

**Welcome to the Machine?: Changing Music Industry Value Frameworks  
and the Key Characteristics of New Music Industry Business Models.**

Thesis Submitted in Fulfillment of the Requirements for the Degree of  
Doctor of Philosophy

By

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## **Abstract**

This thesis examines changing value frameworks in the early 21<sup>st</sup> Century music industry, and the key characteristics of successful new music industry business models.

Traditional music industry business models were built upon a linear value chain in which the record label had control over most if not all of the value adding and creating processes, in particular manufacture, reproduction, distribution and promotion. Artists without a contract with a record label faced significant challenges in generating sufficient funds to support investment in these capital intensive and expensive processes, in order to get their music distributed to a commercial audience.

New technologies introduced at the end of the 20<sup>th</sup> Century and in the first decade of the 21<sup>st</sup> Century changed the environment within which record labels conducted the business of music, making it harder for them to capture value from their ownership of copyright. These technologies reduced the capital costs of creating, manufacturing, reproducing and distributing music and thus significantly lowered the barriers to entry of the music industry for individual and own-label artists. In parallel, new technologies gave simple and free access to music for a large audience of digitally connected consumers. This combination of factors resulted in a turbulent environment within which record labels and artists have experimented with new ways to derive value from this changing landscape.

This dissertation proposes a new music industry value framework and proves the various linkages and relationships throughout the framework. Music industry business models are decomposed using Osterwalder's business model ontology, in which is embedded the new value framework. This analysis reveals key characteristics of successful music industry business models. The dissertation concludes with recommendations for the application of these characteristics for the benefit of consumers, artists and record labels in the early 21<sup>st</sup> Century music industry.

***Keywords: Music industry, value chain, business model, MVine.***

## **Dedication**

This thesis is dedicated to my son, Charlie Berry, and my parents Dr. John Berry and Dr. Maureen Berry, for their unfailing love, belief, understanding and encouragement.

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# Chapter 1. Introduction

*“Technology?*

*It means more people getting involved with more music,  
in more ways, at more times, in more places than ever before.*

*What can be so bad about that?”* (Tony Wadsworth, CEO at EMI until 2008)

## 1.1 Introduction

Chapter 1 introduces the dissertation, which investigates the increasingly active and interactive role of the artist and consumer through changing music industry value chains, enabled through a new and more direct, technologically driven relationship between artists and consumers. The chapter outlines how the dissertation will analyse new music industry business models which are emerging from this reorganisation of traditional value chain linkages and relationships, and shows how the research contributes to a new value framework which reflects more accurately the current and potential linkages between artists, labels and consumers of music. This provides initial context for and relevance of the two primary research questions:

*Q1 – how have traditional music industry value chains changed as a result of technological developments?*

*Q2 – what are the key characteristics of successful music industry business models arising from these changes?*

The chapter outlines the researcher’s introduction to this topic through her involvement with start up record label MVine Ltd. It outlines the philosophical and methodological context within which the research was undertaken and summarises the theoretical and empirical approaches that were applied across the course of the research. After touching on the material’s analysis and primary results of the research the chapter ends with a summary of the overall thesis structure.

*“The internet is a medium like air, which carries sound, and you just need to make the right kind of noise for it to get through”* Silverman, T (2010)

## **1.2 Overview**

The dissertation illustrates how increasingly direct and interactive relationships are emerging between creators and consumers of music. It identifies gaps in value chain literatures, which fail to support or illustrate the more direct relationship between artist and consumer which has been enabled by technological developments. This dissertation bridges that gap through the contribution of a new value framework which supports and clarifies the more interactive role that both the consumer and creator of music are now capable of playing within the value chain should they so wish. The dissertation goes on to assess the literatures on business models, highlighting the importance of this value framework and explaining the rationale for embedding it within the logical and structured business model ontology provided by Osterwalder.

The dissertation describes the development of a record label, MVine, which attempted to use this new value framework as the foundation for a new music industry business model. The company's experience is used as a lens through which to focus on the dramatic and fast-changing environment within which the music industries have operated since the late 20<sup>th</sup> Century. MVine was ultimately unsuccessful for a variety of reasons, but the study provides rich and detailed materials to support an in-depth analysis of the construction and implementation of new music industry business models and provides a context against which to set the expert commentary and contrasting business models applied by contemporary artists and music businesses which are also presented in this dissertation.

## **1.3 Research questions**

Both Yin (2003) and de Vaus (2001) propose that a defined research question is the essential starting point for case study designed research. However Stake (1995) identifies the evolutionary nature of the questions and issues that appear to be important in case study work. Stake explores the distinction between '*etic*' issues that arise before the case is undertaken (being brought to the case from outside through the researcher's own expectations and reading) and the later, '*emic*' issues which arise from the actors in the case across the duration of the study (p.20), both of which affect the researcher's understanding of the fundamental questions at the heart of their research.

From the 'etic' perspective, much has been made in the popular press about the impact of technology upon the traditional music industry. From compression technology, to bit torrent tracking, from Facebook, MySpace and Second Life to YouTube and Twitter, the impact of new and hard to govern digital media opportunities has seriously affected the traditional music industry business model. Sales of CDs have fallen worldwide, rates of piracy increased and the ability of the music industry's major players to do anything about these issues seems to be limited to either suing their consumers or trying to impose Digital Rights Management ("DRM") technology upon them. At the same time new, current and recognised artists have investigated a wide variety of ways in which to benefit from the opportunities for promotion and profit offered by these new technologies.

Whilst the researcher came to the cases under consideration with an etic appreciation of this increasing disruption and thus with topical questions around these issues, her research with MVine and other cases uncovered emic issues: what Stake calls "nuances of increasing complexity" (p.21). These led to increasing refinement and amendment of her research questions in light of the increasingly focussed perspective of issues underpinning her research. The ultimate outcome of this refining process was the production of the following two research questions:

*Q1 – how have traditional music industry value chains changed as a result of technological developments?*

*Q2 – what are the key characteristics of successful music industry business models arising from these changes?*

#### **1.4 Contribution**

This dissertation contributes a new value framework for the music industry which clearly and explicitly exposes new linkages and relationships, both along the traditional value chain but also outside it, through which both artist and consumer are able to take up new and more interactive roles. The final framework is presented in figure 1.1 below, and figures 1.2, (p.5) 1.3 (p.6) and 1.4 (p.7) subsequently illustrate how this figure is constructed upon the traditional music industry value chain.

# New music industry value framework

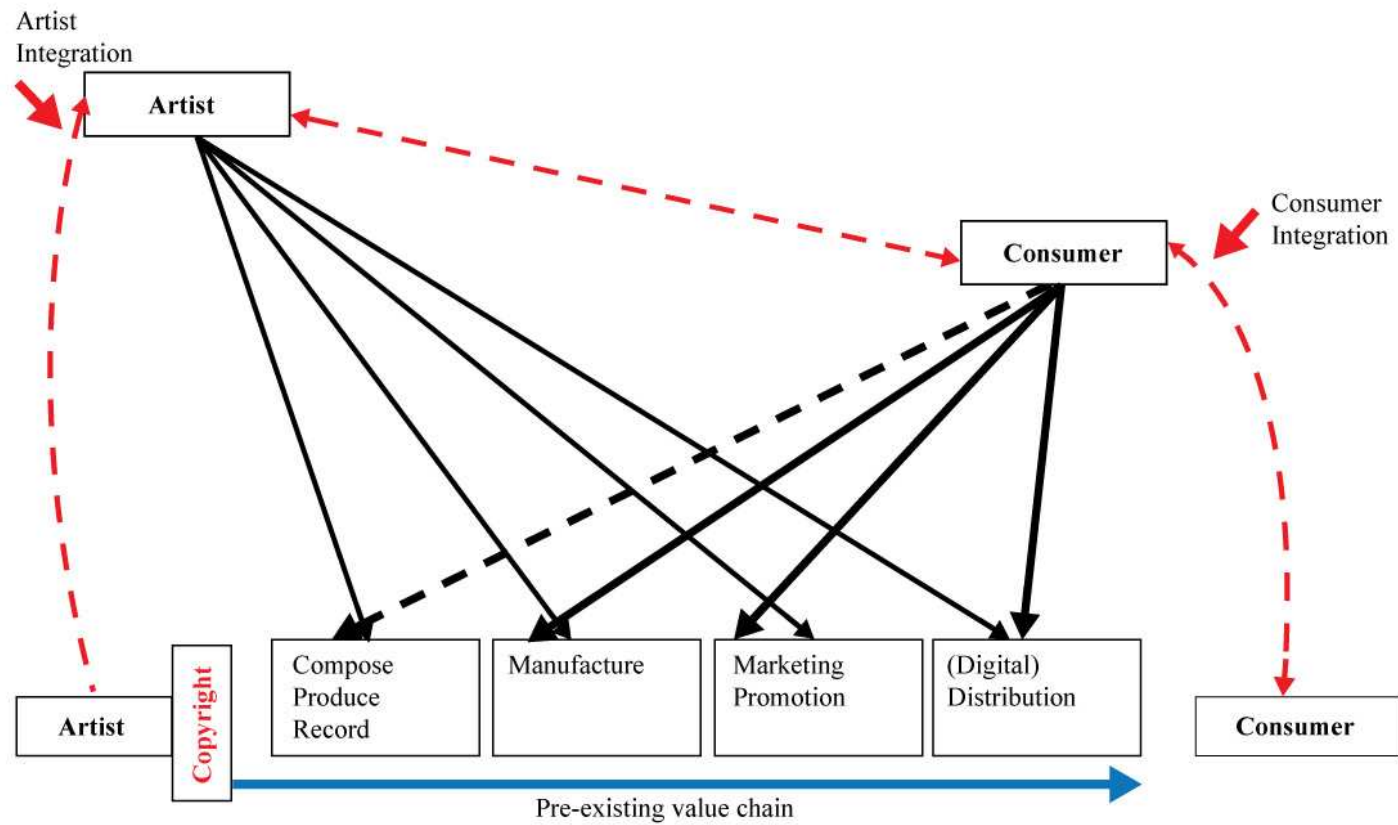
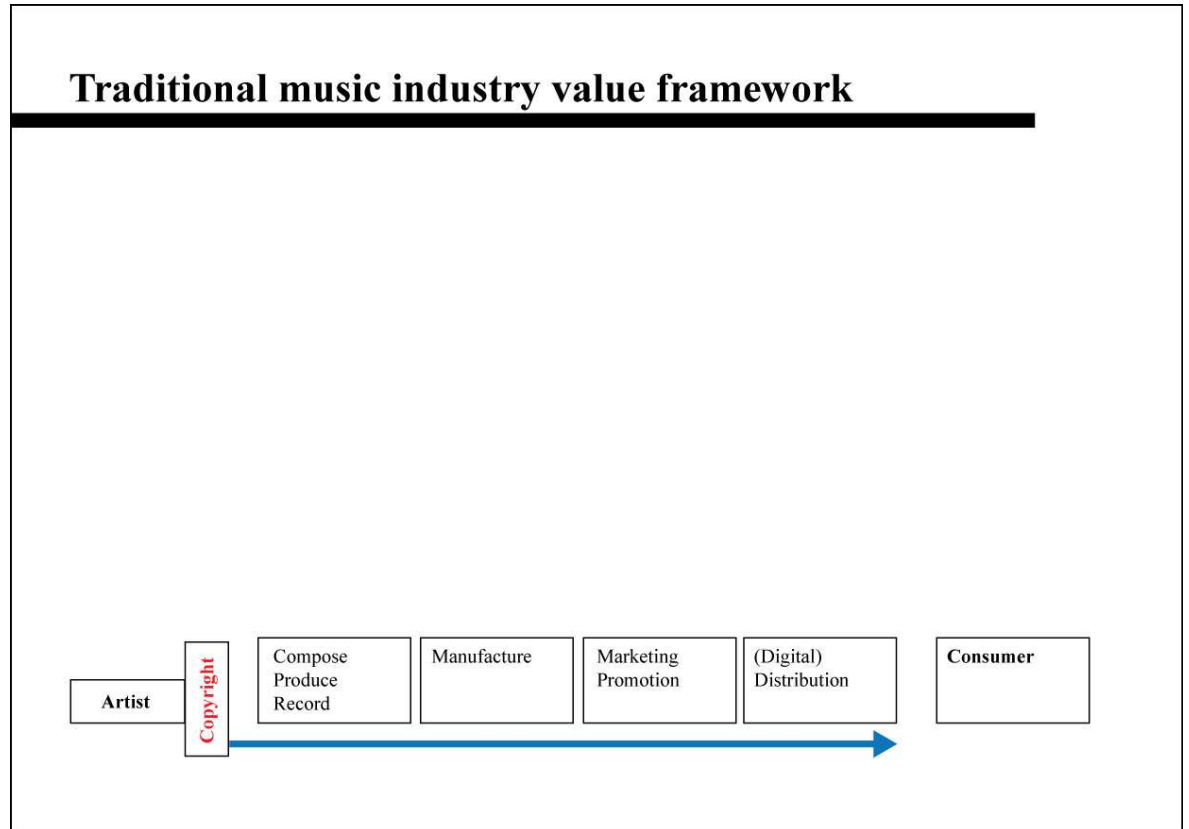


