *Year Zero*. (NIN Wiki 2012) Later on Reznor had encouraged Nine Inch Nails fans to "steal and steal and steal some more and give [music] to all your friends and keep on stealing", which made the relationship even tenser and ultimately led to Nine Inch Nails' resignation (O'Brien 2007).

"I have been under recording contracts for 18 years and have watched the business radically mutate from one thing to something inherently very different and it gives me great pleasure to be able to finally have a direct relationship with the audience as I see fit and appropriate." (Buskirk 2007)

In March 2008, after breaking up with Interscope Records, Nine Inch Nails self-released their sixth studio album, *Ghosts I-IV*. The album was almost entirely instrumental and consisted of four EPs with nine songs. *Ghosts I-IV* was available in a variety of formats at a number of different price points. The first nine tracks – DRM-free, high-quality (320kbps) MP3s including a 40-page PDF book and digital extras – were available for free online. Visitors were invited to download the songs directly from the band's website against a valid email address. The songs were also made available through a number of file-sharing websites, such as The Pirate Bay. All tracks were released under Creative Commons licence that allowed non-commercial redistribution of the music. (Nine Inch Nails 2008)

"Forget thinking you are going to make any real money from record sales. Make your record cheaply (but great) and GIVE IT AWAY. As an artist you want as many people as possible to hear your work. Word of mouth is the only true marketing that matters." (Reznor 2009)

The entire 36-song digital album of *Ghosts I-IV* that came in a variety of digital formats with a 40-page PDF book and digital extras was offered for \$5. Besides the entirely digital product offers, the other price points included: a 2-disc CD set in a six panel digipak package with a

16-page booklet for \$10; a deluxe edition package in a hardcover fabric slipcase with 2 CDs, 1 data DVD with all 36 tracks in a multi-track format, photobook of images and a Blu-ray disc of *Ghosts I-IV* in high definition stereo and an accompanying slideshow for \$75; and lastly, an ultra-deluxe limited edition package (2,500 copies) with everything included in the deluxe edition *plus* a high-quality vinyl and Giclée print images – all wrapped in a “luxurious package” numbered and signed by Trent Reznor himself – for \$300. (Nine Inch Nails 2008)

“...Offer a variety of premium packages for sale and make them limited editions/scarce goods. Base the price and amount available on what you think you can sell. Make the packages special – make them by hand, sign them, make them unique, make them something YOU would want to have as a fan. Make a premium download available that includes high-resolution versions (for sale at a reasonable price) and include the download as something immediately available with any physical purchase.” (Reznor 2009)

In addition to the online orders from Nine Inch Nails’ website, Trent Reznor also decided to use traditional distribution channels. The retail copies of CD and vinyl formats were distributed through RED Distribution on April 8; where as, the deluxe and ultra-deluxe packages were distributed on May 1 (Harding 2008). The retail version was the first album Reznor released under his completely independent record company, The Null Corporation. The album was also released as a digital download through Amazon’s MP3 store and the deluxe version was later made available through Artist in Residence (A+R).

Outcomes of the experiment

Along with Radiohead, Trent Reznor also wanted to challenge the conventional value proposition and revenue model and implemented an experiment that was later on considered “a huge success” (Masnick 2008). Only the first week’s data of online orders is publicly available but it provides necessary information to draw conclusions of the experiment. In the course of one week, 781,917 transactions occurred, which includes both free and paid downloads as well as orders of physical products. Overall, the transactions generated \$1,619,420 (see Table 8) (Buskrik 2008). In this research, I include the digital downloads and the orders of physical products from the Nine Inch Nails’ website into the analysis, as they formed the core of this experiment.

Offering	Transactions	Revenues
\$0 Download \$5 Download \$10 2XCD set \$75 Limited Edition Deluxe	Altogether 779.417 (99,7% of total transactions)	Altogether \$869.420 (53,7% of total revenue)
\$300 Ultra-Deluxe Limited Edition	2.500 (0,3% of total transactions)	\$750.000 (46,3% of total revenue)

Table 8: Distribution of purchases through Nine Inch Nail's website

What value did Trent Reznor create and how did he derive revenues: value proposition and revenue model revisited

Starting from the digital downloads; Trent Reznor followed Radiohead's footsteps and offered his music for free. However, the difference with Radiohead's experiment was that, instead of giving away the *whole* album, Reznor restricted the free version to only nine songs and made the full album available as a premium digital download for \$5 – although, significantly cheaper than a normal full-length digital album via iTunes. Instead of trying to charge money for a standardised data file that could be downloaded though any file-sharing website, Reznor added value to the full-length digital album by stripping it from DRM-restrictions and making it available in multiple digital formats, in higher audio quality and with digital extra material directly through the band's website.

Having realised the superior value proposition of file-sharing services, Trent Reznor did not try to fight against the piracy – quite the opposite – he *encouraged* downloading his music through peer-to-peer services. In an interview, Reznor (2009) argued that, as an artist, he wants his music to reach as many people as seemingly possible; for this, file-sharing websites provide an ideal mechanism because they increase the reach exponentially moving the music effortlessly from one peer to another. Since he had realised that it was becoming increasingly difficult to make any real money selling recorded music, Reznor considered the music, as such, rather as a marketing tool to create awareness towards him and his music, and as an opportunity to upsell more lucrative premium products to some of his fans.

The fundamental difference with Radiohead's experiment comes in the number of choices regarding the value-added products. Whereas Radiohead offered only two product categories that provided added value to the recording (discboxes and CDs), Reznor offered four different

value-added product categories with significantly different features ranging all the way from \$5 to \$300. While \$5 downloads, as covered earlier, added value in terms of digital features and functionalities, the other value-added products all included tangible elements that, again, were designed to offer not only the recorded music, but value *beyond* the music. As one can see, 16-page booklets, hardcover fabric slipcases, Giclée print images and handwritten signatures all provided added value that could not be pirated and, therefore, justified the high premium prices. Once again, it is very important to note that each premium product came with the digital download option so that the consumer had immediate access to the album in the most convenient way possible – however, the value worth paying for was created by other means than offering recorded music.

Reznor had previously accused Radiohead's experiment being merely a traditional bait-and-switch strategy for the traditional release. *Ghosts I-IV*, on the other hand, was built straight from the beginning to offer recorded music as a loss leader and use it to drive the sales of premium-priced value-added products – strategy that played out more than well. The revenue model of *Ghosts I-IV* reinforces the increasing importance of value-added products as the primary source of revenue. While \$0, \$5, \$10 and \$75 product offers attracted 779,417 transactions, they generated “only” \$869,420 indicating that a vast majority of the transactions concerned the low-end offers – mostly \$0 and \$5 price points. On the other hand, \$300 Ultra-Deluxe Limited Edition generated \$750,000 from only 2,500 transactions, meaning that Reznor made nearly *half* of the \$1.6 million from only 0.3 per cent of total transactions. While the Ultra Deluxe Limited Edition discboxes made up only a tiny fraction of all transactions, they contributed a substantial amount to the total revenue that would not have been possible in the traditional one-product-fits-all business model.

4.3.3 Amanda Palmer: Theatre is Evil

Case description

Amanda Palmer is an American musician, born in 1976. She is known as the co-founder of the music group The Dresden Dolls and the other half of the duo Evelyn Evelyn. Most recently, she is known as the signer-songwriter of Amanda Palmer and the Grand Theft Orchestra that also comprises of Michael McQuilken, Chad Raines, and Jherek Bischoff. In 2004, Amanda Palmer was at the height of her success when she released an album with The Dresden Dolls; the album ended up selling almost 150,000 copies. Later on she released two

more albums with The Dresden Dolls, one with Evelyn Evelyn and her first-ever solo record *Who Killed Amanda Palmer* but none of those managed to reach the mark of a 100,000 sold copies. (Harding 2010)

In 2010, Amanda Palmer announced that she was finally released from her recent record company Roadrunner. For two years, she had been struggling to end the contract but, failed to do so due to contractual obligations. (Palmer 2010) In a similar vein as Radiohead and Trent Reznor, Amanda Palmer also decided to continue on her own and self-release her forthcoming album. In April 2012, Amanda Palmer announced that she would crowdfund and self-distribute her next album and bypass the record company system.

"There's no overarching structure anymore; that's gone. The power and control is quickly going back to artists for the first time in a long time – maybe since the advent of recorded music." (Steinberg 2012)

In May 2012, Amanda Palmer created an account on Kickstarter, a crowdfunding website for creative projects. On her Kickstarter project website, Amanda Palmer greeted visitors with a sign saying: "This is the future of music". Palmer's goal was to raise \$100,000 from her fans to fund the new album. Palmer continuously mentioned that she was not collecting donations but each contributor would pay for a pre-order of different products and services that she was offering through the website (Berkowitz 2012). Palmer had set up altogether 24 different offers in 12 price points; for \$1 or more the backer received a digital download of the album with additional bonus songs; for \$25 or more a CD in a hardbound case and a 24-page art booklet; for \$50 or more a vinyl in a gatefold package with artwork and photographs. The price points went all the way up to \$10,000 for "art-sitting" which included a private dinner with the band, a signed copy of a book and a backer-edition of the album (See Appendix C for the full list of offers). Every offer also included a digital download of the album. (Kickstarter 2012)

"I think Kickstarter and other crowdfunding platforms like this are the BEST way to put out music right now - no label, no rules, no fuss, no muss. Just us, the music, and the art. I'm also making sure EVERY PRODUCT sold through this kickstarter is unique to this campaign, to reward all of you who KNEW ME WHEN and were willing to support me from Day One." (Kickstarter 2012)

The Kickstarter project ended in September. After that, Palmer released the album on her website where fans could download it and decide the price they wanted to pay for it – just as Radiohead did earlier (Palmer 2012). The album was also rolled out to music stores in a traditional manner. Amanda Palmer signed a deal with an independent record company to handle the distribution, project management, marketing and promotional services for the album in the UK and Europe. Amanda Palmer, with her own record company, managed the global release and retained the charge of all the rights to the album. Palmer also kept full artistic control over the promotion of the album. (Houghton 2012)

"I think the record itself -- the physical object you will hold in your hand -- is useful in a way to send to people, to sign my name on, to send to fans, to send to the New York Times so we can get a review. But, the record itself, the way I'm conceiving of it, exists as an entity online. Conceptually, it's the way people are going to be listening to it." (Lipshutz 2012)

Outcomes of the experiment

Amanda Palmer, along with Radiohead and Trent Reznor, conducted a business model experiment that was hailed as a “massive success” (Masnick 2012). Again, the fundamental changes in the business model concerned value proposition and revenue model, which will be discussed shortly. Initially, Amanda Palmer aimed to raise \$100,000; however, that amount she reached in only six hours. In the course of four months, 24,883 transactions occurred, which include the pre-orders of digital downloads as well as pre-orders of physical products and services through Kickstarter (Palmer 2012). Overall, the transactions generated \$1,192,793 (see Table 9¹) – over 200 times more than an average music project receives through Kickstarter (Lindvall 2012). In this research, I include all pre-orders through Kickstarter into the analysis, as they formed the core of this experimentation.

¹ The reader should bear in mind that the individual revenue streams in the table may slightly differ from the realised ones. The current numbers are calculated assuming that every backer would pay the minimum necessary dollar amount to receive the product (i.e. he/she would pay exactly \$5 to receive the “\$5 or more” offer) but some may have actually paid more than that.