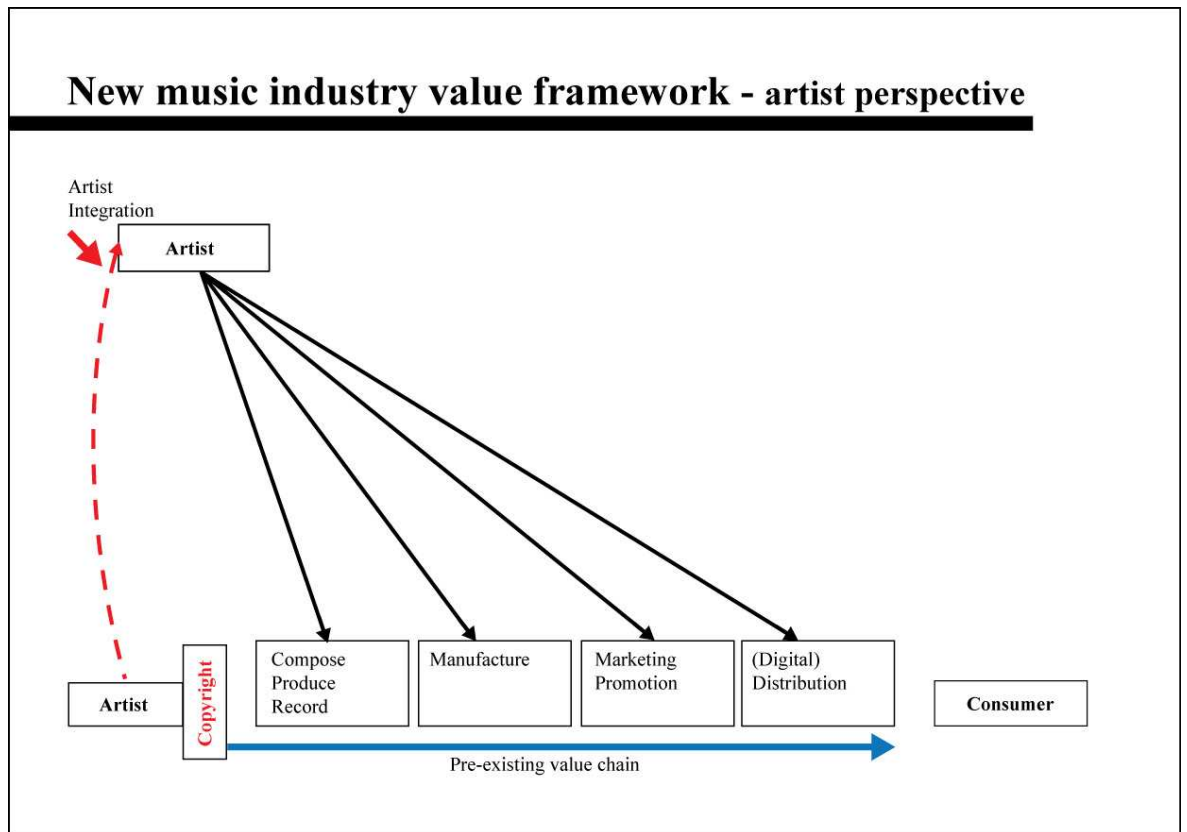
Fig 1.1 The new music industry value framework

Figure 1.1 is the ultimate representation of changes to the traditional music industry value chain, which is a fundamental building block of the new value framework contributed in this dissertation and which is represented below as Figure 1.2.



**Fig 1.2 Traditional music industry value chain**

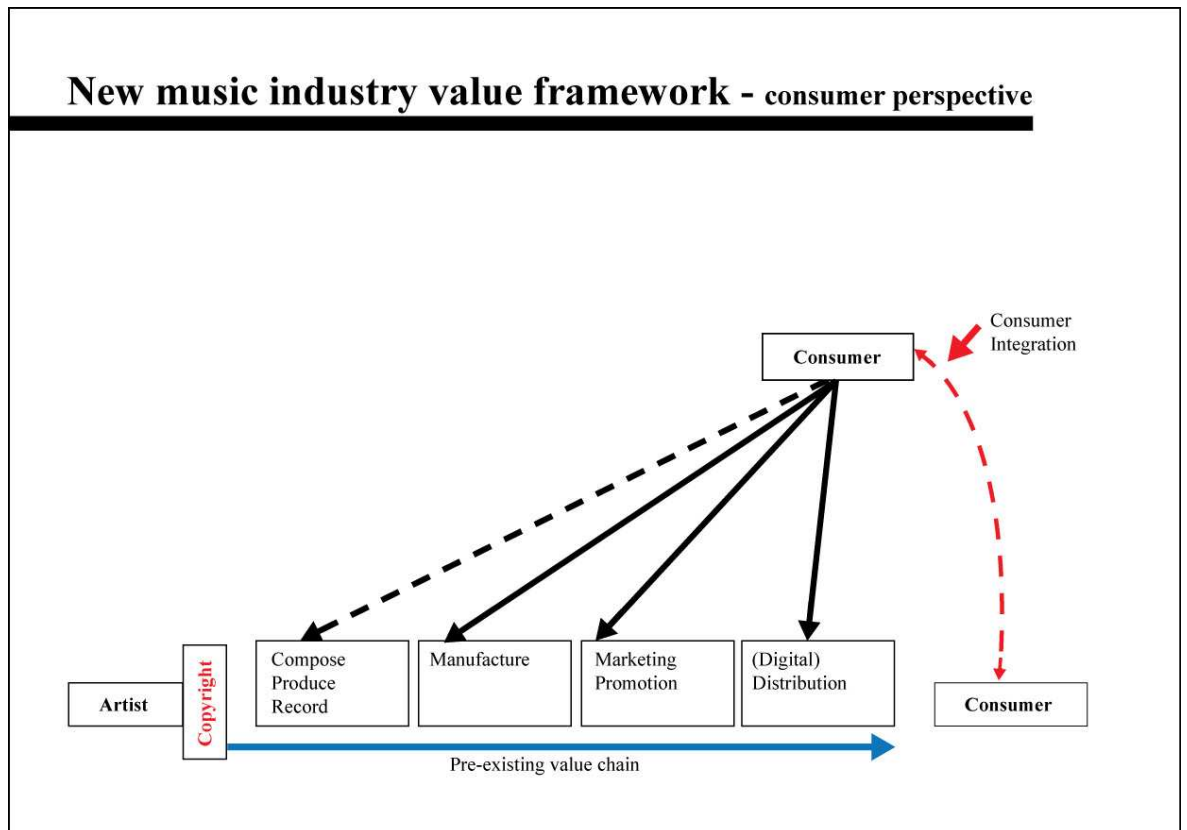
This dissertation traces the changes which lead to artists' ability to create, manufacture, reproduce and distribute their own music, as seen in figure 1.3 below.



**Fig 1.3. Artist contribution to music industry value chain**

The dissertation also evidences the increased ability of consumers to not only directly interact with and contribute to their favoured artists' success but also to be integrally involved in the value creation process throughout the traditional value chain, as can be seen in Figure 1.4.





**Fig 1.4. Consumer interaction with music industry value framework**

Figures 1.2, 1.3 and 1.4 combine to create the value framework presented in figure 1.1 on p.4. This framework shows how the consumer of music has the potential to shift position, from being a passive end-recipient of music, outside and at the far end of value creating processes, to occupying an interactive position within a more dynamic framework. The final link in the framework is that connecting the artist to the consumer, completing the framework and presenting, as seen in figure 1.1, p.4, a far more interactive and flexible representation of how value is both created and extracted in the music industry today. It illustrates how the artist is empowered to engage more closely with their audience without necessarily depending on a record label. The dissertation will identify the key characteristics of new music industry business models which arise from the new relationships within this value framework.

The evolution of the music industries from “local/live” to “global/recorded” scenarios has been dramatically influenced by innovations in technology - from the gramophone to tape, CD, and an increasing variety of digital formats and platforms - which developments have historically revealed existing relationships and structures which are unready for change. In

this sense, technology has been the catalyst which transformed and developed many music industries and the relationships between them (Kasaras, 2001).

***The new music industry value framework.***

The theoretical context against which this new framework is presented will be laid out in more detail in Chapter 2. Its component parts are analysed at this point in order to strengthen the reader's understanding of the significant points of divergence from traditional understandings of value.

The new value framework incorporates the interconnectedness required to understand the newly reconfigured music industry value chain. It illustrates an evolution of concepts of value from the traditional, linear chain of value-adding activities, towards a structure within which creator and consumer of music have the potential to add value through direct connections. As can be seen from Figures 1.1 to 1.4 above, the traditional, linear value chain remains in place and continues to be applied by vertically-integrated global record companies with sufficient momentum to continue 'business as usual' in the 21<sup>st</sup> Century. The new framework is, however, more open and flexible, supporting a more responsive structure within which creators and consumers of music are empowered to add and extract value. The framework depicts the potential for a new, direct and reciprocal connection between artist and consumer. This enables the creation of new business models in which the consumer's direct input at points along the value chain becomes a source of value to the label and/or artist. The new framework also shows how the artist can bypass the record label altogether and communicate directly with consumers.

From being a final recipient of pre-determined value either outside or at the 'end' of a value chain, the consumer is empowered in this new framework to reach a position of greater interactivity and contribution with a more flexible and responsive selection of value-adding and value-creating processes should they wish to. Similarly, an artist is increasingly able to participate and contribute value at stages along the value chain hitherto out of reach; either through contractual lock-down by the transfer of copyright to a record company, or due to resources being too expensive or time consuming for an unsupported artist to contemplate. In collaboration, artist and consumer have the potential to become co-creators and arbiters of value-adding processes which have historically been positioned

within the jurisdiction of the record label, supporting Michael Porter's comment made in the March 2001 edition of Harvard Business review, that 'new Internet technologies will continue to erode profitability by shifting power to customers' (p.70). The global music industries were built upon – indeed, constituted by – the doctrine of copyright. Through the medium of the World Wide Web (WWW), information and communication technologies (ICTs) have dramatically undermined this doctrine. They provide anyone with the most basic of home computing facilities with a way to acquire, copy and redistribute highly compressed, high quality digital music files at little or no cost, without acknowledging the rights of or (importantly) providing a mechanism through which to compensate the copyright holder. It has not been easy for the major record companies, with their burden of vested interests and shareholder expectations, to experiment with new and potentially risky routes to market in the face of such disruption.

Their response to this attack upon their traditional business models has therefore been largely defensive: through a combination of technological barriers and legal challenges they have attempted to maintain the status quo. However, using legal and technological mechanisms to lock in profit and value from recorded music which was increasingly freely available appeared to be a short-term response. Technological solutions were quickly and consistently circumvented; legal action complex to implement and difficult to enforce. The task of experimenting with new, different and potentially sustainable business models fell to smaller, own-label and independent record labels as well as to new technological platforms and actors which, if they existed at all before the introduction of the internet and related technologies, were frequently only indirectly related to the music industries.

The study of independent start up record label MVine, already noted in 1.1 and 1.2 above as being a key component of the studies undertaken throughout this research, is enriched by commentary acquired through expert interviews and supported by other studies collected across the research period. These assist in highlighting similar value-adding activities of small, own label, independent artists, as well as new technology companies which elected to work within the same digital music marketplace; as de Vaus has stated, "if similar results are found in repeated case studies...then we develop greater confidence in the findings" (2001 p.51)

Although evidence suggests that greater connectivity, better compression techniques and increasing storage capacities have together led to challenging times for individuals and companies in the music industries (Hannaford, 2004; Borland et al., 2003; Wigand, 2003), the *business* of music has not suffered. Through access points such as MySpace, Facebook and YouTube there is more accessible music now than has been the case for decades and as the IFPI commented in its 2010 Report, “new models are increasing consumer choice” (2010). The *industries* involved in the business of music, on the other hand, are collectively facing one of the most traumatic and tumultuous times in the history of the sector. Whilst these changes appear to be challenging the major record companies’ perceptions of the way in which the music industry is configured, these changes also present both challenges and opportunities to smaller independent labels, and solo artists, or own-label record companies.

This dissertation will illustrate how the rapid development and proliferation of ICT creates increasing competition for these traditionally well-controlled and insular industries. The business of music is increasingly easy to enter – independent labels can begin to compete with the majors and own-label or independent artists can if they wish, succeed without the support of either. It is attractive to attack – as the cost of reproduction and distribution plummet, it is possible to make a profit without necessarily having a large market share (Klinenberg and Benzecry, 2005). And it is very difficult to defend – the traditional business models of the major record labels are not suited to rapid adaptation to new market forces, and many internal and external constraints impede them from responding effectively to new threats (Clemons et al., 2002). As well as presenting a challenge to the underpinning doctrine of copyright upon which the music industries are built, the Internet and related technologies have blurred the boundaries between the creation, reproduction, distribution and consumption of music to the extent that they are rendered less and less meaningful:

“Digital technology has made the personal computer into a recording studio, the equivalent of a record or CD pressing plant, as well as a distribution or marketing system” (Ryan and Hughes, 2006 p243)

This dissertation will examine these changes, illustrating the ways in which new sources of value arose through the author’s research work as a participant observer to the attempts by start-up independent label MVine to exploit these new sources of value, as well as from the perspectives of a wide range of key music industry individuals. Both of these sources of

information are informed by the study of other activities of companies as well as individual artists and consumers which were gathered across the research period.

### **1.5 Theoretical approach**

Because the research questions ask very specifically about music industry value chains and business models, it is important for theory informing this dissertation to reflect this. The principal aims of the research were based around the notion of ‘value’ and in particular, that generated within the music industry by the value chains which have historically underpinned the creation and addition of value for artist, label and consumer. Intrinsically linked with literatures on value chains are those pertaining to the concept of a ‘business model’; a vehicle for companies to extract and add value to their products or services in such a way that they are able to make a profit from those activities. Technological developments have facilitated the creation of new business models within the music industry, and occasionally models more successful at creating value for one or more of the stakeholders. Chapter 2 contains a critical analysis of value chain and business model theories.

### **1.6 Empirical approach**

The empirical approach selected for this research was multi-modal, and will be examined in detail in Chapter 5. In summary, the following three methods were used:

#### ***1.6.1. Central case***

A central, instrumental case (Stake, 1995) was the focal point for the research, with the researcher acting as participant observer throughout. She took the unpaid position of Communications Director for (and a small shareholding in) MVine Ltd, a record label based in London, from its conception in 2003 until the business split into two separate commercial units in March 2006. The MVine business model was built up over the duration of the research to take advantage of the increasing number of opportunities afforded through the development of the Internet and related technologies.

The researcher’s extensive literature review had identified that there was no existing theoretical framework which represented the newly configured relationships between artists and consumer of music. Her “instrumental observation” - in Stake’s sense of instrumental to accomplishing something other than understanding this particular case

(1995 p.3) - of MVine's evolution provided an opportunity to examine this case and propose a framework which reflects these new linkages developed from traditional music industry value chains. It also provided her with the opportunity to view, from the inside, the development of a new ICT-facilitated music industry business model, and compare and contrast it with the development of other companies and models that were emerging increasingly frequently across the research period. The research thus examines the gradual deracination of embedded models of doing business and analyses the key characteristics of successful new business models emerging in the music industry.

### ***1.6.2. Collective studies***

Other studies were collated across the research period and are presented throughout the dissertation in order to reflect, contradict and inform analysis of the central case study as it developed. The dissertation is anchored in a global context from the point of view of literature and case analysis – as Dolfsma has commented,

“The present system of copyrights, with its geographical base, is the most important reason for the peculiar local-and-global structure of the music industry. Although the regional or national markets are separated from one another, one may see that firms that dominate in these local markets are the same firms that are major ones at the global level. Geographical distinctions between markets for music products are both the basis for AND reinforced by the system of copyrights. In other words, the music industry as we know it is rather a global industry” (2004 p.225).

Because of this industry foundation and structure, as well as the critical point that the Internet has few effective national boundaries, the dissertation uses a geographically wide-ranging collection of cases gathered over the time period of the research, which serve to provide a broader context and underpinning for the initial in-depth case study of MVine. The research period was a time of great music industry turbulence; different, new, unusual and unexpected business models emerged with increasing frequency. Not all were successful, and analysis of the reasons behind these successes or failures were complementary and informative to the analysis of MVine's business model. In conjunction, these two sources of materials provided a robust and detailed context for the identification of a more representative value framework, which helps to identify the key characteristics of new music industry business models.

### ***1.6.3. Expert interviews***

A variety of music industry stakeholders became directly or indirectly involved with MVine and, on request, many of these became expert informants who provided enlightening observations and detail on both the study of MVine and also studies of the other cases gathered around it. Stake's view (1995) of the study of a phenomenon as represented by a multiple different events rather than one bounded case supports this approach. They came from many different backgrounds and included major, mini-major and independent label executives, journalists, trade body and union representatives, managers, traditional and digital distributors, and of course signed, unsigned and independent musicians. Whilst the research questions provided a guiding framework on which many conversations were based, it is also important to note that as well as being informative these interviews with expert informants inspired investigation of subjects tangential to this dissertation. As such they provided substantial materials which will underpin further research subsequent to this dissertation.

## **1.7 Structure of the dissertation**

It is important to provide the reader with an overview of the elements which comprise this dissertation. This ensures that they are clear about how each section links into each chapter, and how the chapters themselves come together to create one discrete piece of work, a useful and well-structured research document. The following sections outline the purpose and contents of, and relationships between, each of the chapters which follow.

### ***1.7.1 Dissertation overview***

**Chapter 1** provides the research background and aims followed by the research questions. **Chapter 2** provides a theoretical framework for the literature on value chains and business models; firstly traditional literatures based on Porter's seminal concept of the value chain, then moving into more recent literatures specific to the music industry. Chapter 2 also presents a critical analysis and assessment of the literatures on business models, explaining the selection of Osterwalder's ontological approach as that most suitable for the analysis of the MVine business model. Drawing upon the literature analysed in Chapter 2, **Chapter 3** illustrates how the traditional value chain was implemented in the music industry, assessing the changes that occurred over time and exploring the nature of the business models which these value chains underpinned. Referencing the more recent literatures analysed later in Chapter 2, Chapter 3 goes on to

explore how technological developments fundamentally disrupted traditional music industry value chains and thus contextualises a subsequent analysis of new value frameworks in Chapter 5. Chapter 3's illustrations of how the business model literatures analysed in Chapter 2 manifested in practice also provide context within which new music industry business model can be unpicked, and their key characteristics identified, using the Osterwalder framework, in Chapter 6.

**Chapter 4** lays out the methodology based on the research questions that arose from literatures reviewed in Chapter 2, bridging the gap between what is being investigated and the results of that investigation, and presenting a clear overview on precisely how the research was performed and why it was performed that way. It outlines how the research came about and discusses the methodological approach and research design, before critically assessing the methods used to answer the research questions and concluding with reflections on ethical issues and how they were managed.