Offer	Transactions	Revenues	Offer	Transactions	Revenues
\$1 or more	4744 (19,1% of all transactions)	\$4744 (0,4% of all revenues)	\$300 or more	83 (0,3% of all transactions)	\$24.900 (2,2% of all revenues)
\$5 or more	6356 (25,6% of all transactions)	\$31.780 (2,8% of all revenues)	\$300 or more	46 (0,2% of all transactions)	\$13.800 (1,2% of all revenues)
\$25 or more	9333 (37,5% of all transactions)	\$233.325 (20,7% of all revenues)	\$300 or more	50 (0,2% of all transactions)	\$15.000 (1,3% of all revenues)
\$50 or more	1347 (5,4% of all transactions)	\$67.350 (6,0% of all revenues)	\$300 or more	6 (0,02% of all transactions)	\$1.800 (0,2% of all revenues)
\$100 or more	488 (2,0% of all transactions)	\$48.800 (4,3% of all revenues)	\$500 or more	38 (0,2% of all transactions)	\$19.000 (1,7% of all revenues)
\$125 or more	1603 (6,4% of all transactions)	\$200.375 (17,8% of all revenues)	\$500 or more	6 (0,02% of all transactions)	\$3.000 (0,3% of all revenues)
\$250 or more	5 (0,02% of all transactions)	\$1250 (0,1% of all revenues)	\$1.000 or more	4 (0,02% of all transactions)	\$4.000 (0,4% of all revenues)
\$250 or more	65 (0,3% of all transactions)	\$16.250 (1,4% of all transactions)	\$1.000 or more	28 (0,1% of all transactions)	\$28.000 (2,5% of all revenues)
\$300 or more	298 (1,2% of all transactions)	\$89.400 (7,9% of all revenues)	\$1.000 or more	72 (0,3% of all transactions)	\$72.000 (6,4% of all revenues)
\$300 or more	50 (0,2% of all transactions)	\$15.000 (1,3% of all revenues)	\$5.000 or more	34 (0,1% of all transactions)	\$170.000 (15,0% of all revenues)
\$300 or more	88 (0,4% of all transactions)	\$26.400 (2,3% of all revenues)	\$10.000 or more	2 (0,008% of all transactions)	\$20.000 (1,8% of all revenues)
\$300 or more	74 (0,3% of all transactions)	\$22.200 (2,0% of all revenues)	\$10.000 or more	0 (0% of all transactions)	0 (0% of all revenues)

**Table 9: Distribution of purchases through Amanda Palmer's Kickstarter website
(Kickstarter 2012)**

What value did Amanda Palmer create and how did she derive revenues: value proposition and revenue model revisited

Starting once again from the digital downloads; Amanda Palmer followed Radiohead's and Trent Reznor's footsteps and did not place significant value, nor expectations in terms of revenue, to the digital album. However, she did *not* offer it for free, but priced it worth \$1 – yet, significantly cheaper than a normal full-length digital album via iTunes. In the similar vein as Trent Reznor, also Palmer knew that it would be extremely difficult to charge even \$1 for a standardised data file that could be obtained for *free* through countless file-sharing websites. With that in mind, Palmer tried to add value to the full-length digital album by providing bonus songs and Kickstarter-exclusive content and making it available conveniently through the Kickstarter website.

Just like Trent Reznor, Amanda Palmer was well aware of digital music's high vulnerability towards file sharing and its superior value proposition. Instead of fighting it, Palmer took an opposite stand by arguing that it is “pure insanity” to make music file-sharing illegal. She *encouraged* her fans to burn, download and share her music with each other because, eventually, she argued, “all that sharing would come back to her in all forms of income and goodwill”. (Masnick 2012) Palmer did not see a problem in people pirating her album instead of paying \$1 for a legal download – if she never got to see that \$1, she believed that the mere fact that they had the chance to listen to the album, would increase the probability of them spending on more lucrative value-added products.

Palmer argues that people *are* still willing to support artists but the offering needs to meet their means and interests – there is no one universal offer that would do that (Fleischmann 2012). With that in mind, Amanda Palmer created an extensive catalogue of 24 unique products in a number of price points so that everyone could find their match – from these, 23 offers can be considered as products that added true value to the recording. This was a significant break from the previous experiments by Radiohead and Trent Reznor, who offered 2 and 4 value-added alternatives, respectively. Palmer's premium product portfolio was built so that each offer would be unique to the campaign, and add value beyond the music. The higher price points included very personal offers and the focus shifted more strongly towards the value-added elements. Once again, each premium product came with the digital download because, as Palmer argued, “it's the way people are going to be listening to the album”

(Lipshutz 2012). However, the value as we very well know by now, was created by other means.

Amanada Palmer's experiment shares closer resemblance to Trent Reznor's experiment than that of Radiohead's in terms of revenue model. *Theatre is Evil* was built from the ground up to offer the album as a low-margin product and use it to drive the sales of more lucrative value-added products. While over 11,100 fans backed the digital download offers they generated only about three per cent of the total revenue. The most popular offer, on the other hand, was in the "\$25 or more" price point and was backed by over 9000 fans generating almost \$200,000 more in revenue than the digital downloads *combined*. The fundamental difference between the earlier mentioned three offers was that by paying \$25, the fan received not only the digital album but a beautifully packaged backer-only version of the CD in a hardbound case, a 24-page art booklet and a personalised thank-you card – value that could *not* be pirated.

For every increasing price point the backer was entitled to more advanced products, services or features that were charged a constantly increasing premium. The more expensive offers naturally sold less in quantity, but generated remarkable returns. For example, the very high-end offers, which I here count as those price points from "\$1,000 or more" to "\$10,000 or more", accounted for less than *one per cent* of all transactions but generated more than a quarter of the total revenues. The revenue model of *Theatre is Evil* once again reinforces the importance of value-added products as the primary source of revenue.

4.3.4 Findings of case studies

The case studies described three artist-driven business model experiments that challenged the traditional methods of creating value and deriving revenue in the recorded music industry. While each of the artists/music groups had their own unique approach, there were a number of resemblances that will enable to draw conclusions. Table 10 describes all three experiments with regard to their value proposition and revenue model decisions in one framework.

	Radiohead	Trent Reznor	Amanda Palmer
Value Proposition	Digital version of the DRM-free album without a cost, legally and directly through Radiohead's website. In addition to recorded music, two distinct product offers that add value to the recording in terms of scarcity, tangibility, design and higher audio quality.	Digital version of the DRM-free album without a cost, or a low cost, legally and directly through Trent Reznor's website or file-sharing websites. In addition to recorded music, four distinct product offers that add value to the recording in terms of scarcity, tangibility, design, higher audio quality, multiple formats.	Digital version of the album for a very low cost, legally and conveniently through Kickstarter's campaign site. In addition to recorded music, twenty-three distinct product offers that add value to the recording in terms of scarcity, tangibility, design, personalised events, multiple formats.
Revenue Model	Offering recorded music for a voluntary price and compensating it with two value-added product offers sold for premium prices. (\$15 - \$82).	Offering recorded music for free or a low price and compensating it with four value-added product offers sold for premium prices (\$5 - \$300).	Offering recorded music for a very low price and compensating it with twenty-three value-added product offers sold for premium prices (\$5 - \$10.000).

Table 10: Summary of case studies regarding their value propositions and revenue models

There is no doubt that Radiohead, Trent Reznor and Amanda Palmer all considered that their latest albums were musically of excellent quality and that they would raise great interest among their fans – yet, they all gave away their albums either for free or for significantly cheaper prices than their counterparts in the recorded music business. Each of the three case study subjects offered their album as a digital download either through their own website or through a crowdfunding platform. While not much value was placed on the music itself, the aim was to make it available as conveniently as possible to increase its spreading. On the contrary to major record companies' stand on piracy, Trent Reznor and Amanda Palmer, most notably, did not see piracy as a problem worth fighting for but they openly *encouraged* people to use file-sharing services to spread their music.

All the case study subjects understood that creating any significant revenue streams selling music, that would be freely available the minute after its release, is extremely difficult. To

distinguish from the standard digital recordings offered by file-sharing services, all three artists and music groups tried to increase the value of the digital recordings by providing additional features and functionalities. This might have worked to some extent, but as we know by now, the value proposition of piracy is extremely difficult to beat – *even* if the album is offered for free through legal channels. Instead of trying to fight against the file-sharing and the falling revenues of recorded music, Radiohead, Trent Reznor and Amanda Palmer realised that giving away their music for free or against a small payment increases the awareness and goodwill and therefore also increases the possibility to pay for other more lucrative products that add value beyond the music.

As the case studies well demonstrated, the monetary value of recorded music is approaching zero, but to the delight of artists and record companies, it has not quite yet reached the zero point. There are still people, especially collectors, who are willing to pay for recorded music but that alone, is hardly enough to compensate for the losses caused by illegal file sharing. To close the monetisation gap, Radiohead, Trent Reznor and Amanda Palmer all designed a portfolio of unique value-added products that were offered against a premium price. The trend of including value-added alternatives was clearly increasing throughout the given time; while Radiohead had only 2 value-added product offers; Trent Reznor had 4 and Amanda Palmer 23. The value-added offers included most notably tangible products and intangible services that provided personalised and unique value that could not be pirated.

Radiohead showed that it is possible to generate revenue selling recorded music, and a good way to do that, is to let people decide the price. However, the fact that the strategy worked for Radiohead does not necessarily mean that it will work for all artists; Radiohead, after all, has a huge fan base to draw from. While the recorded music *did* generate some revenue, the value-added products turned out to be the primary source of revenue that had been largely ignored in the traditional business model; the results inevitably force to question the reasoning behind the previously dominant one-product-fits-all strategy. Each of the three case study subjects realised considerable revenues from only a tiny fraction of total transactions. The most staggering results came from Trent Reznor's experiment; he generated nearly half of the total revenue from only 0.3 per cent of all transactions, indicating that even a small number of individual transactions can turn into major revenues.

Interestingly, each of the three case study subjects implemented their business model experiment *after* they had left their major record company. This can be seen as an inexorable

decision based on the fundamental contradiction between the business model experiment that Radiohead, Trent Reznor and Amanda Palmer were to implement and the traditional business model of their previous record companies. All in all, one can assume that they hardly would have been able to implement the experiments if they would have stayed with their current record companies. Because of the disruptive innovation that took place in recorded music industry, Radiohead, Trent Reznor and Amanda Palmer were able to circumvent the record company and implement their own business model experiment while retaining the ownership over their recordings and other value-added products. For the traditional release, which they all eventually did, they partnered with an independent record company indicating that there is still need for companies with the resources to handle mass distribution.

One cannot overlook the fact that all the case study subjects enjoyed a successful career in the recorded music industry before committing themselves in business model experimentation, and they all shared a history working with major record companies that helped turning them into superstars. Naturally, these factors provided financial freedom to experiment with new business models later on – something that less known artists might not be able to rely on – but it does not mean that similar models could not work for them as well. With several case examples, Masnick (2009) has explained how finding the loyal fan base and creating value beyond the music has been proven to work for both the established artists and the new up-and-coming acts without any background in the traditional model.

Another interesting remark is that each of the three artists and music groups is well known of their previous experiments concerning different variations of business model components. Radiohead, for example, promoted their third album, *OK Computer*, sending 1,000 insiders working in the media industry a Walkman with the album "permabonded" inside (Elberse & Bergsman 2009, P.2). Trent Reznor hid USB-drives of DRM-free music at his concerts and released an alternate reality game based on Nine Inch Nails' album *Year Zero* (Mackintosh 2007). Amanda Palmer, in turn, released an EP *Amanda Palmer Performs the Popular Hits of Radiohead on Her Magical Ukulele*, directly via online music store Bandcamp and sold music and merchandise worth of \$71,000 within 24 hours (Palmer 2012). The latest experiments, as described in this research, should therefore not be seen as one-time-events but rather as the result of all the cumulative learning that was put to use to implement the experiments.