The value framework presented as a central contribution of this dissertation is the theme of **Chapter 5**. This chapter draws heavily on the literature outlined in Chapter 2 where value chains were explained and their shortcomings in supporting current activities in the music industry were highlighted. It also draws on Chapter 3, which explained the context of evolving music industry structures. Chapter 5 is therefore an extended explanation of value in the context of the music industry as seen through the lens of the new value framework contributed in this dissertation, and it provides empirical proof for the existence of each linkage proposed in the new value framework. This chapter is a prelude to the business model discussion in Chapter 6. This is because it is important, first, to establish clearly the newly configured value framework arising from empirical research undertaken in the manner described in Chapter 4, before unpicking the business model of the central case study and those of collateral contemporary cases that are based upon this value framework. **Chapter 6** thus draws on Chapter 2 and the literatures analysed there, on the essential context of Chapter 3, on the methodologies described in Chapter 4 and finally on the empirical research results presented in Chapter 5.

**Chapter 7** concludes the dissertation, drawing together the results from the central case and collateral cases in the music industry, as informed by expert interviews throughout the research period. It reiterates the answers to the two research questions. It does this firstly,



through re-presentation of the new value framework, contributed herein and proven in Chapter 5 to be a significant contribution to literatures reflecting the nature of value in the contemporary music industry. Secondly, it answers the research questions through re-presentation of the key characteristics of new music industry business models which arise as a result of embedding that framework within the business model structure, as proven in Chapter 6. In order to avoid presenting propositions rather than proof, the chapter then considers the implications of this research in theoretical terms, providing recommendations of relevance to the music industry and to wider industry sectors currently or potentially affected by similar technological transitions. The dissertation thus contributes a new framework using which theorists can interpret rapid technology changes within a wide variety of industry sectors. It also provides music industry actors facing turbulence and uncertainty with two valuable contributions: a clear structure around which to build their business models, in the value framework, and equally clear guidelines to the key characteristics that they should be taking into account when doing so.

### ***1.7.2 Chapter 2. Review of value chain and business model literature***

This chapter provides an overview of important and relevant events in the form of a timeline to provide a simple backdrop against which to present the literatures around value chains and business models which are fundamental to this dissertation. The chapter introduces the notion of a value chain and other related configurations by which any business can create, acquire and add value to their products or services in order to create a profitable and sustainable business. It then focuses upon literature which assesses value chains specific to the music industry in order to contextualise the contribution of the new value framework put forward in this dissertation. Through describing pre-Internet value chains, the label-led business models invariably in place, and the importance of the doctrine of copyright in underpinning music industry practice of the time, the chapter establishes how artists, consumers and other stakeholders perceived the value creation potential of traditional music industry business models. The chapter goes on to describe how this and the newer but equally important concept of a business model are inextricably linked together. The chapter therefore provides an essential backdrop to the radical upheavals inflicted upon the music industry by the introduction of the Internet and related technologies at the end of the 20<sup>th</sup> Century. In doing so, the author shows how the new framework of value contributed by this dissertation underpins successful early 21<sup>st</sup> Century music industry business models.

### ***1.7.3 Chapter 3. Evolution of the music industry***

This chapter illustrates the relative stability of music industry value chains and business models from Edison's invention of the phonograph in 1877 to the late 20<sup>th</sup> Century. It describes pre-Internet value chains, the (invariably) label-led business models in place which built upon them, and the importance of the doctrine of copyright in underpinning music industry practice of the time. This chapter thereby establishes an essential context in which to discuss the value-creating potential of traditional music industry business models and subsequent, technologically-mediated change within the industry. The chapter provides an essential and informative backdrop to the radical upheavals both outside and within the music industry as a result of the introduction of the internet and related technologies at the end of the 20<sup>th</sup> Century. This chapter goes on to outline the technological developments which led up to and followed the introduction of the internet, particularly free distribution of MP3 compression technology which allowed for unfettered copying and redistribution of unlimited high quality copies of music files through the internet. The chapter will show how these events threatened the principle of copyright and thus contextualise subsequent analysis of new business models which emerged, building on new value adding relationships which had previously not been possible.

### ***1.7.4 Chapter 4. Methodology***

This chapter assesses the methodological options open to the researcher in the light of the practical issues surrounding this research. Alternative methodologies are evaluated, along with analysis of their underpinning philosophical perspectives which creates a structured rationale for the proposed research design and methods. Taking into account both the opportunities which made this research possible, as well as its limitations, the chapter details how a final selection of methods, design and analysis were made, guided at all times by the centrality of the research questions. The chapter describes the central, instrumental case study of MVine Ltd, about which there is more detail in later chapters. It provides practical illustrations of the reasons for and the methods of triangulation used in the research. The chapter also presents a discussion of how ethical issues relevant to the methods used were managed and discusses how unforeseen issues were handled as they arose. This chapter bridges the gap between what is being investigated, and the results of that investigation, presenting a clear overview on precisely how the research was performed.

### ***1.7.5 Chapter 5. Proving the new music industry value framework***

This chapter provides substantiation for the development of controlled, linear value chains into the more open and interactive framework presented in figure 1.1, p.4, thus answering the first research question: how have traditional music industry value chains changed as a result of technological developments? The new value framework emerged from the author's empirical research, through her work with MVine, the collective cases and the expert interviews undertaken across the course of her doctorate. This chapter illustrates the new direct linkage between artists and consumers, as well as showing other opportunities for both artists and consumers to create value within the new value framework. The chapter provides evidence for the admissibility of this new understanding of value in the music industry through a logical and sequential examination of illustrative emergent relationships and collaborations between artists and consumers across the framework. These illustrations cover a wide range of actors from labels to artists - both high-profile and well known, to recently signed and own-label/independent artists. As this value framework provides new ways in which companies and individuals can create value, so new business models arise in which this new framework of value is embedded, and these mechanisms are analysed in Chapter 6.

### ***1.7.6 Chapter 6. Proving the new music industry value framework through MVine and other music industry business models***

This substantial chapter uses materials gathered from the central study of MVine. It analyses both the intended and the ultimate construction of the company's business model through application of Osterwalder's 4-pillar framework, identified in Chapter 2 as being most suitable for this purpose. It draws from the results of this analysis and that from the previous chapter to identify key characteristics of successful music industry business models. MVine's business model is described alongside, and contrasted with, other new music industry business models, together with commentary from expert informants where relevant. This analysis assists in evaluating the efficacy of the MVine business model and, in the process, the deeply embedded concepts of value and customer focus in the Osterwalder ontology allow for reflection upon the effects of the repositioning of the consumer and artist within the new value framework contributed herein.

The chapter illustrates how this repositioning either supports or militates against the success of MVine and other music industry business models employed over the period of the research. Thus the chapter provides substantial materials which, together with those from Chapter 5, allow for analysis of how best to create successful new business models in the music industry, through the identification and application of key characteristics of successful music industry business models. The chapter prioritises the record label and key characteristics relevant to successful business models for them, but also accommodates the newly empowered independent or own-label artist, identified in Chapter 2 as being perfectly capable of constructing their own business model, despite their less ‘corporate’ and more entrepreneurial nature. The chapter therefore also highlights, where different from the commercial imperatives of a more traditional label, the relevant key characteristics upon which these artists are recommended to build their business models. This chapter therefore illustrates how the new music industry value framework contributes to a greater understanding of the key characteristics of successful individual and corporate music industry business models.

#### ***1.7.7 Chapter 7. Conclusions***

This chapter provides a summary of the dissertation, identifying whether and with what success it fulfilled its objectives, and reviewing the research steps undertaken in order to do so. Problems and issues arising around the course of the research are identified and discussed, in order to provide an overview of how the process turned across the duration of the research period. The results of the research are reiterated and explained in brief, and the researcher not only clarifies the level of success that she achieved but is also able to reflect upon her findings and put them into a broader context in order to ensure that proof, rather than proposition, is offered to the reader. In relating her findings to the real world, the researcher is able to provide recommendations based on her learning, and identify ways in which that learning can be effectively disseminated to ensure that relevant people are not only aware of the research findings but also given practical guidance as to how they can benefit from an understanding of the impact of those findings upon their businesses and activities.

The chapter goes on to outline a possible view of the future research landscape in this area, elaborating on further research plans that are intended to enable a wider collective understanding of the research topic. The chapter presents observations about the research

process, looking at those methodologies which were most and least fruitful, accurate and useful in order to identify areas of methodological importance which the researcher will adapt or amend in future research on this topic. This enables the presentation of an informative, if retrospective section, which uses these lessons to set out alternative approaches for researchers who might cover similar ground in future. The final section of this chapter summarises the research to date, explains how the project concluded and relates the introduction of the new music industry value framework, and its place within the business model framework presented herein, to the greater environment of the world at large. This leaves the reader informed and able to draw their own conclusions from the dissertation presented.

### **1.8 Summary**

This chapter has introduced the subject matter of the research and the questions it poses. It has outlined the contributions made within the following dissertation and provided a brief contextual background to the music industry within which the research is set. After an overview of the theoretical and empirical approaches undertaken in pursuit of answers to the research questions, the chapter has concluded with a review of the dissertation's overall structure in order to guide the reader through the subsequent chapters. Chapter 2 will now take the reader through a critical analysis of the relevant literatures in order to provide a context for the contributions of this dissertation.

## **Chapter 2. Review of value chain and business model literature**

*“Music as an artistic expression transcends economics... (n)evertheless, fundamentally sound business models are critical for enabling the social, artistic, and spiritual dimensions of music to flourish” (Gopal et al, 2006, p.1503)*

### **2.1 Introduction**

This chapter provides an overview of important and relevant events in the form of a timeline to provide a simple backdrop against which to present the literatures around value chains and business models which are fundamental to this dissertation. The chapter introduces the notion of a value chain and other related configurations by which any business can create, acquire and add value to their products or services in order to create a profitable and sustainable business. It then focuses upon literature which assesses value chains specific to the music industry in order to contextualise the contribution of the new value framework put forward in this dissertation. Through describing pre-Internet value chains, the label-led business models invariably in place, and the importance of the doctrine of copyright in underpinning music industry practice of the time, the chapter establishes how artists, consumers and other stakeholders perceived the value creation potential of traditional music industry business models. The chapter goes on to describe how this and the newer but equally important concept of a business model are inextricably linked together. The chapter therefore provides an essential backdrop to the radical upheavals inflicted upon the music industry by the introduction of the Internet and related technologies at the end of the 20<sup>th</sup> Century. In doing so, the author shows how the new framework of value contributed by this dissertation underpins successful early 21<sup>st</sup> Century music industry business models.

### **2.2 A music industry timeline**

The evolution of the music industry since the invention of Gutenberg’s printing press in 1445 is described in greater detail in the chapter which follows this review of literature; a brief timeline is presented here in order to provide the reader with an informative and indicative scale of important events relevant to this dissertation.

Year	Event
1877	Edison invents the phonograph – birth of the music industry
1909	US Copyright Act
1920s	Invention of radio and advent of talking movies
1948	Invention of hi fidelity, 78/45rpm vinyl discs, radio transistors
1950	Use of electromagnetic tape overtakes disc recordings
1960	Invention of audio cassette and cartridge formats, invention of microchip
1969	ARPANET (predecessor of internet) launched in US
1974	First use of the word ‘internet’ to describe global network
1980s	Start of major music label consolidation
1980	Introduction of CD, CD-R. Introduction of Sinclair ZX80 and ZX81 computers
1981	MTV launches
1988	Internet opened up to commercial interests
1983	Invention of RDAT format
1990	Invention of HTTP language by Tim Berners-Lee
1991	CERN publicises ‘world wide web’ project – birth of truly commercial internet
1992	MP3 invented
1996	MP3 encoder and decoder released as shareware
1999	Napster P2P file sharing network launched
2001	Napster shut down, MySpace launched
2002	BMG sells unlabelled, copy protected CDs
2003	iTunes launched
2004	Facebook, Garageband launch. Radio One launches first download chart.
2005	Bebo, Tunetribе, Napstertogo, Rhapsodytogo, Cordless all launch. MySpace bought by Fox. Sony castigated for selling infected DRM-limited CDs
2006	1billionth iTunes track sold, Sellaband launches
2007	Slicethepie launches, Radiohead give away ‘In Rainbows’, iTunes sell 20m songs on one day (December 25 <sup>th</sup> )
2010	10billionth iTunes track sold

**Table 2.1 Music industry timeline**

### **2.3 Pre internet value chains**

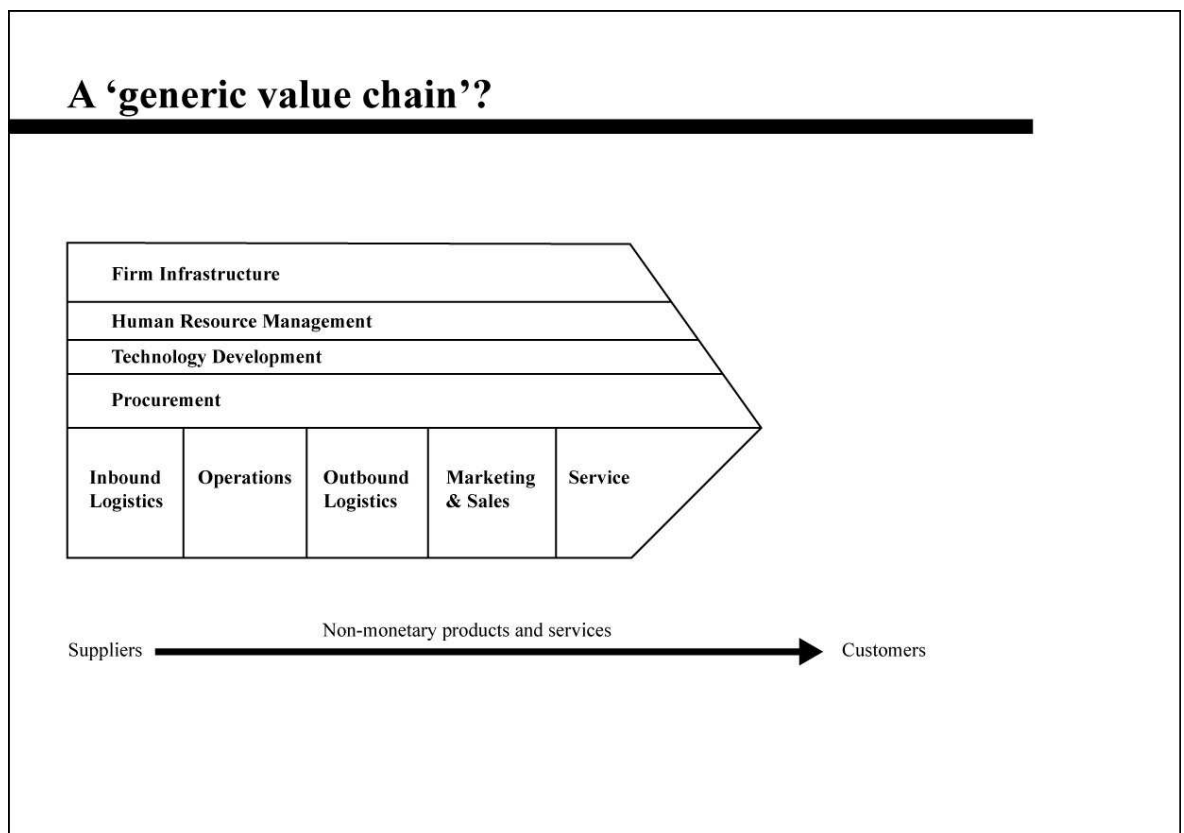
The early literatures around the concept of a ‘value chain’ are discussed first to ensure that the reader has a full comprehension of the importance of this construct and its place within the literature on business models. Whilst it is an older concept than that of a business model, with the origins usually placed with Michael Porter’s seminal 1985 work *Competitive Advantage: Creating and Sustaining Superior Performance*, it is integrally linked to a newer school of literature around business model creation, application and adjustment. For the purposes of understanding the changing nature of value chains and how

they impact upon music industry business models it is important to understand the relationship of the value chain to a business model. Picard has noted that

“A business model embraces the concept of the value chain – understanding the business model... is especially important when new products or services are developed, or the industry in which one operates is in a state of significant change” (Picard, 2000, p.62)

It is therefore important to be clear about how these two schools are related, and if, in fact they can be approached as separate theoretical contexts at all. As we come closer to an investigation of the challenges and opportunities opened up to music industry stakeholders through a series of technological developments, understanding the fundamentals of the value chain becomes increasingly critical.

It is important to note the work of Ramsay (2005) who explores the precise ontology of ‘value’ and draws the conclusion, with which this author agrees, that “much of the language used to describe value and value chains is misleading” (p549) – in essence proposing that ‘value’ is so subjective that it is impossible to say when it has been added, created or generated unless one is the individual recipient of that value.



**Fig 2.1 Porter’s Value Chain (Porter, 1985).**



As seen above in figure 2.1, the value chain can be seen to reflect the activities through which a company makes a product (and/or a service) and distributes this to its customers. Porter's value chain illustrates his proposition that value was created through the combination of nine separate but connected value-adding activities operating within a firm. These discrete activities work together to provide value to customers, where 'value' is defined as:

“the amount buyers are willing to pay for what a firm provides them. Value is measured by total revenue...A firm is profitable if the value it commands exceeds the costs involved in creating the product” (Porter, 1985 p38).

In other words, effective value chains should generate profits for a firm. Porter's value chain is therefore focussed on three main areas:

“the benefits that accrue to customers, the interdependent processes that generate value, and the resulting demand and funds flows that are created” (Feller et al., 2006)

Porter's concept of value chain analysis requires an understanding of the firms' business model - what activities the company should perform and how, from this, the company can determine the configuration of these activities that would enable it to add most value to their product for their customers and thereby increase their competitive advantage against other companies providing similar products or services. For the 20<sup>th</sup> Century music industry the value chain could be simply described thus:

1. Label invests in artist through a financial 'advance' of funds
2. In return artist gives copyright in part or all of their back catalogue/current work/future outputs to label
3. Label (or suppliers within its value system) produces > reproduces > markets/promotes > distributes music to consumer
4. Label recoups investment through sales
5. Artist retains % royalties and other rights after label has recouped

## 2.4 Post internet value chains

This linear and fixed value chain had stood solid for decades, supporting a contractual agreement which varied only in the amount of the advance and the percentage of payments back to the artist which might differ from deal to deal, dependent upon the balance of bargaining power between the artist and label. This was largely dictated by the success of the artist, although commonly, because of the very high capital costs required to fulfil value adding functions such as manufacture and distribution, the label held the upper hand even when dealing with global music stars. Given the up-front capital costs and scale of the equipment and networks required, the artist was generally without the skills, capital or inclination required to manufacture, reproduce, promote or distribute their own music, requiring the services of a label in order to do so with any degree of success. The introduction of the internet and related technologies in the late 20<sup>th</sup> Century proved disruptive to this value chain, and as this dissertation will show, irretrievably upset traditional music industry value chains.

As early as 1995 it was understood that “Many of the old business axioms no longer apply” (Rayport and Sviokla, 1995). They suggested that where information was traditionally treated as a support to value adding processes – notably by Porter and Millar (1985), who argued that even in the newly digitised marketplace, information simply created value by supporting differentiation strategies – it should now be seen as a source of value in itself, so that managers must work in both the traditional marketplace and what they called the ‘marketspace’.

The following year, Mark Poster wrote of the emergence of *The Second Media Age* (1996) which he said was to be defined by the emergence of multidimensional and decentralised media structures. He proposed that, from a centralised, one-(or few)-to-many broadcast model, “an entirely new configuration of communication relations” (p.3) was occurring, a far more decentralised model of interaction and activity within which the boundaries between producers, distributors and consumers would collapse. As this chapter will describe, a variety of frameworks have been offered as support for this change in the nature and sources of value; a series of metaphorical structures that were more transparent, within which control could shift and boundaries move, compositions that were conceptually more flexible and responsive to technological change than those within a static, linear chain.

These new-economy configurations of value are open and interconnected both internally and through external alliances.

However it is important to note that none, to date, offer any integration of the customer in the way that this dissertation proposes in order to reflect the value that the consumer can add along the value chain. Nor do any show how a more direct relationship between these two actors can be a mechanism for the creation of value. Stabell and Fjelstad (1998) identified two new models of value creation - value shops and value networks - arguing that the value *chain* was relevant to the making of products, while the value *shop* was a model for solving problems, and the value *network* assisted in mediating exchanges between customers. Each model used a different set of core activities to create and deliver distinct forms of value to customers but neither allows for the customer to be part of the value creation process in the way that this dissertation hypothesises is the case. Kothandaraman and Wilson have noted (2000) that at the time that Porter wrote, the dominant business model was represented by adversarial relationships between buyer and seller, since when both academic and commercial writing have showed a growing recognition of the more integral and cooperative roles of both creator and consumer in these new flexible structures. As an example, a consistent metaphor in relation to value in the digitized age is the 'web', a concept first coined by Tapscott et al (2000) in relation to business environments. Their notion of 'b-webs' is described as

“strategically aligned, multi-enterprise partner networks of producers, suppliers, service providers, infrastructure companies and customers that conduct business communication and transactions via digital channels”.

In essence they propose that smart companies use partnerships and the internet to save time and money – but make no commentary on how value added activities through greater interaction between consumer and supplier might benefit all players. The term 'value web' was also used at this time by Cartwright and Oliver (2000). They proposed that existing tools for analysis of a firm's internal value chain, and external value system, were not suitable for companies which operated virtually, only on and through the internet. They identified that in a traditional manufacturing value chain, an increasing amount of customer value was attributable to information (such as intellectual capital, brand awareness, research and development, sales, marketing and service) rather than to the actual product. But in applying this to the music industry the 'product' could be acquired, stored, and sold exclusively online and so, because value was not solely created by physical equipment and

processes, it became hard - using traditional value chain or value system analysis - to see where the value was produced. For information based companies such as this, Cartwright and Oliver proposed that value chain analysis was “fine for place but not for space” (p23) and suggested ‘*value cluster*’ and ‘*value web*’ analysis (p24) using which analysis of a firm’s business model – including both internal and external mechanisms - helped to identify relevant value-adding activities, rather than linear processes.