4.4 In-depth interviews

To amplify and triangulate the previous findings, and therefore produce more reliable results, I conducted three in-depth interviews. The interviewees were chosen from different areas of the recorded music industry to gain the widest possible perspective into the topic. One of the interviewees addressed the topic from an independent artist's point of view, one from a record company's point of view, and the last one from an online music service's point of view.

I approached the interviewees via email and they were all very cooperative to participate in the study. The interviews were conducted in the beginning of January 2013. Next, I introduce the interviewees so that the reader has better abilities to evaluate the empirical material and its reliability. All interviewees agreed to use their real names.

Jussu Pöyhönen: Independent singer-songwriter

Jussu Pöyhönen is an independent singer-songwriter from Finland with a notable career as a musician. He is most well known as the singer-songwriter of the successful music group Suurlähettiläät (1991-2011). Pöyhönen has been working with both, a major record company and an independent record company, during his career. Nowadays he is working as an independent artist. His current project is titled *Bel Vel* and at the time of writing he has recently finished crowdfunding his newest album online.

Tobias Niemi: Sales Director at Spotify

Tobias Niemi, also from Finland, is working as the Sales Director for the Swedish music streaming service, Spotify. Niemi is running a team that is responsible for the media sales that facilitates the operability of the free version of Spotify. Before starting to work for Spotify, Niemi was working in the advertising industry.

Goncalo Pereira: Owner of an independent record company How The Other Half Lives

Goncalo Pereira, born in Portugal, is now living and working in London, UK. He is the owner of the independent record company How The Other Half Lives. The record company rotates a number of artists, and at the time of writing, the company is preparing its 4th release. Besides running the record company, Pereira is DJing and working as the Lead Developer for Media Delivery and Principal for API Team at the digital media company, 7digital.

4.4.1 Why change something that works?

I began the interviews trying to find reasons that caused the fundamental challenges of the recorded music industry. The discussion about the disruption, and the troubles that incumbents faced, sparked a vivid conversation. However, the overall opinions were rather unified; each of the interviewees argued that Internet, and the digital delivery of MP3s that it enabled, initiated the disruption, but stated that the roots of the disruption did not lie in the troubles adapting the new technology – but rather in the contradiction between the new business model that threatened to scatter the established market and the traditional business model in which the major record companies had been so good at.

Pöyhönen (2013) argues that the "stiffness" of the recorded music industry – not being able to adapt to the change immediately – caused the incumbents' problems. Major record companies had a model that was proven to work and they did not want to change it – instead they tried to undermine the "new evil" that was coming. Pöyhönen (2013) argues that the majors were simply lacking motives to start implementing any changes because the traditional business model was – and to a certain extent, *still is* – quite a cash cow. They were not able to abandon the traditional business model that was built around selling high margin CDs to replace it with something that would generate significantly lower margins. If they really would have wanted to change it, they could have – however, the recorded music industry is a surprisingly old-fashioned industry, as Pöyhönen (2013) concludes.

"They didn't really have any motives to change it [traditional business model] so I think they [major record companies] can really much blame themselves." (Pöyhönen 2013)

The wider problems regarding the business model were related to the network constellations of major record companies that had formed to their current forms throughout the decades. Major record companies, as Pöyhönen (2013) argues, are traditionally organised into large conglomerates that are comprised of several different sectors from television via magazines to music that all support each other, and they simply had no reasons to go and break this traditional chain of distributing value. Pereira (2013) supports the above arguments by arguing that the digital delivery of music that Internet enabled broke down the traditional network constellations of major record companies, and made many of the previously important links irrelevant. Pereira (2013) continues that major record companies used to

spend a lot of money trying to control the value chain, but because of the digitisation, they lost control and, therefore, their bargaining power decreased.

Like Pereira (2013), Pöyhönen (2013) argues that the fundamental problems that major record companies faced were related to the traditional business model and the inability to make adjustments towards the digital market place. While the traditional networks of major record companies broke down, new technology companies appeared in the market, which according to Pereira (2013) were not familiar with the music industry. These companies offered digital distribution of recorded music but were ran by people that came from a different background and offered services that collided with major record companies' traditional logic of creating and distributing value.

"I think it's they [major record companies] couldn't really adapt. They had to take everything apart and like I said, there's lot of people involved, and you had to go to these technology companies and rebuild the models, and these are people who weren't working in music before, because you had people with experience from record stores from years ago, and all this industry already set up, and you had to move it to digital and people in digital didn't know anything about the music industry and the model wasn't even finished. So they were trying to build something completely new and no one exactly still knows where it's going." (Pereira 2013)

Niemi (2013) argues that major record companies found the model of producing one album with one artist, agreeing on the royalties, and distributing the recording through the already established infrastructure, so efficient that they were unwilling to change it. The contradiction between the return on one digital unit and the return on one physical album was simply too large, so the major record companies tried everything they could to hold onto their traditional business models. The digital delivery of music, as Niemi (2013) argues, threatened the major record companies business model, which had been designed to serve their core expertise.

"There has been constant pressure to hold on to the old [business model] because that has been the core business, and it has been what the record companies have been very good at. They have had, for example, very strong and massive distribution system that has delivered the physical product, and this whole distribution system, it doesn't become irrelevant, but its value is decreasing significantly... So admittedly the trade-off has been so huge that they [major record companies] have wanted to hold on to the old model." (Niemi 2013)

Niemi (2013) argues that it was quite logical that, from all the media content, it was exactly music that became so widely spread throughout the Internet. File-sharing services, providing the primary means of distributing digital music, offered an excellent value proposition that the old model could not compete with. Therefore, the disruptive innovation not only lowered the price point to zero, or offered convenience in terms of storage space, but it also increased music consumers' total utility by giving consumers the tools to access all the music in the world and turn music consumption back into social interaction.

4.4.2 Searching for the dominant design

When asked if the interviewees saw causation between the disruption of the traditional business model and the recent phenomenon of experimenting with various business models in the industry, all the interviewees confirmed that they consider business model experimentation as the necessary reaction to the disruption. The disruption of the traditional business model led to a state of flux and triggered the search for new innovative business models. As the interviews showed, the experimentation does not only restrict to record companies and artists, but online music services are fiercely designing new business model experiments to respond to the continuous change as well. Even though the overall state of the industry is seemingly getting more stable, experimentation will likely continue until the dominant design emerges.

"Still it's pretty much about trying different things, and in the future it will be constant that we are in an on-going change that all the time you are ready for new experiments. I think that it is the only appropriate way." (Pöyhönen 2013)

Pöyhönen (2013) argues that the first step is to acknowledge the truth that there is no going back anymore – the only way to survive, as he argues, is to keep on experimenting and try to adapt to the new environment. He adds that business model experimentation should extend beyond the mere act of selling recorded music; the artists should think of all the other imaginable ways to utilise their special talent to make a living. Niemi (2013) shares very similar views with Pöyhönen (2013) and argues that business model experimentation – the exploration of new money-earning logics – is nowadays necessary and artists are pushed to adapt to a more commercial approach in order to generate revenue in the industry.

"There is a perception that those working in the cultural scene should retain their integrity and the right to do culture that isn't too commercial, but these people should also remember

that then there is no reason to complain so much about the small rewards if the music doesn't speak to the masses and you are not willing to explore new money-earning logics as a musician." (Niemi 2013)

Niemi (2013) gives valuable insights from the point of view of online music services. He argues that even though the streaming model is gaining more and more ground, the evolution will likely continue and, therefore, also streaming services are bound to think of new directions. Niemi (2013) sees currently a lot of experimentation going on concerning different digital platforms and continues that the experimentation will only intensify as the pressure in the industry grows. Niemi (2013) concludes that there is quite an extensive gap in the recorded music industry to gain back in terms of revenue, which requires a constant exploration of new ways to derive revenues.

Pereira (2013) argues that the industry as a whole is getting more stable – or that it has already been quite stable for a few years now – but agrees that it is necessary to keep on experimenting with new business models. When asked if there would be any business model experimentation happening nowadays if the traditional model would *not* have disrupted, Pereira (2013) answers that probably very little. He continues by stating that most record companies would continue doing what they have been doing before. Therefore, unless you would want to be very aggressive and try new approaches to expand the existing market, there would be no real need for experimentation. Pereira (2013) concludes that nowadays – since the industry is looking for new ways to make money – a lot of experimentation is taking place and especially a lot of smaller record companies are having very diverse approaches on business model experimentation.

4.4.3 From selling downloads via selling access to selling experiences

Since it had become clear that there is no going back to the traditional business model anymore, and the only way to survive is business model experimentation, I proceeded to direct the conversation to the overall model the industry is heading to. More precisely, I wanted to find out what is offered to consumers and in what form: is it a digital download that entitles to an ownership over the music, an access to a wide catalogue of music, or perhaps recorded music bundled with something extra that adds value to it? All the interviews reinforced the trend that has been discussed earlier in this research. The dominant business model is moving further away from the digital download model towards the access-based

model, but as the interviewees frequently stated, offering recorded music is not enough anymore – fans want to have value to their money and they want personalised and unique experiences associated with the recording and the artist.

Pereira (2013) argues that the download-model is currently quite stable but is getting disrupted by new access-based services; “if you have Spotify would you still digital download stuff?” as he well points out. Streaming services are still a relatively new phenomenon but they are becoming increasingly common. Pereira (2013) mentions that prior to Spotify no company really offered streaming seriously, and continues by saying, that five years ago no major record company would have agreed to open their catalogues – now they have no other choice. Pereira (2013) sees recorded music becoming cheaper and cheaper, but on the contrary, he argues that record companies are nowadays offering more “deluxe versions” that offer value in terms of collectible design items that come with extra material – you *have to have* something extra to offer that is not the same thing as the digital music, Pereira (2013) concludes.

“I think what you’re selling is more the experience. And the experience is the whole thing.”
(Pereira 2013)

Pöyhönen (2013) states that in the current situation in which people are clearly not willing to pay for recorded music as much as they used to be, streaming services, such as Spotify, are a good way of deriving revenue. He acknowledges that they generate much less money than the old business model, but concludes that, “that is how it is nowadays”. While selling recorded music, on its own, does not constitute a significant stream of income, Pöyhönen (2013) argues that exclusive alternatives are a good way of deriving revenue. He continues that people *do* want to be involved, and they *do* want to support the artist, but in return, they want something unique and personal – the digital recording, as Pöyhönen (2013) concludes, does not have that value in itself anymore.

Niemi (2013) shares similar views with Pereira (2013) and Pöyhönen (2013) arguing that the recorded music industry is showing a strong tendency of moving further away from the download-model towards the access-model – not so much the other way around. Niemi (2013) argues that companies, such as Spotify, believe that if you offer people an excellent user interface that enables easy streaming for free or against a monthly fee that equals half of the traditional album’s cost, they will likely switch to streaming. Yet, even though Niemi

(2013) sees streaming services as the most advanced model right now – and as the next step in the business model evolution – he argues that it is unlikely to be the endpoint.

”After MP3s and iTunes got more common, of course someone must have thought that downloading and buying MP3s is the thing. But then again, someone thought it one step further, that maybe you don’t even have to own the song, that maybe you can just sell access and let people stream to that same device that they would download their MP3s anyway... While I see the streaming model probably as the most advanced business model right now, it’s still really hard to believe that it would be the endpoint, that it would take us all the way until the end, but there will probably be some kind of evolution.” (Niemi 2013)

Niemi (2013) argues that recorded music should not be seen as a single unit but there is so much more involved in it – for that reason, Niemi (2013) mentions, probably all the music platforms are nowadays thinking up different ways of how to serve their customers more comprehensively and not only distribute the music. Niemi (2013) argues that recorded music is becoming more of an extension to the brand that is the artist. A strong brand enables creating a number of diverse revenue streams outside the recorded music itself – artists just need to think how to utilise that brand and the strong relationship with their fans in the best possible way. Niemi (2013) gives an example of ”one of the most predominant digital artists in Finland”, who has understood a long time ago that the primary source of revenue will never again be the recorded music. Instead of complaining about the digitisation and the falling revenues coming from selling recorded music, the artist has focused on building his brand and connecting with his fan base to offer value beyond the music – and done it very successfully.

”As in all marketing, there is a lot of discussion that brands have to be able to offer unique things or unique experiences to their fans. And I think artists have remarkable opportunities in doing that.” (Niemi 2013)

4.4.4 Rising opportunities of independent record companies and artists

Next, I aimed to find out which parties have the best abilities to survive the disruption of the recorded music industry and be the early adopters of business model experimentation. This topic, as well, sparked some lively discussion and gave valuable insights from all angles. Each of the three respondents saw the market place becoming more scattered, which implies that the focus is increasingly shifting from mass markets to smaller niche markets in which independent record companies and independent artists have traditionally been strong. While

the primary source of revenue is shifting towards the value-added elements, independent artists and independent record companies were seen to represent the greatest opportunities in terms of considering recorded music as a secondary, promotional product and using it to drive the sales of more lucrative premium products to their respective niches.

While independent record companies and independent artists got support for being at the forefront of business model experimentation, interesting aspects arose that suggest that major record companies face great opportunities if they manage to give up trying to protect and restrict their massive back catalogues and, instead, use them to promote other value-added offers. As the interviews taught, major record companies, just like independent record companies and independent artists, *have* all the capabilities to experiment with new business models, but that requires realising the right markets and admitting that recorded music just might not be the primary source of revenue ever again, and here, the barriers are born.

Pöyhönen (2013) mentions that after the disruption, major record companies were quick to adopt the 360-model trying to compensate for the falling sales of physical albums. That model, however, turned out to be insufficient and some record companies were forced to drop it because of the difficulties involved in controlling all the diverse functions. Pöyhönen (2013) argues that the top of the market – in which majors have traditionally been strong – is clearly getting smaller, whereas the long tail – in which independent record companies and independent artists, in turn, have usually been strong – is growing in importance. Niemi (2013) seconds the above views and argues that while the major record companies are focusing on the mass markets, there is a growing opportunity for smaller record companies and independent artists to find their own niches.

“It is true that the majors focus more and more on only a few mega-sellers and leave everything else to artists or independent record companies.” (Pöyhönen 2013)

Pöyhönen (2013) says that independent record companies and artists are much faster and much more flexible in terms of implementing new business model experiments – “you can just try something today, and if it does not work, try something else tomorrow”. However, as Pöyhönen (2013) argues, it does not mean that major record companies are *always* more cumbersome in their moves. They can also implement new business model experiments – and they already do – but he continues that certain types of experiments, such as crowdfunding an album, are out of their options. When asked if major record companies are willing to adapt

business models that would involve giving out their artists' music for free and use it to drive the sales of some other value-added products – a tactic used mostly by independent record companies and independent artists – Pöyhönen (2013) answers that then it would not be a record company anymore, but as he continues, it is something that majors are forced to consider nowadays.

Pereira (2013) also acknowledges the importance of niche markets and states that a growing number of artists and record companies are nowadays focusing specifically on niches. He argues that there are two very different trends evolving in the industry that try to utilise the untapped potential of niche markets: major record companies, according to Pereira (2013), are splitting up into smaller record companies; whereas independent record companies, on the other hand, are grouping together to gain more leverage. While the industry as a whole is becoming more scattered, the winners will be those who are able to find and serve their respective niche markets.

“It’s not like before you had a big music magazine, now you have blogs for every single genre and you have different distributors and different types of people you have to work with, you might have different shops, you might have different websites plus the way you do interviews. All these things are pretty different, so yeah, you see that now small labels are grouping or the big ones are sort of dropping into smaller labels, which are not really independent but close to it.” (Pereira 2013)

Pereira (2013) argues that nowadays you can see a lot of independent record companies having very different business model approaches. He also agrees that independent artists are able to go on without a record company and implement their own experiments, but at the same time, he stresses, that it is *very* difficult because the market is so crowded of artists trying out their own experiments. Pereira (2013) argues that artists have all the resources they need to implement a successful experiment but that means working out all the possible variables together and having an established fan base.

“Now, because you got more computers, and you got more places to do this stuff, having more studios, and digital distribution, so you can do everything by yourself, but at the same time, it’s just not the same thing – you got to work all these variables together. Before you had the major companies and they had a model that they knew would work, and you go in and

if the album was good, you knew it would just work – and I think that's the big difference.
(Pereira 2013)

Pereira (2013) argues that major record companies are nowadays much more acceptable towards streaming services, which offers them great opportunities because of their back catalogues. Major record companies are able to create a huge number of small revenue streams, whereas smaller independent record companies will have to settle for a much smaller number of streams. While major record companies clearly have an advantage because of their massive back catalogues, they have not fully utilised them. When asked if major record companies see a contradiction in giving out their music for free – which traditionally has been their main product – and bundling it with other value-added elements, Pereira (2013) answers that they already do that. However, as he continues, they usually give out only a certain number of free tracks – not the whole album. This, as already argued before, gives independent record companies and independent artists an opportunity to clearly position themselves as offering recorded music as promotional content that drives the sales of more lucrative value-added products and services.

As I went on to ask Niemi (2013) which parties might have the best abilities to experiment with new models, he argues that established artists who have already made a fair share of money, have the resources to try different experiments independently. Also new artists that are still relatively unknown can experiment with new business models simply because they have nothing to lose. For those who have just been found and want to break into the mainstream, Niemi (2013) suggests that it is best to use more traditional manners and partner with a record company that has the leverage to make the artist known. The key to successful business model experimentation, Niemi (2013) argues, lies in finding and serving your own niche – not too small so that it derives enough revenue, but not too big that it does turn into a faceless mass market – and offer it value beyond the recorded music.

"The reason why big record companies are big is that they represent music that is suitable for the masses. And because it's meant for masses, it means that there are probably devoted music fans, but they are maybe not ready to support that individual artist in the same way, as if we take some smaller indie label that has few artists signed and a very devoted die-hard fan base that likes exactly that kind of music – these people are maybe more willing to support that artist directly." (Niemi 2013)

4.4.5 When offering recorded music is not enough

While the overall direction of the industry was becoming clearer, I continued asking more about the value-added products. I wanted to find out how artists and record companies can create a compelling value proposition in the industry that is flooded with free content. I also wanted to dig deeper to the revenue model trying to find out how big a role do the value-added products play in terms of deriving revenue. As previously explained, streaming services nowadays offer a stable revenue stream, but as such, are rarely sufficient and will unlikely provide a long-term solution for the industry.

Artists and record companies have started to put more effort in building loyal fan bases with an aim to upsell value-added products, each according to their own style. In this model, recorded music acts as a promotional product that drives the sales of other higher margin value-added products. Despite the decreasing sales of recorded music, the interviewees were optimistic about the future of the industry and saw countless opportunities for all parties – both artists and record companies as well as online music services. As each of the interviewees stated, people are still extremely interested in recorded music and they are consuming it more than ever before but they are just not willing to pay for it *per se*.

“Music is consumed all the time and will always be important. As the old saying in the industry goes: if you have a good song, then in one way or another, you can before long turn it into revenue. The way might just be different from what it used to be – or it is.” (Pöyhönen 2013)

Pöyhönen (2013) argues that while “regular people” are not willing to pay for recorded music as much as they used to be, “hard-core people” are still happy to pay for recordings and other products and services associated with them. While there are less of these very devoted fans, he continues, they are much more involved. For example, the amount of people that got involved in Pöyhönen’s own crowdfunding experiment, was not especially large – altogether 158 transactions were made – but he more than doubled the initial goal of raising €3000. Pöyhönen (2013) admits that he did not have any real expectations regarding the experiment but it was more about trying out and seeing what happens – “there was nothing to lose”, as he concludes.

“Even though there were only about 150 people involved, it generated that kind of amount of money. Of course those sold gigs affect it, but as we saw, some amount of CDs were sold and

then these kinds of offers like giving singing lessons – it tells that it's worth investing in those exclusive elements.” (Pöyhönen 2013)

Pöyhönen (2013) mentions that he researched Amanda Palmer's Kickstarter experiment before implementing his, but instead of copying her experiment, he made it his own. As Pöyhönen (2013) argues, it is about reaching that niche of hard-core fans and offering something unique that they might be interested in – there is no single solution, but each artist has to think of their own approach. Pöyhönen's experiment clearly showed that offering something special – let it be a limited edition vinyl or a private singing lesson that comes with a signed album – makes a compelling value proposition. When asked if he was surprised that the digital download, which was the cheapest offer sold for €7, did not turn out to be the most popular option, he says that it only tells that consumers do not feel fully satisfied with the digital recording but they want more value to their money.

“It tells something that wrapping a CD in a gift box and receiving a personalised card with it was popular – so it clearly tells that something special is always nice... The digital download option, as such, does not have that value.” (Pöyhönen 2013)

In the similar fashion as Pöyhönen (2013), also Pereira (2013) argues that “casual buyers” are nowadays buying less music and they are focusing on services that enable them to have access to a diverse range of recorded music. On the contrary, “hard-core users”, according to Pereira (2013), are contributing more than ever before. Pereira (2013) argues that *because* recorded music is getting cheaper and cheaper, record companies are offering an increasing amount of collectible deluxe versions in a number of different price points to please the higher end of the market – and *that* makes the biggest difference with the previous model, based on selling one standardised product in one price point, as he concludes.

“People will pay a lot of money for this coloured vinyl version, this box-set with CDs and the extra booklet that is signed – but they won't pay for the basic which is available for download... I think that's the big thing. It's having everything hopefully with a better quality with more extras... It could be a gig or it could be a really nice package or it could be the album. I think it's not about the album anymore, it's about the artist on a wider level.” (Pereira 2013)

Pereira's own record company is a good example of offering value beyond the recorded music by merging physical with digital. For each release, the company offers a limited edition vinyl

along with the digital version of the recording. Pereira (2013) speculates that one of the reasons why vinyl sales are increasing year by year is not that people would suddenly start listening to more vinyl records – they still prefer to have the digital format which they often receive for free – but because vinyl has become more of a collectible design item that comes with the recording. Therefore, the vinyl works as the extra to the album – not the other way around, as it used to be, when vinyl *was* the album.

Niemi (2013) argues that people are still interested in recorded music but he sees it more as a promotional extension of the brand. He supports the idea of merging physical with digital by arguing that in the future artists will introduce more content in the digital channels but at the same time as very traditional formats such as vinyl. Niemi (2013) agrees that more product and price categories are needed, and online music services, such as Spotify, want to be there to offer them. When asked *how* the basic offering might expand in the future, Niemi (2013) argues that it really depends on how the artist is able to utilise his/her brand and the relationship with the fans. He encourages thinking outside the very basic extensions to more creative bundling opportunities. As Niemi (2013) concludes, people place huge value to be able to get close to the artist but, yet, it does not mean they would be necessarily willing to buy the artist's album.