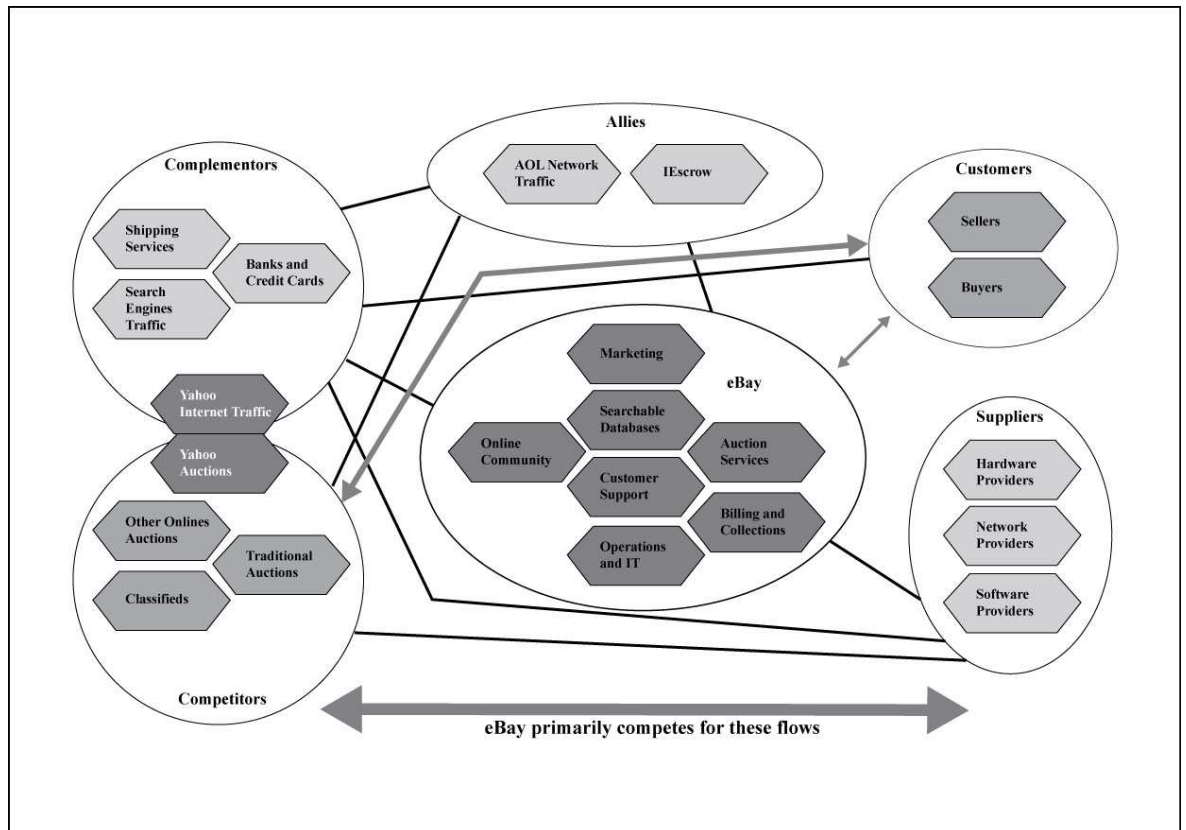


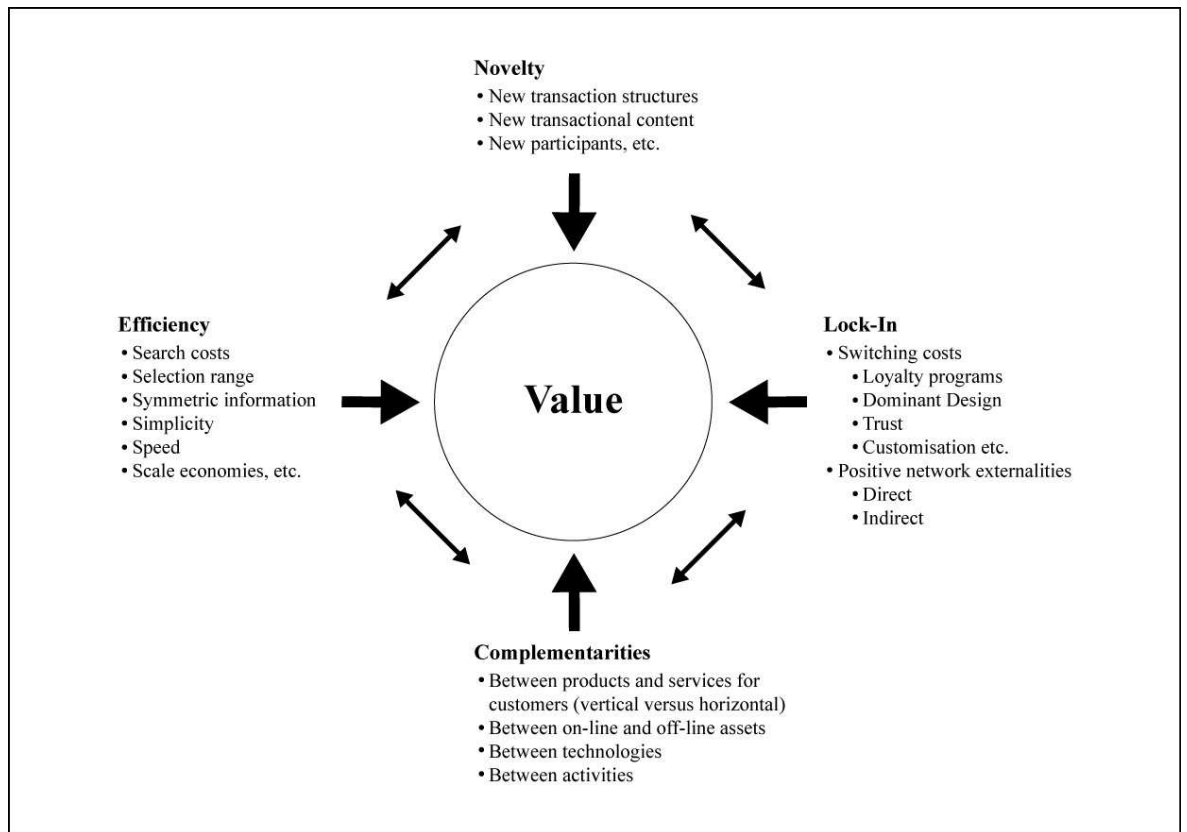
Fig 2.2 Value web analysis, Cartwright and Oliver (2000)

A number of features of virtual markets necessitate the redefinition of traditional value chains, challenging how value is created in this new, digitally mediated environment. Amit and Zott define a virtual market as “settings in which business transactions are conducted via open networks based on the fixed and wireless internet infrastructure” (2001 p495), characterising them as defined by high connectivity and a focus on transactions. Within virtual markets, traditional intermediaries can frequently (and increasingly easily) be bypassed, or ‘disintermediated’. However at the same time, new connections between buyers and sellers and mechanisms for buying and selling products and services are facilitated, leading to ‘re-intermediation’. For digital music, the disintermediating

distribution channel, legally or otherwise, is the internet. Entrenched 'offline' control mechanisms (in particular the ownership and exercise of copyright) are difficult, if not impossible to enforce and the usual intermediaries can be bypassed with increasing frequency.

Within a virtual market, it is however possible to bundle complementary products into a range of goods: singles and albums sold online can be bundled with additional sleeve notes, artwork, videos and artist interviews, all of which may be seen by some consumers of music as added value. Within a virtual market there is faster, cheaper and often simpler access to resources and capabilities that can complement the business of the company: artists can send digital files across the internet, producers can work from a different town, city or even country, in real time, to mix and master tracks. At the same time, albeit gradually, a new form of intermediation is taking place: not between the record company and buyer, but between the creator of music and the music consumer.

Like Cartwright and Oliver (2000), and Rayport and Sviokla (1995), Amit and Zott (2001) looked past the linear value chain. They contributed to the trend for construction of more flexible and less linear value structures, proposing that it was *how transactions were enabled*, rather than what activities were within and external to a firm's business model, which determined how value was created. Their thesis was that in virtual markets, value could be created from a wide variety of opportunities such as new combinations of information, products and services, reconfigured transactions, resources, or even relationships. They proposed that the potential of a business to create value resided in the relationships between four interdependent dimensions: efficiency, novelty, complementarities and lock in (see figure 2.3 below).



**Fig 2.3 Sources of value creation in e-business (Amit and Zott, 2001 p504)**

Value in this sense is defined as “the total value created in e-business transactions regardless of whether it is the firm, the customer or any other participant in the transaction who appropriates the value” (Amit and Zott, 2001 p503).

The four drivers in figure 2.3 above are each positioned to enhance the ability of a business to create value, and this approach cuts across the frameworks previously discussed, by integrating previously separate sources of value creation. Within the increasingly digital music industry, the concept of ‘transaction efficiency’ identified by Amit and Zott was a critical driver for the analysis of value. Searching for music tracks was quick and easy, using any of the legal or illegal retail or file sharing services or search engines. It was cheap, simple and quick for anyone to upload, reproduce, distribute and download music. However this very efficiency proved to be one of the major obstacles to the creation of value for the traditional music industry, as the internet and related (and developing) technology seriously compromised its ability to lock artists and consumers into this value creating matrix. Bodily and Venkataraman’s prediction seems to have been correct:

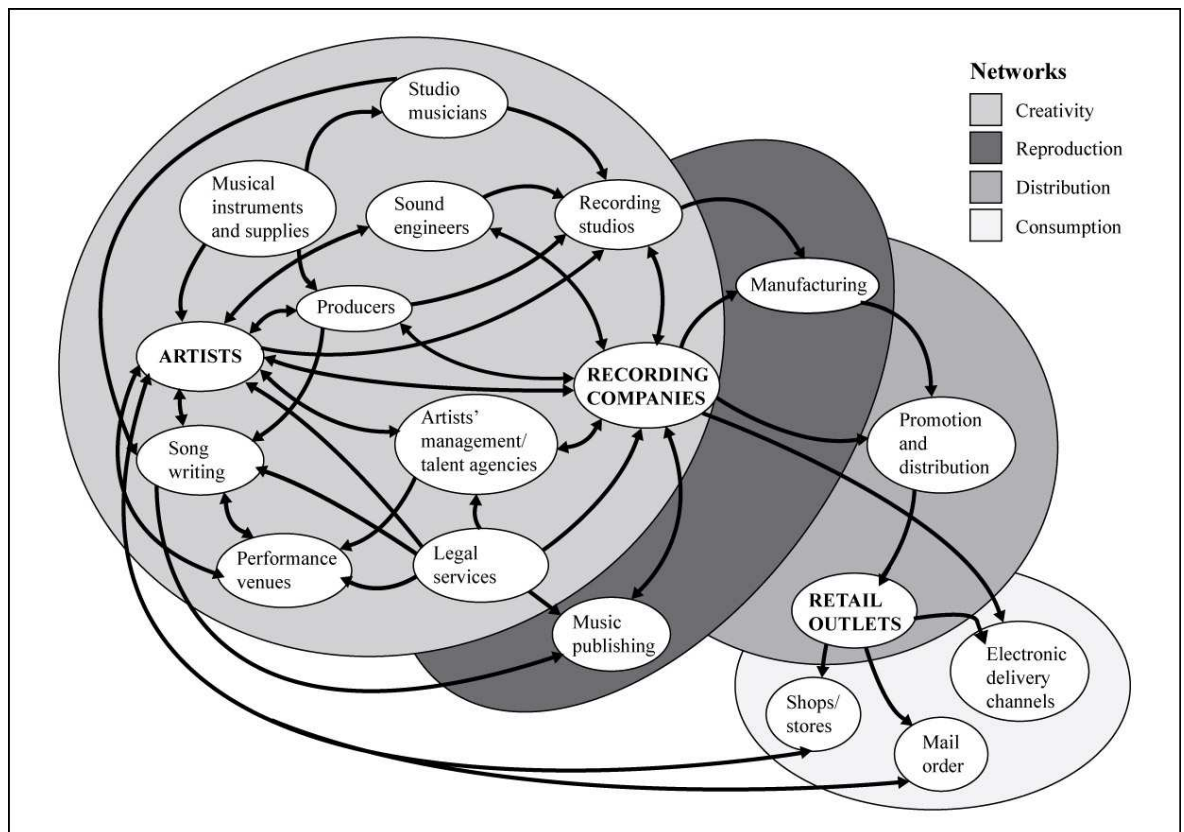
“the defensive strategies designed to protect favourable positions on the value chain will fail in the digital age” (2004 p15).

Where consumers in particular could *extract* great value from these changes – frequently acquiring content free or cheaply – record companies were unable to control a large proportion of this acquisition activity and so they could potentially lose revenues from copyright. Lock-in mechanisms such as digital rights management technologies to protect CDs from being copied illegally were almost immediately circumvented by technologically-savvy consumers. Legal action taken against consumers who downloaded tracks illegally proved only to advertise the illegal file sharing services and promote their wider use, as well as alienating entire communities of consumers from use of the legal alternatives. However a number of artists – in particular independent, own label or unsigned artists, unsupported by a large record company - were prepared to forego financial rewards in exchange for something of equal, if not greater value to them: exposure to current and potential fans through the wider reach and scope of internet facilitated distribution.

As the effects of digitisation became more apparent and more widely debated amongst industry and academic authors, other reconfigurations of the value processes within the music industry were suggested. Fox and Wrenn (2001) had earlier suggested that the music industry could benefit from adopting a counter-intuitive approach, as exemplified by some TV and radio broadcasters who provided free content in order to benefit from associated services and products bundled in with it. Anders Edstrom-Frejman also suggested that such inversion could be a possible result of the changes in value chain configuration: “the chain may start with (free) digital music on the internet that creates an interest for concerts and later for CDs” (2004 p346)

Unlike the framework contributed in this dissertation, there is no explicit examination of the new relationship between the consumer and creator within these approaches. However they do reinforce and reflect an increasing recognition of the importance of all stakeholders’ involvement in creating or contributing sources of value to the music industry value chain. Li and Whalley (2002) went a step further in their analysis of the telecommunications industry. In an attempt to capture the complexity of the technologically-mediated evolution of value chains into value networks they presented a somewhat cumbersome “interwoven value chain and value network” (p465) to depict the multiple entry and exit points in this industry which created enormous complexity for every stakeholder.

Whilst it also fails to represent the direct relationships that technology facilitated between artist and consumer, Leyshon's 2001 work presents a useful reshaping of the traditional value chain for the music industry, representing the actors involved at a critical time in the changes resulting from technological developments. Whilst the new value framework presented in figure 1.1 (p.4) represents more clearly the linkages that enable the creation and extraction of value along the chain, it should be noted that it is based upon Leyshon's modern take on Porter's value chain and the separate but related elements of creation, production, distribution and consumption, as see below in figure 2.4



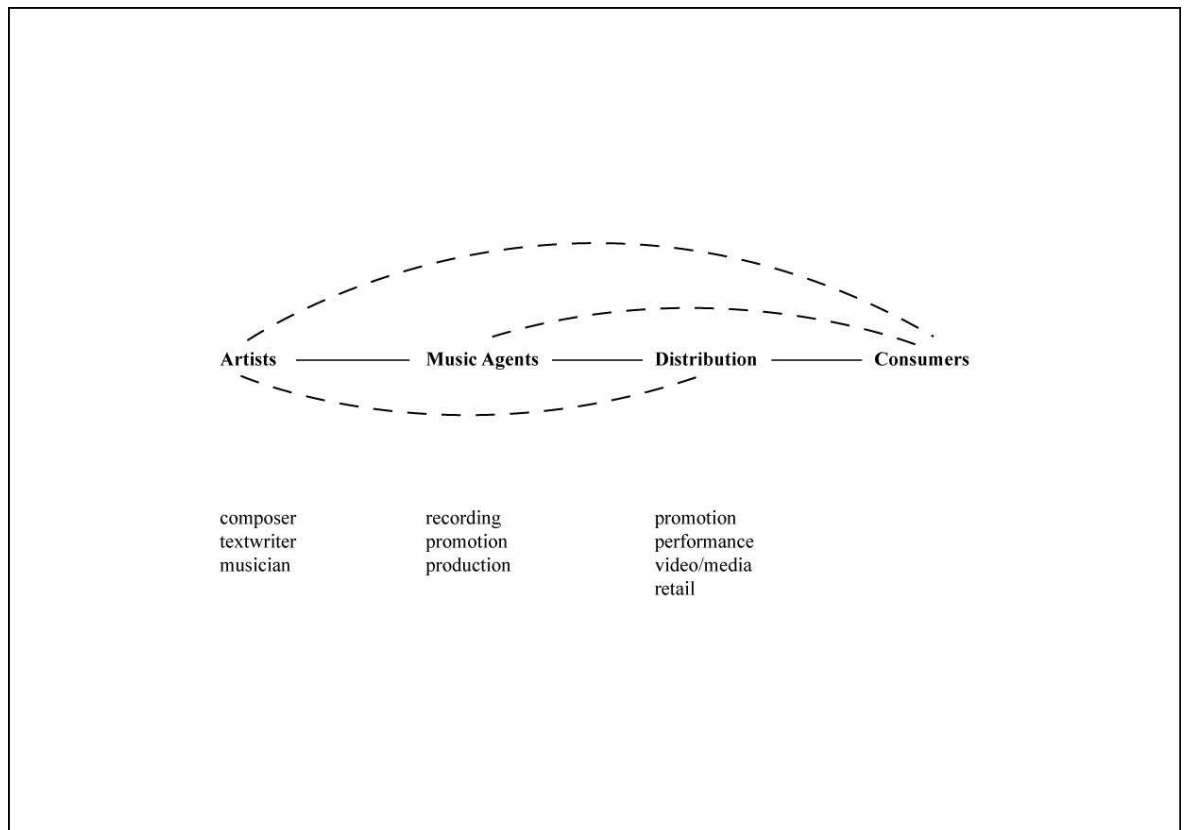
**Fig 2.4 Musical networks, Leyshon (2001, p.61)**

This is because the more modern representation of value in the music industry is closer to the reality of modern day music industry practice than Porter's value chain, shown in Chapter 2 to be deficient in representing the realities of linkages and interactions between labels, artists and consumers in the 21<sup>st</sup> century. Leyshon's work clearly displays the more complex and interwoven nature of relationships within the value chain, distinct from the linear and controlled nature of Porter's value chain, and also recognises the different stages at which value is created in this particular industry. The adaption of his four networks into



those presented here (creation, manufacture, marketing/promotion and distribution in figure 1.1, p.4) is different only in that it reflects the fact that technological developments since Leyshon's work have resulted in a situation where "creation and production", "manufacture and reproduction", and "distribution and consumption" are increasingly frequently part of the same technological processes, as is discussed in the following chapter, in 3.6 (p.66). Wigand (2003) similarly preferred the concept of a "value web" (p.257) rather than a linear structure, and did not distinguish between virtual and physical value chains, as earlier proposed by Rayport and Sviokla (1995). Wigand identified the need for solutions to the problems raised in securing value from the sale and delivery of digital products, as the internet provoked a "paradigm shift governing both businesses and consumers" (p.251). This value web was a freely configurable, flexible and accessible matrix of independent companies – note again that there was no mechanism by which the consumer could be integrated into the value web - within which there was no hierarchy, only a desire for the most value-added relationships possible within that configuration for the desired market trade.