“There are so many different dimensions how it can expand. It does not have to be just a gig or a t-shirt but there are so many other things that are involved, like video material, live recordings or meet and greets... They [the artists] are just very powerful brands and music raises such strong feelings and that's the opportunity here. They just have to think how to utilise this relationship in the smartest possible way, so you have to be a bit commercial – you just have to bite the bullet and do it in a cool way.” (Niemi 2013)

In order to sell those value-added products, Niemi (2013) argues that online streaming services are excellent tools for promotion. He continues that artists and record companies have not yet fully realised the promotional value of those services. Niemi (2013) argues that while record companies see for example YouTube, another extremely popular source of listening to recorded music, as a very strong marketing channel, they do not yet see the same marketing value with streaming services. He concludes that it is quite paradoxical since YouTube, unlike Spotify, does not generate any revenue to the record companies or artists per play.

5 Results and discussion

In this research, I set out to provide a multidimensional analysis of business model experimentation in the recorded music industry by demonstrating what caused the necessity for business model experimentation in the recorded music industry; who are the early adopters in terms of experimentation; and how one can successfully implement a business model experiment in the recorded music industry. To address the research objective, I carefully formulised three hypotheses, that were presented in chapter 1.2.

The basis for testing the hypotheses was formed in chapter 2 with a look at the theories of business model, disruption of business model and business model experimentation. The following two chapters connected the dots between the theoretical foundation and the recorded music industry, explaining the disruption of the traditional business model in the recorded music industry and the wide-scale business model experimentation that subsequently followed it. In this chapter, I conclude the main findings based on the preceding chapters.

5.1 Revisiting hypotheses

5.1.1 Digital delivery of music forces to reinvent business models

In hypotheses 1, I argued that digital delivery of music disrupted the traditional business model in the recorded music industry and triggered the necessity for business model experimentation. With the hypothesis, I wanted to analyse the fundamental reasons that caused the disruption of the traditional business model and establish a link between the disruption and the necessity for business model experimentation. The disruption was analysed from the point of view of major record companies since they have historically distributed the large majority of recorded music. I assumed that the disruption was not a technological challenge, but essentially a business model challenge, and the experimentation was the inevitable outcome caused by the disruptive innovation. Hypothesis 1 is supported and in the following, I explain my reasoning.

A number of business authors (Abernathy & Clark 1985; Tushman & Anderson 1986; Henderson & Clarke 1990; Hamilton & Singh 1992; Christensen 1997; Chandy & Tellis 1998) have described how technological discontinuities lead to the demise of incumbents – only later, the disruptive innovation has been acknowledged to be mainly a business model challenge for the incumbent firms (Christensen & Raynor 2003; Christensen 2006; Sandström

2010). In the recorded music industry, the traditional business model was designed to fit the purposes of major record companies. They exerted their power over the most valuable resources that artists historically needed and acted as the indispensable middlemen between the artist and the consumer. While the digital delivery of music – which was understood as the confluence of MP3 compression technology and Internet – distorted the profit potentiality of those committed to the traditional business model, it was never a technological challenge for major record companies; they were simply not able to radically reform their existing business models and offer products that would essentially provide significantly lower margins.

Sandström and Magnusson (2010, P.55) argued that disruptive innovations are a business model challenge mainly because of the issues related to “value creation and distribution as well as the impact on different actors, their incentives and their competences”. Digital delivery of music not only created value in terms of significantly cheaper and more convenient products, but it provided consumers a tremendous increase in total utility that differed from the conventional business logic of major record companies. Furthermore, the digital delivery of music distorted the major record companies’ network constellations and the linkages in the distribution of value. The control over the value network was destroyed as cheaper and more accessible means of recording, manufacturing, distribution and marketing were born, and it became increasingly difficult for major record companies to justify their position as the necessary middleman.

In addition to proving that the digital delivery had significant impacts on all components of the traditional business model in the recorded music industry, ultimately disrupting it, causation was found between the disruption and the emerging trend of business model experimentation. The disruptive innovation started an era of ferment and forced the industry to look for new ways to compensate for the declining sales of physical albums. New business models are clearly needed and *only* experimentation will help to identify those emerging business models. This, however, should not be seen as negative news for artists and record companies, but rather deliberating. Knowing what does *not* work is already part of the solution and helps artists and record companies to experiment beyond the constraints of the previously dominant business model.

5.1.2 Independent record companies and artists as the early adopters of experimentation

In hypotheses 2, I argued that the early adopters of business model experimentation in the recorded music industry come from outside the incumbent record companies. The reasoning behind the hypotheses was based on the significant business model challenges that disruptive innovations represent to established companies and the barriers that those firms have against experimenting with new business models that require fundamental changes in the current model. Therefore, I assumed that independent record companies and independent artists – not being held captive by their conventional business models in the same extent – would have better capabilities to survive the disruption and be at the forefront of business model experimentation in the recorded music industry. Hypotheses 2 is supported and next, I explain my reasoning.

Christensen (1997; 2006) explained how incumbents often ignore the disruptive change or try to fight against it and, therefore, are not able to renew their existing business models. While digital delivery of music proposed significant changes to the traditional business model, major record companies, quite naturally, tried everything they could to preserve their dominant positions in the market and fight against the new digital distribution channels. Instead of radically changing their existing business models, they were quick to introduce the 360-model that aimed to achieve wide saturation and sales by adding new revenue streams, while maintaining their place as the sole provider of necessary resources.

New technological advances offered independent record companies and independent artists great possibilities to commit themselves in business model experimentation and compete against the majors. While the 360-model did not propose a viable alternative to the independent parties, they had to come up with other business models. Instead of going head-to-head with the majors in the mass markets, independent record companies and independent artists targeted niche markets that had become increasingly important since the disruptive innovation scattered the market place. Throughout the in-depth interviews, the respondents argued that the focus in the recorded music industry is rapidly shifting from the mass markets towards the niche markets in which independent parties have traditionally had competitive advantage.

In addition to targeting niche markets, independent record companies and independent artists had a chance to differentiate themselves from the major record companies by treating

recorded music as secondary content. While the major record companies tried to preserve recorded music as an equal stream of revenue with the other music industry segments, independent record companies and independent artists were faster in repositioning recorded music as a purely promotional product that drives the sales of other more lucrative products. As the case studies pointed out, business model experiments based on offering recorded music for free and bundling it with premium-priced value-added products are unlikely to happen under a major record company contract because of the fundamental contradictions between the two ways of treating recorded music.

As previously noted, having a commercially successful background in the recorded music industry paves the way for experimenting with new business models, but it is by far not a necessity. Similar success stories as seen in the case studies of Trent Reznor's, Radiohead's and Amanda Palmer's business model experiments can also be found among the less known artists and record companies. More important than having established a widely known name in the industry is to find a loyal niche fan base, establish a direct connection with it and offer the fans value beyond the music.

The in-depth interviews brought up interesting remarks about the great opportunities that major record companies possess if they manage to position themselves stronger in the niche markets and lift the previously dominant constraints over their massive back catalogues and use them to promote other more lucrative products. As the interviews revealed, the major record companies are already moving to that direction by offering free samples of new releases and using them to promote the sales of more profitable value-added products, but they are yet to make the inevitable transition to start treating recorded music as a promotional, secondary product – as well as a secondary source of revenue.

5.1.3 Value-added model shapes the path for future business models

In hypotheses 3, I argued that successful artist-driven business model experiments are based on offering recorded music as a promotional product – either for free or a very low cost – and bundling it with more lucrative value-added elements associated with the artist and the recording. The reasoning behind the hypothesis was based on the profound impacts that digitisation of recorded music had on the traditional value proposition and revenue model in the industry. I deliberately chose the two above-mentioned business model components since business model innovation, according to Osterwalder and Pigneur (2010, P.136) is

fundamentally based on creating new mechanisms to create value (value proposition) and derive revenues (revenue model). Hypotheses 3 is supported and next, again, I explain my reasoning.

While digital single-song downloads have not been able to offset the losses of physical albums, the access-based model is seen as the next step in the business model evolution after the ownership model (Wikström 2012; Niemi 2013; Pereira 2013; Pöyhönen 2013). While the access-model is gaining more foothold, and is proving to be a solid revenue generator, it is unlikely to offer a long-term solution, *as such*, in the industry. The access-model is threatened to become commoditised as an increasing amount of streaming services with similar functionalities and features is being introduced (Wikström 2012). This has not gone without notice among the companies offering streaming services either; as Niemi (2013) points out, many of the streaming services are already experimenting new ways to create value by extending their offerings outside recorded music.

The value-added model, which I believe is the next step after the access-model, builds on offering recorded music as a promotional product that drives the sales of more lucrative value-added products that create value *beyond* the music and therefore provide an incentive to pay a premium. The universal access to recorded music is taken for granted in the model. The value-added model can be seen as an extension to Wikström's (2012) context model, which is based on creating value by offering contextual digital services and features that let consumers "do things with music". In the value-added model, the value-adding element can be anything intangible or tangible that provides personal and unique value beyond the recording and has a natural association with the artist and the recording. The case studies and in-depth interviews very straightforwardly pointed out the necessity of offering something extra with the recorded music indicating that consumers *are* willing to contribute but in return they want value to their money – recorded music, as such, does not have that value in itself anymore.

The figure below represents a simplified depiction of the value-added model as I see it. In the Figure 8, the y-axis describes the number of transactions, whereas the x-axis describes the price per product. The products that an artist or a record company offers can be placed along the curve. As the reader can see, in the value-added model the recorded music draws a large quantity of transactions, but, as such, generates little or no revenues. One can conclude that people are interested in recorded music, but they are either not willing to pay for it *per se* or pay very little, which results in low revenues coming from the sales of recorded music. While

it is extremely difficult to generate considerable revenue streams offering only recorded music, the value-added products provide a chance to close the monetisation gap. Along the curve, the number of transactions decreases dramatically, but the realised revenues, instead, increase considerably, because of the significantly higher unit prices.

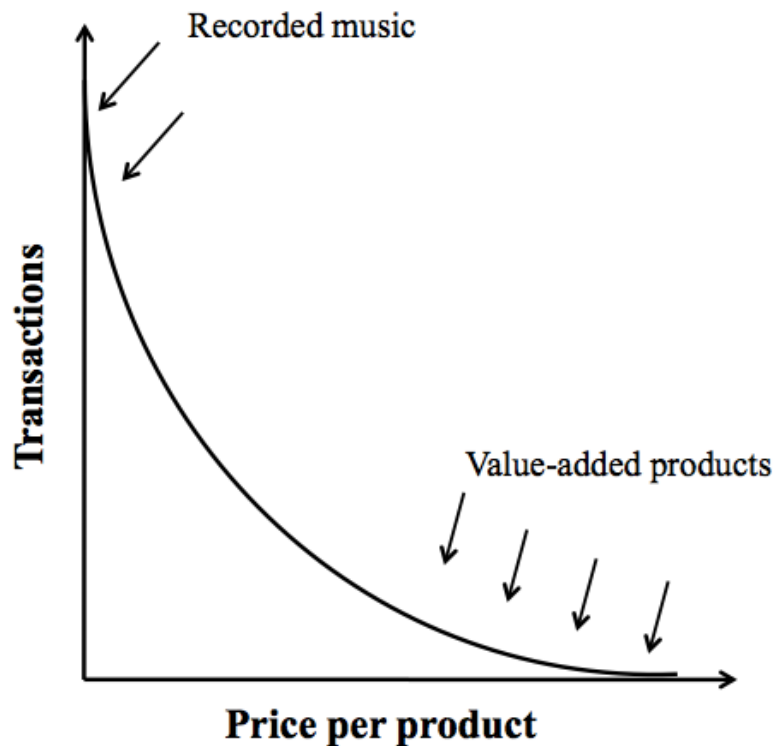


Figure 8: Simplified depiction of the value-added model

As it was well described in the case studies, artists are able to derive significant amounts of revenue from even a small number of transactions regarding the premium-priced value-added products. Therefore, the role of recorded music is to act as a promotional product that draws attention to and enables and enhances the sales of the more lucrative value-added products. While the recorded music might not generate much revenue as such, it is an inseparable part of the total offering and without it the sales of other value-added products would be very difficult.

In order to reinforce the value-added model, I tested it with the data retrieved from Amanda Palmer's business model experiment. The results are shown in the Figure 9, in which the y-axis once again represents the number of transactions and the x-axis indicates the prices per different product offer. To simplify the figure, I grouped some of the product offers together. The low-end offers – namely "\$1 or more" and "\$5 or more" – that focused on the recorded music with few value-added elements are grouped together. Furthermore, for the sake of

simplicity, the product offers that were charged the same price (e.g. the eight different product offers charged “\$300 or more”) are grouped together and represent one data point in the figure.

The figure below follows a fairly similar shape as the value-added model presented earlier (see Figure 8) with a dramatically decreasing slope and the relatively long tail in the premium product end of the offering. Once again, it becomes evident, that people are interested in the recorded music, but the revenue stream remains rather small because of the low pricing policy. The value-added products, on the other hand, attract a significantly lower number of transactions, but due to their premium pricing they make a substantial share of the total revenue.

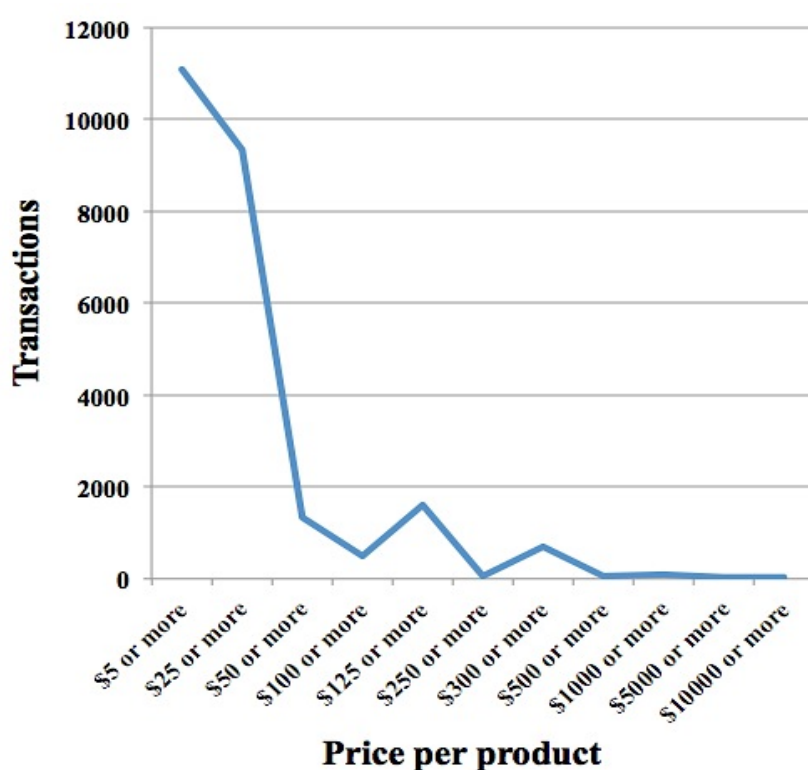


Figure 9: Reinforcing the value-added model with data from Amanda Palmer's experiment

5.2 Managerial implications

In addition to the theoretical contributions, in this chapter I summarise the previous findings into brief managerial implications. While the following managerial implications are mostly designated to artists and record companies, online music services might also find them useful.

Find, build and nurture your niche fan base

The top of the market is becoming even narrower and will be increasingly dominated by only a handful of record companies and artists at a time. As the long tail of the market is growing in importance, artists and record companies should put effort in finding their own niches. Independent artists have all the resources they need to implement their own business model experiments, but in order to do that, they need to establish a close-knit niche fan base that is willing to support monetarily – otherwise it becomes too difficult in the overcrowded market place.

Recorded music is a public good – bundle it with something personal and unique

Recorded music has become a public good – a product that one can consume without reducing its availability to another individual and from which no one is excluded. As public goods and services, recorded music cannot be withheld from those who do not pay for it. While recorded music, as such, has lost its value in terms of money and consuming experience, it should be bundled with something personal and unique – this can include anything from digital extra features to physical ancillary products and services. Each artist should offer value-added elements that reflect their own individuality, not try to copy them from someone else.

Put a premium price on premium products

While the monetary value of recorded music is constantly decreasing, it does not mean that value-added products could not be charged at premium price – they can, and they *should* be. People are interested in following their favourite artists and they are willing to contribute, but they want to receive real value for their money – recorded music does not have that value in itself anymore. There is a large demand for value-added products, and artists and record companies, as well as online music services, should try to seize that opportunity by offering premium-priced products.

Take care of the brand because, in the end, that is all you got

Artists and record companies are not just units that distribute recorded music – they are brands that offer recorded music as a promotional extension. Everything a record company or an artist does, affects the public image of the brand. The stronger brand you are able to build –

and the better you are able to connect with your target audience – the more revenue streams you are able to create *in addition* to recorded music.

Business model experimentation is an on-going process – not a one-time attempt

Since there is no single recipe for a successful experiment, business model experimentation should not be seen as a static one-time attempt but rather as an iterative process that is based on cumulative learning. Therefore, failures should not be overlooked, but they should be seen as opportunities to gain new knowledge that is needed to discover the still-emerging business models. All parties involved in the recorded music industry should engage in the methodical and continuous process of business model experimentation, since it gives them early mover advantages and decreases the risk of choosing a less potential strategy in the future.

5.3 Evaluation of validity and reliability of the research

The research method in this paper was qualitative. While the aim of the research was exploratory in nature and sought to deepen the understanding of a phenomenon in which little was known, qualitative research fit the purpose more accurately than quantitative research. Qualitative research is often critiqued for lacking scientific rigour and being more of anecdote of subjective opinions unable to be reproduced or generalised. The underlying assumption of the criticism is that quantitative and qualitative approaches are somewhat different in terms of ensuring the validity and the reliability of the findings. (Mays & Pope 1995, P.109-110)

All research – let it be quantitative or qualitative –in the end depends on the collection of particular sorts of data with a set of particular methods, each with their own strengths and weaknesses. The path to ensuring rigour in qualitative research is in systematic and self-conscious research design, data collection, interpretation, and communication. (Mays & Pope 1995, P.109-110) To ensure the highest possible rigour of this research, a great deal of attention was placed on reliability and validity issues, which I will precede to address.

Reliability of the research

The term “reliability” is a concept that is often used for testing or evaluating quantitative research but it *can* also be applied to qualitative research (Golafshani 2003, P.601). Reliability is defined as ”the extent to which results are consistent over time and an accurate representation of the total population under study and if the results of a study can be reproduced under a similar methodology (Joppe 2000, P.1). Lincoln and Guba (1985) have

suggested that in qualitative research, reliability should be replaced with terms such as "trustworthiness", "credibility" or "applicability". In qualitative research, reliability can be considered as a fit between what the researcher records as data and what occurs in the natural setting of the research (Cohen, Manion & Morrison 2007, P.148).

Reliability of qualitative research can be addressed in the following ways: by examining the stability of observations (whether the same observations and interpretations would have been made if they had been observed at a different time or in a different place), parallel forms (whether the same observations and interpretations would have been made if the researcher paid attention to some other phenomena during the observation), and inter-rater reliability (whether another observer observing the same phenomena with the same theoretical framework would have interpreted the observations in a similar manner). (Cohen, Manion & Morrison 2007, P.148-149)

To ensure the reliability of my research, I put a lot of effort on the above-mentioned points, and tried to maintain the transparency in each stage of the research process. As the data was collected in a relatively unstructured manner from a wide range of sources, I tried to increase the reliability by keeping precise records of case study observations and interviews, and document the analysis process as meticulously possible. Trustworthiness was increased with citing earlier research and adding extracts from the case studies and interviews. The research topic was at the same time extremely interesting but also very challenging since I did not possess any first-hand experience from the industry. This can be also seen as a positive aspect since I got to research the topic without any preconceptions and purely from a business perspective as someone coming from outside of the industry.

Validity of the research

Validity is a requirement for both quantitative and qualitative research, and without it, the research would be worthless. According to Joppe (200, P.1) validity determines "whether the research truly measures what it was intended to measure or how truthful the research results are." It is impossible for research to be 100 per cent valid; in qualitative research the subjectivity of the respondents or their opinions and attitudes may contribute to the degree of bias (Cohen, Manion & Morrison 2007, P.133). Maxwell (1992) has suggested that in qualitative research, the term "validity" should be replaced with "understanding" since it is more suitable.

The validity of qualitative research can be increased by ensuring the "triangulation" of findings. Triangulation, as described in the methodology section of this paper, means a method of crosschecking data from multiple sources using a variety of methods. Triangulation therefore improves the validity of the research and evaluation of the findings (Golafshani 2003, P.603-604). In this research, I sought evidence from a wide range of different sources and used both case study method and in-depth interviews to form a rich picture of the phenomenon.

Regarding the case studies, I relied on a number of written documents that were acquired from sources that were considered trustworthy and which addressed the particular topic at hand. Case studies were followed by in-depth interviews that were conducted to verify the previous findings. The interviewees were chosen carefully and they were experienced representatives of their own respective fields. By using several sources and applying different methods, I aimed to form a rich picture of the phenomenon that was analysed from all perspectives.

If the validity of the research can be maximised, the research leads to a higher generalisability of the results (Golafshani 2003, P.603). Even though qualitative research has been critiqued of not being generalisable in a way that quantitative research is, Cohen, Manion and Morrison (2007, P.137) argue that qualitative research can also be generalisable. Schofield (1990, P.209) suggests that in order to ensure the generalisability of the findings, qualitative research should provide a clear, detailed and in-depth description so that the reader is able to decide the extent to which the findings are generalisable to also some other settings. Even though, I conducted a limited amount of case studies and in-depth interviews, I aimed to provide the reader with a rich description of the phenomenon so he/she is able to draw conclusions whether the results are generalisable in a wider extent.

5.4 Limitations

The research at hand bears some limitations that will be further discussed. As already mentioned before, I did not have previous first-hand knowledge of recorded music industry, which may have restricted me from seeing some aspects that someone from inside the industry could have pointed out. On the other hand, *not* having first-hand experience of the industry, can be turned into one's advantage because it strips the researcher from any

preconceptions and helps to analyse the phenomenon purely from the business perspective. In the end, it is up to the reader to evaluate how this has affected the reliability of the study.

While the research tried to propose generalisations regarding how successful business model experimentations in the recorded music industry can be implemented, the results are mostly based on a limited number of case studies and in-depth interviews that were selected using the researcher's own discretion. Since business model experimentation in the recorded music industry is still a relatively new phenomenon, the literature was quite difficult to find and academic research on the topic was practically non-existent. Therefore, most of the data used for case studies was acquired from the Internet, but as mentioned, with great concern. The in-depth interviews hopefully helped to amplify and triangulate the previous study findings and therefore ensure better generalisability of findings.

5.5 Recommendations for future research

Next, I propose some recommendations for future research that occurred while writing this research paper. While the current research focused solely on the recorded music industry, it would be extremely interesting to widen the current research boundaries and study if similar results could be found also in other sectors of entertainment industry facing similar issues than the recorded music industry.

The disruption of traditional business models and decreasing market share of the incumbents is also apparent within the newspaper and video game industries, just to name a few. In the upcoming years they will be forced to reinvent their traditional business models. It would be of great interest to study if the value-added model, as proposed in this research, could also be applied in those industries. Reimagining the way to create value and derive revenues could provide companies in the above-mentioned industries means to better survive the disruption and reposition their business models for the future.

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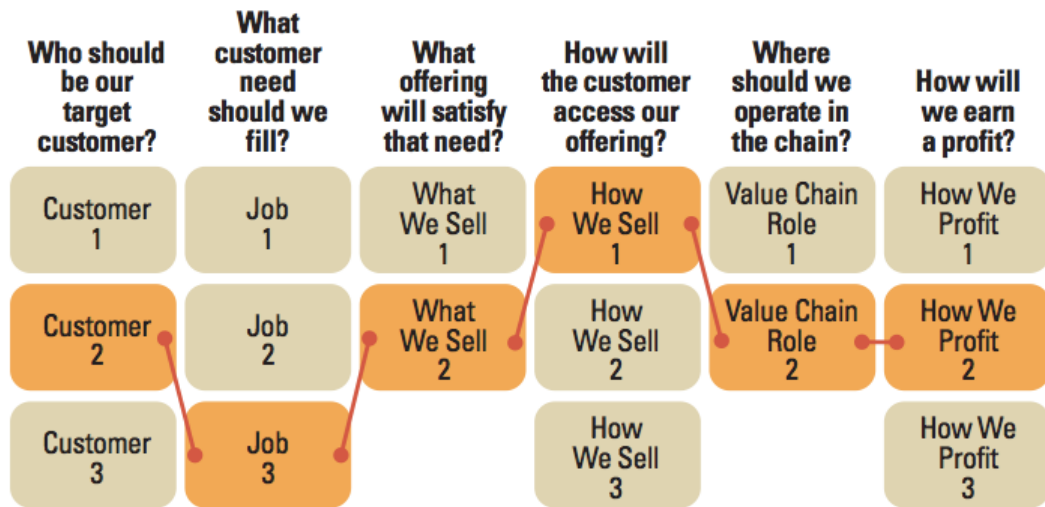
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7 Appendices

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Appendix A: Business model development template (Sinfield, Calder, McConnell & Colson 2011, P.85)



Appendix B: IBM's component business model (Chesbrough 2010, P.360)

	<i>Business Administration</i>	<i>New Business Development</i>	<i>Relationship Management</i>	<i>Servicing and Sales</i>	<i>Product Fulfillment</i>	<i>Financial Control and Accounting</i>
Direct	Business Planning	Sector Planning	Account Planning	Sales Planning	Fulfillment Planning	Portfolio Planning
Control	Business Unit Tracking	Sector Management	Relationship Management	Sales Management	Fulfillment Planning	Compliance Reconciliation
	Staff Appraisals	Product Management	Credit Assessment			
Execute	Staff Administration	Product Delivery	Credit Administration	Sales	Product Fulfillment	Customer Accounts
	Product Administration	Marketing Campaigns		Customer Dialogue	Document Management	General Ledger
				Contact Routing		

**Appendix C: All 24 different product offers in Amanda Palmer's Kickstarter website
(Kickstarter 2012)**

\$1 or more	{DIGITAL DOWNLOAD} digital download of album...with bonus songs & kickstarter-exclusive content.
\$5 or more	{DELUXE DIGITAL DOWNLOAD} here by popular demand! extra music downloads (covers! demos!) PLUS a giant custom-sewn digital PDF of all the lyrics, band photos, handwritten stuff, extra artwork, drafts, anecdotes, and of course...naked pictures. we love naked.
\$25 or more	{BACKER-EXCLUSIVE LIMITED EDITION CD} beautifully packaged backer-only version of the CD in a hardbound case. includes a 24 page art booklet. PLUS deluxe digital download & thank-you card.
\$50 or more	{BACKER-EXCLUSIVE LIMITED EDITION VINYL} gorgeous backer-only version of the album on two 180 gram black records in a gatefold package. includes a set of heavy-stock inserts with artwork, lyrics, and photographs. PLUS deluxe digital download & thank-you card.
\$100 or more	{BACKER-EXCLUSIVE SIGNED ART BOOK} a copy of the forthcoming heavyweight art book/album companion...SIGNED BY YOURS TRULY, AFP. includes over 70 pieces of artwork created by over 30 artists inspired by songs on the album, along with photographs, writings, lyrics, musings, meet-the-artist bios, and interviews. PLUS deluxe digital download of the record & thank-you card.
\$125 or more	{BACKER-EXCLUSIVE SIGNED ART BOOK + CD} a signed copy of the art book, plus the backer edition of the album on CD or vinyl. please note: CD/vinyl are NOT signed. the default option will be CD; requests for vinyl will be made at the Survey stage if that's your preference. if you want BOTH (CD and VINYL), please add an extra \$25 to your pledge. PLUS deluxe digital download & thank-you card.
\$250 or more	{BOSTON: ART OPENING/BACKER PARTY w/ NO ROCK SHOW TICKET} please note: this reward is identical to the \$300 Boston art show bundle, except that it does NOT include a ticket to the rock show on august 2nd. AUGUST 1st 7-10pm (or later) ALL AGES MIDDLE EAST: HOMETOWN THROWDOWN!!!!!! oh, holy shit, back to my roots at the middle east, here we go. the local boston VIP party for beantown-area kickstarter backers....a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes food and drink/surprise gifts/whatever special boston-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. PLEASE NOTE: this event is all ages.
\$250 or more	{SUMMER MAILBOX INVASION! 7" VINYL CLUB + SURPRISE ARTS 'n' CRAFTS SERIES} four limited-edition color 7" vinyl singles (sent every few weeks over the summer, leading up to the album release in September), and a beautiful case to store them in! each of the four 7" records will come with a SURPRISE GIFT...i don't want to ruin it, but each is a weird art-activity i dreamed up...to keep you from dying of summer boredom while you watch your records spinning round and round. PLUS a copy of the kickstarter-backer version of the album on vinyl. PLUS, because you might want it, the backer-version of the CD. PLUS deluxe digital download & thank-you card.
\$300 or more	PLEDGE \$300 OR MORE {SUMMER MAILBOX INVASION! 7" VINYL CLUB + SURPRISE ARTS 'n' CRAFTS SERIES + SIGNED ART BOOK} can't make it out to one of the art opening/backer parties but want something AWESOME? this is probably the reward for you...you'll get a SIGNED copy of the heavy-duty art book PLUS a copy of the kickstarter-backer version of the album on vinyl and CD (don't want one of 'em? GIFT IT), PLUS the four limited-edition color 7" vinyl singles (sent every few weeks over the summer, leading up to the album release in September), the case to store them in, and the SURPRISE GIFTS (one comes w/ each single)...PLUS deluxe digital download & thank-you card.
\$300 or more	{BERLIN: ART OPENING/BACKER PARTY} JUNE 12th 7-10PM ALL AGES PLATOON/THE FACTORY: the local berlin VIP throw-down for european kickstarter backers! a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes food and drink/surprise gifts/whatever special berlin-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in berlin on June 14th at Roter Salon. PLEASE NOTE: The show at Roter Salon is 14+
\$300	{LONDON: ART OPENING/BACKER PARTY} JUNE 18th 7-10pm (or later) 16+ VILLAGE

or more	UNDERGROUND: the local london VIP throw-down for UK-area kickstarter backers! a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes beverages/surprise gifts/whatever special london-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in london on June 20th at Village Underground.
\$300 or more	{NEW YORK: ART OPENING/BACKER PARTY} JUNE 28th 7-10PM ALL AGES MOMENTA GALLERY: the local NYC VIP throw-down for easty-coasty kickstarter backers! a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes food and drink/surprise gifts/whatever special NY-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in brooklyn on June 27th at The Music Hall of Williamsburg. PLEASE NOTE: The show at MHoW is 16+
\$300 or more	{SAN FRANCISCO: ART OPENING/BACKER PARTY} JULY 12th 7-10pm (or later) 21+ PUBLIC WORKS: the local san francisco VIP throw-down for bay area kickstarter backers! a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes beverages/surprise gifts/whatever special san francisco-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in SF on July 13th at Public Works. PLEASE NOTE: Both shows at Public Works are 21+
\$300 or more	{LOS ANGELES: ART OPENING/BACKER PARTY} JULY 19th 7-10PM ALL AGES POP TART GALLERY: the local VIP throw-down for LA-area kickstarter backers! a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes beverages/surprise gifts/whatever special los angeles-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in LA on July 18th at The Roxy.
\$300 or more	{BOSTON: ART OPENING/BACKER PARTY} AUGUST 1st 7-10pm (or later) ALL AGES MIDDLE EAST: HOMETOWN THROWDOWN!!!!!! oh, holy shit, back to my roots at the middle east, here we go. the local boston VIP party for beantown-area kickstarter backers....a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes food and drink/surprise gifts/whatever special boston-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card. in addition to all of this, we'll guest list you for the open-to-public rock show in boston on August 2nd, downstairs at The Middle East, as well. PLEASE NOTE: Both Boston shows are all ages.
\$300 or more	{BOSTON: JULY 31st ROCK SHOW TICKET + ADMISSION TO 8/1 ART OPENING/BACKER PARTY} please note: we have added a second ROCK show at the Middle East (July 31st)...this reward gets you ONE ticket to that event, PLUS admission to the ART show on august 1st. art show perks remain the same as they do for the other two boston rewards: oh, holy shit, back to my roots at the middle east, here we go. the local boston VIP party for beantown-area kickstarter backers....a unique evening showcasing the original artwork created for the record, plus an intimate acoustic performance by me & The Grand Theft Orchestra. this bundle includes food and drink/surprise gifts/whatever special boston-based shit we can dream up at the event! also includes: the album on compact disc OR vinyl, PLUS a SIGNED copy of the art book, PLUS a deluxe digital download & thank-you card.
\$500 or more	{CUSTOM-PAINTED TURNTABLE + VINYL & CD + SIGNED ART BOOK} A Crosley turntable (USB-fitted...spin it, download it! you're in the PAST AND THE FUTURE!!!) beautifully custom-painted by cassandra long, megan howland and/or other official GTO album artists. along with your stylin' new turntable, you'll also receive: a backer edition of the album on vinyl AND CD, PLUS a signed copy of the art book, PLUS a deluxe digital download & thank-you card.
\$500 or more	{AFP SHARPIES YOU} yes! "I Sharpie You" is BACK! you email me the image (black and white, pretty please) of you, your loved one, your lost home, your dead dog - seriously, whatever - and i'll re-render it via the magic of sharpie on hardboard & mail it to you with heaps of love. i'm a pretty good artist when i try. PLUS a Kickstarter-backer edition of the album on vinyl AND CD, PLUS a signed copy of the art book, PLUS a deluxe digital download & thank-you card.
\$1,000 or more	{DONUT WITH A ROCKSTAR} this reward is basically a pre-show VIP pass for you +1 guest where WE HAVE DONUTS TOGETHER (i will find a closet or something for us to eat our donuts in). PLUS

	a Kickstarter-backer edition of the album on vinyl AND CD, PLUS a SIGNED copy of the art book, PLUS deluxe digital download & thank-you card. also, i'll draw you a donut. PLEASE NOTE: this reward is redeemable at all of the forthcoming summer rock shows and next year (2012-13). i will guestlist you +1 backstage for ANY SHOW. you must provide donuts. if more than one person gets this in the same city, we'll just have to...donut with a rockstar together. ALSO: If you purchase this bundle and wish to attend one of the art shows as well, please email kickstarter@amandapalmer.net and we'll see if we have extra tickets to offer for sale (at a reduced price).
\$1,000 or more	{AFP-PAINTED TURNTABLE + VINYL & CD + SIGNED ART BOOK + "MAILBOX INVASION" VINYL & ARTS 'n' CRAFTS SERIES} A Crosley turntable (USB-fitted...spin it, download it! you're in the PAST AND THE FUTURE!!!) beautifully custom-painted by yours truly, Amanda Fucking Palmer, who promises to paint by candlelight with sad music playing while the wind whips outside her window (lies, i'll be painting all day in broad daylight, while drinking wine with cassandra and megan & co....but still, picture it). along with your stylin' new turntable, you'll also receive: a backer edition of the album on vinyl AND CD, PLUS everything in the "Summer Mailbox Invasion 7" Vinyl Club + Surprise Arts 'n Crafts Series" (listed above), PLUS a signed copy of the art book, PLUS a digital download & thank-you card.
\$1,000 or more	{NEIL GAIMAN & KYLE CASSIDY: "THE BED SONG" PHOTOBOOK} An extremely limited edition book written by Neil Gaiman, with lyrics by me, and, most importantly, fine art photographs by Kyle Cassidy. the book will be printed to order, but is limited to a MAX of 666 signed and numbered copies. ALSO: we will make our best efforts to give out numbers in the order that the Kickstarter support is signed up for (the earlier you order, the lower your edition number). PLUS a Kickstarter-backer edition of the album on vinyl AND CD, PLUS a SIGNED copy of the art book, PLUS deluxe digital download & thank-you card. PLEASE NOTE: If you purchase this bundle and wish to attend one of the art shows as well, please email kickstarter@amandapalmer.net and we'll see if we have extra tickets to offer for sale (at a reduced price).
\$5,000 or more	{AFP HOUSE PARTY} want me to invade your home? oh, i shall. we experimented with house parties/backyard parties last year in australia and the shit was CRAZY FUN. back this and ye shall receive one house party with a ukulele-wielding AFP (scheduled with the team...deliverable within the next 18 months, but hopefully sooner...pretty much the next time i hit your area. if you're in tunisia, i'll GET THERE, i'll just have to make the time and fly over. no biggie). backers will also receive VIP+1 access to any art show (buyer's choice), PLUS (if you want) any/all of the following: signed copy of the limited edition "Bed Song" book/a signed copy of the art book/backer-edition of the album on vinyl or CD/the 7" vinyl series/a deluxe digital download & (yep) a thank-you card. there's a TON of additional information available on the FAQ at http://bit.ly/HousePartyFAQ - PLEASE READ IT CAREFULLY BEFORE ORDERING!!!! PLEASE NOTE: Estimated delivery is September for deliverables ONLY. Please plan on scheduling the event with us somewhere between the next 12-18 months.
\$10,000 or more	{ART-SITTING & DINNER with AFP} i've never tried this before, but i'm hella excited to do it. if you're not the party type and just want to do something quiet & one-on-one, i'd like to paint/render you on big canvas format over the course of an afternoon/evening. we'll get together in a space that makes sense & i'll draw you from life, naked or clothed. if you're too ego-paranoid to sit, we can get together and fingerpaint while listening to very loud cathartic music, and perhaps engage in some primal screaming. then we EAT! WE DRINK! the whole shebang should take about 4-5 hours....and we can split the time up however you want. i will bring my ukulele if you want serenading. i'll help you get the art framed and shipped home if we're not doing it in your local area. backers will also receive any/all of the following upon request: signed copy of "The Bed Song" book/a signed copy of the art book/backer-edition of the album on vinyl or CD/the 7" vinyl series/a deluxe digital download & (yep) a thank-you card.
\$10,000 or more	{THE GRAND THEFT MAKEOVER/PHOTOSHOOT} FULL BAND INVASION!!! me and The Grand Theft Orchestra (Chad, Jherek, and Michael) will COME TO YOUR HOME and BRING OUR EVIL BAG OF MAKE-UP, GLITTER, MILITARY COSTUMES, AND WIGS. once we've slathered you in ridiculous-looking clothing so you look relatively ready to hop on stage with us, we'll do a full pro photoshoot of you with the band, wherever we see fit. we'll get you two GIANT format copies of the best photographs & downloads of the rest of the photos...then we will order thai food and drink you under the table. you provide table. i will probably also play the ukulele. backers will also receive any/all of the following upon request: signed copy of "The Bed Song" book/a signed copy of the art book/backer-edition of the album on vinyl or CD/the 7" vinyl series/a deluxe digital download & (yep) a thank-you card. contact eric@amandapalmer.net for more info. PLEASE NOTE: Estimated delivery is September for deliverables ONLY.

Appendix D: German abstract

Diese Studie fokussiert sich auf das derzeitige Experimentieren mit verschiedenen Geschäftsmodellen in der Tonträgerindustrie. Das Ziel dieser Forschung war nicht nur die Beschreibung dieses Phänomens, sondern auch eine multidimensionale Analyse der komplexen Problematik mit folgenden Schwerpunkten: (1) worauf ist die Notwendigkeit des Experimentierens mit Geschäftsmodellen in der Tonträgerindustrie zurückzuführen; (2) wer sind die frühzeitigen Anwender neuer Geschäftsmodelle; und (3) wie kann man ein neues Geschäftsmodell in der Tonträgerindustrie erfolgreich implementieren.

Die Untersuchung dieser Schwerpunkte erfolgte mittels qualitativer Forschungsmethoden. Der theoretische Hintergrund besteht vor allem aus Literatur zum Thema Geschäftsmodell, dem Bruch mit dem bis dahin vorherrschenden Geschäftsmodells und die darauffolgende Phase des Experimentierens mit neuen Geschäftsmodellen. Der empirische Nachweis beruht auf den aus den Fallstudien und eingehenden Interviews erworbenen ausführlichen Informationen.

Die Ergebnisse zeigen, dass die digitale Distribution der Musik – die als Mitwirkung von MP3 Kompression und Internet betrachtet wird – das traditionelle Geschäftsmodell in der Tonträgerindustrie gestört und das Ertragspotential wesentlich gesenkt hat. Diese Veränderung wurde zu einer zentralen Herausforderung, jedoch nicht im Bereich der Technologie, sondern eine des Geschäftsmodells, und zwar für diejenigen, die auf das konventionelle Modell angewiesen sind. Das war auch der Beginn einer Epoche der Ungewissheit und hat die Industrie zur Suche nach neuen Geschäftsmodellen bewegt, welche die sinkenden Erträge ausgleichen können.

Die unabhängigen Plattenfirmen (Independent-Labels) und Interpreten wurden als frühzeitige Anwender der Geschäftsmodell-Experimentierung in der Tonträgerindustrie angesehen. Während die Major-Labels die Geiseln eigener, traditioneller Geschäftsmodelle sind, haben sich für die unabhängigen Parteien neue Gelegenheiten ergeben, um sich der Veränderung anzupassen und mit neuen Geschäftsmodellen zu experimentieren. Dies erfordert jedoch sowohl ein gründliches Verständnis der Nischenmärkte, als auch eine Positionierung der Tonträgermusik als sekundäres Produkt.

Die Forschung weist darauf hin, dass die neuen Geschäftsmodelle auf dem Angebot der Tonträgermusik in Form eines Werbeprodukts, d.h. gratis oder für einen niedrigen Preis,

beruhen und zusammen mit anderen lukrativeren Mehrwert-Elementen gebündelt sind, die neben Musik noch einen persönlicheren und einzigartigen Wert anbieten. In einem solchen „Mehrwert-Modell“ hält man den universalen Zugriff auf Musik für selbstverständlich, allerdings kann der Zugriff selbst weder einen bedeutenden Wert schaffen noch zu einem erheblichen Unternehmensertrag beitragen. Mehrwert-Produkte sind deshalb notwendig, als eine neue Art der Wertschöpfung und um die Lücke zu füllen, die durch den sinkenden Vertrieb verursacht wurde.

Appendix E: Curriculum vitae

PERSONAL DATA

Name	Kai Kirkkopelto
Birth date/place	7.10.1986 / Ylistaro, Finland
Citizenship	Finland

WORK EXPERIENCE

SON HELSINKI, JUNIOR PLANNER

Helsinki, 8/2011 – present

Planning marketing solutions for leading companies in Finland. Focusing especially on social media and digital advertising.

SOCIAL MEDIA CONSULTANT

Lapua, 8/2010

Lecturing a day-long course for the teaching staff of high school covering the basics of social media and e-learning.

Lapua, 5/2010

Lecturing a two-day-long course about social media and e-learning. The participants were students of child and family work and they received academic credits for their participation.

Lapua, 2/2010

Lecturing a two-day-long course for the staff of folk high school about social media and e-learning. Also involved planning an online marketing campaign for the school to attract prominent students.

HELSINGIN SANOMAT, CONCEPT PLANNER

Helsinki 6/2010 - 7/2010

Planning new iPad applications for the largest subscription newspaper in Finland. The work required close cooperation with the development team and editorial staff of Helsingin Sanomat.

KLOK CREATIVE AGENCY, PLANNER

Tampere 2/2010 - 4/2010

Planning and executing an online viral marketing campaign for an upcoming TV-format. The project involved utilising several social media tools to create buzz for the future television show.

TAPIOLA-GROUP, SALES REPRESENTATIVE

Tampere 9/2009 - 5/2010

Acquiring customers for one of the largest financial service companies in Finland offering insurance, banking and financial services.

TAPIOLA-GROUP, CUSTOMER SERVICE REPRESENTATIVE

Tampere 9/2008 - 12/2008, Lapua, 4/2007 - 8/2008

Managing customers' insurance, banking and financial matters. Required a great deal of maintaining existing customer relationships as well as acquiring new customers.

EDUCATION

Bachelor of Science in Economics and Business Administration (excellent grades), 12.2.2010

UNIVERSITY OF VIENNA, 2010 - 2013

Main subject: International Marketing

Secondary subject: Strategy & Organization

UNIVERSITY OF TAMPERE, 2006 - 2010

Main subject: Management & Organization

Secondary subject: Marketing

LANGUAGES

FINNISH

Written and verbal: native language

ENGLISH

Written: excellent, verbal: excellent

SWEDISH

Written: intermediate, verbal: intermediate

GERMAN

Written: intermediate, verbal: intermediate

POSITIONS OF TRUST

CO-FOUNDER OF STREAM TAMPERE

STREAM Tampere is a community founded by university students with entrepreneurial flame in their hearts. The goal is to get people from various backgrounds together, raise awareness towards entrepreneurship, have fun and help turning ideas into real business.

TUTOR

Tutor in the Finland's first full-scale Internet preparation course for the entrance exam of the university business studies, Virtua Oy, 2008.

HONORS AND AWARDS

PERFORMANCE SCHOLARSHIP

Received a Performance Scholarship for excellent grades during the Master's program at the University of Vienna. 12th best Grade Point Average of all applicants (1.4, when 1=the best; 5=the worst).

ACTIVITIES AND INTERESTS

Online, my special interests are in following digital trends and social media. Offline, you can find me playing football, reading a book in a cafeteria, or trying to invent the next big thing on the web with my friends.