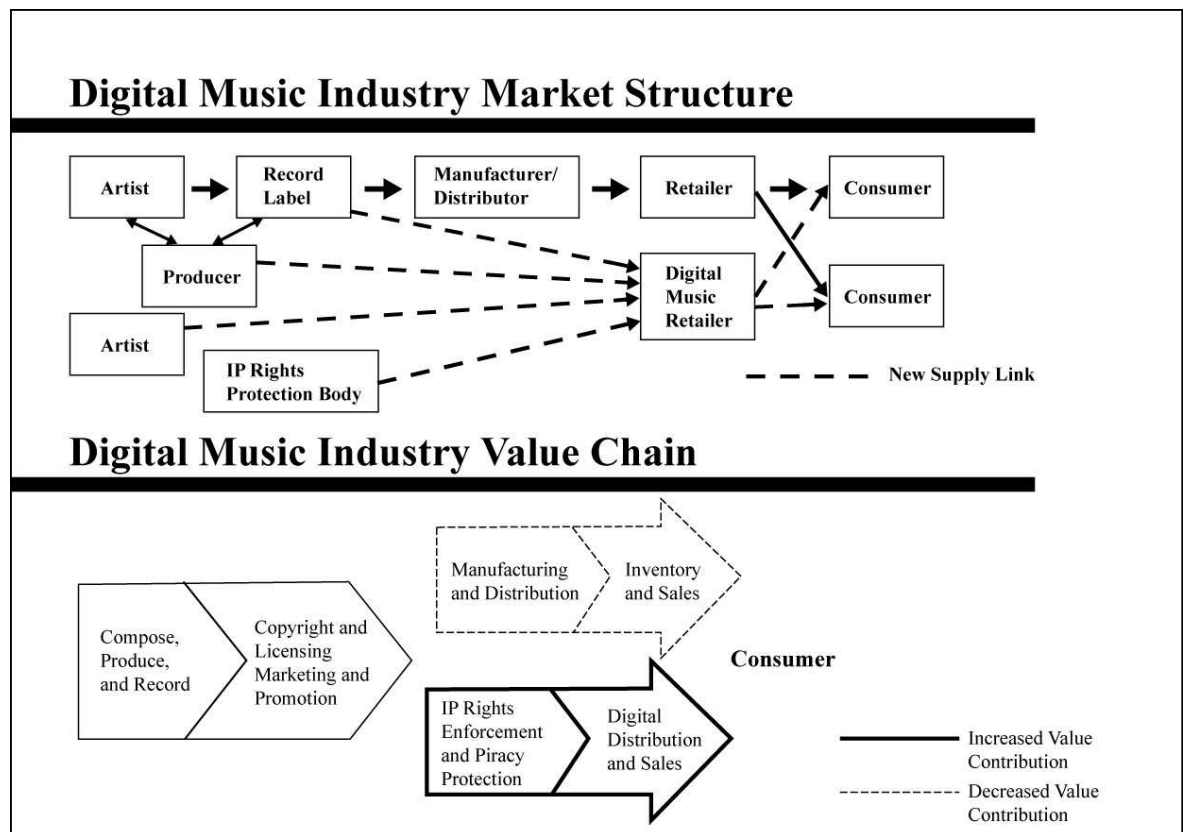
Whilst analysis to this point has covered general concepts of value, the music industry is now starting to receive attention as representing one of the first industries to be significantly affected by technological change. Dolfsma proposed that "the value chain in the music industry is increasingly a contested one" (2004 p.230) and illustrated the potential for new relationships in the following diagram, which although it falls short of the larger contribution made herein of new linkages between artist and consumer, still takes steps towards recognising that new relationships exist.



**Figure 2.5 Channel functions and information exchange – the music industry Dolfma (2004 p.230)**

Bodily and Venkataraman (2004) reinforced this viewpoint, arguing that the increasing speed, reach and connectivity of the digital age militated against corporate protectionism. They offered the new perspective of “open windows”, a useful metaphor to describe more transparent and value-sharing relationships between a company and not only its customers, but also other companies. Whilst these windows provided minimal protection from competition they were presented as allowing for the capture of customer loyalty, whilst letting in the best potential partners from within and outside a company’s natural market environment “as a means of securing their own value capture” (p24).

In 2005, Bockstedt et al took this analysis the next stage, and attempted to reflect the amended value chain demanded by an increasingly digital music industry. Whilst retaining the concept of copyright as an initial method whereby the artist and consumer can be distanced from the value-adding processes along the chain, their configuration attributes increased value to the processes of legal and digital defences. Whilst reflecting the situation as it prevailed at the time of their paper, this construction is inflexible and does not reflect any of the increasingly prevalent technologically mediated direct relationships between industry stakeholders, in particular between artist and consumer.

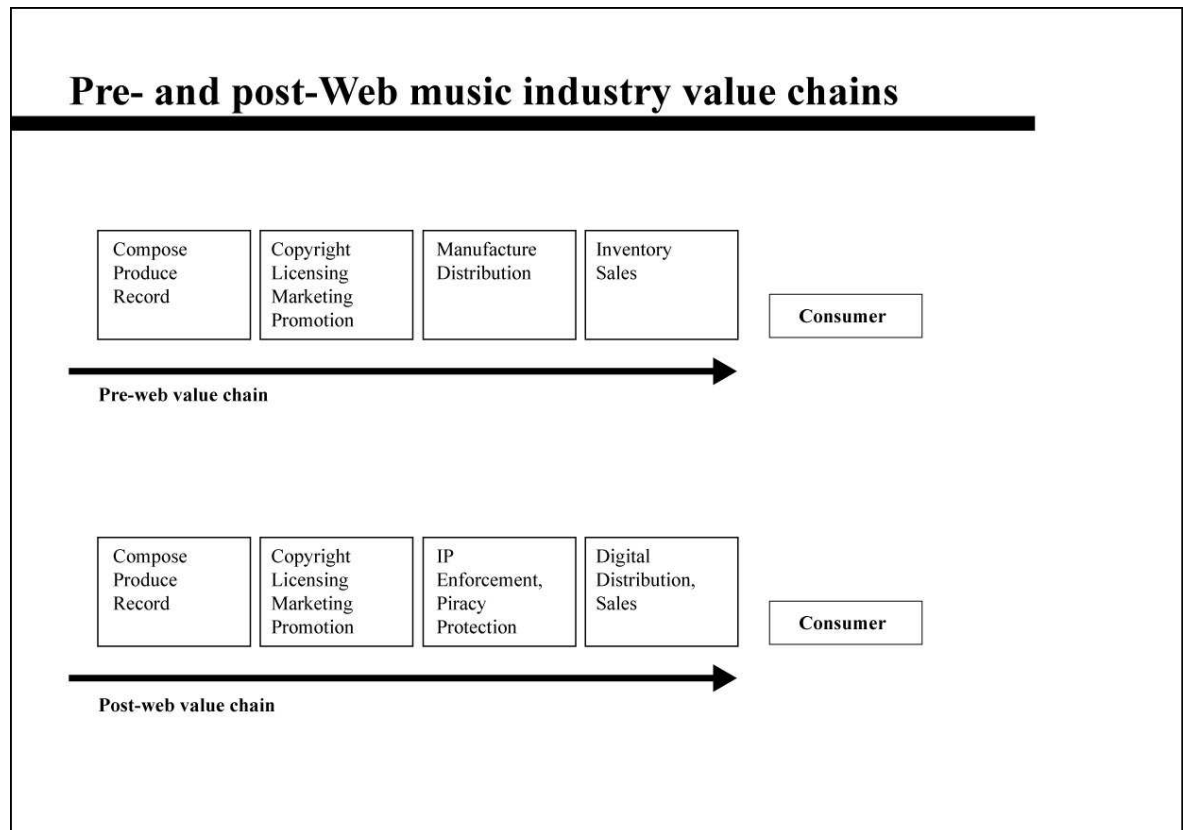


**Fig 2.6 Digital music distribution value chain (Bockstedt et al., 2005 p5)**

Whilst accepting that “artists, consumers, and digital music retailers are gaining more control” (p8), Bockstedt et al. illustrated current responses to this shift that were purely defensive, building in to their value chain the fact that record companies reinforced IP rights restrictions through legal process and digital rights management software. They did, however, acknowledge that it would be increasingly important to apply marketing techniques which add value to the consumer of digital music, echoing an approach also followed by Vaccaro and Cohn (2004), who looked at different music industries’ business models and suggested a marketing services response to the disruption caused by the impact of internet technologies. This points to an increasing recognition that repositioning the consumer more integrally within the value chain could be a more important element than had previously been comprehended in analysis of value chains, webs and matrices considered so far in this dissertation.

The emergence, application and interaction of new internet based technologies necessitates the creation of a new understanding of value in order that stakeholders can understand how to create and provide it within this newly connected and interconnected environment – and to show how difficult it is to protect and monetise traditional notions of value. In the

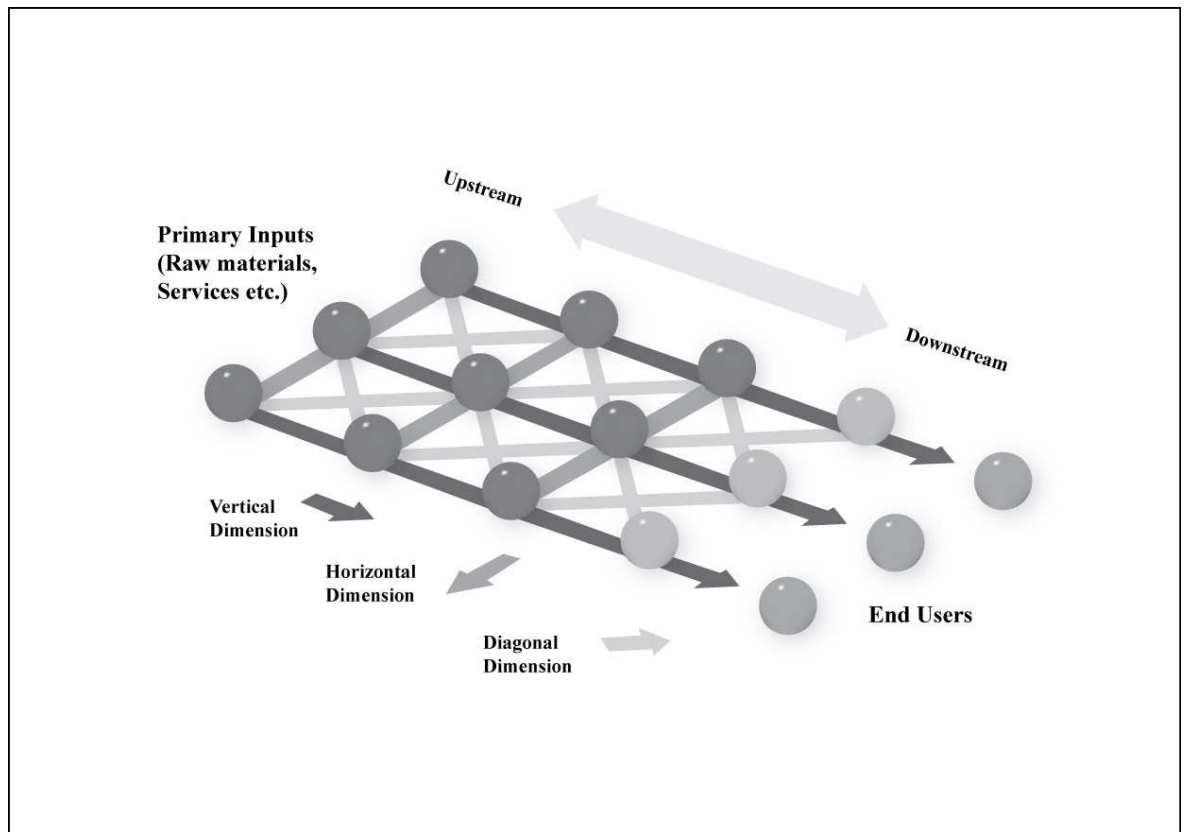
process of this research, it became clear that the linkages being created between the artist, consumer and label were not directly represented in any available literatures on music industry value chain schematics, such as that of Bockstedt et al. Neither, however, were the newly formed relationships between artist and consumer reflected in Bockstedt's model based on subsequent technological developments.



**Fig 2.7 Pre and post web music industry value chains (after Bockstedt (2005))**

In both of these, the artist and the consumer were seen as representing opposite poles of the value creation process, where increasingly music industry models were based on mechanisms which enabled them to reflect a very different reality within which “we all become networks” (Jeff Jarvis, quoted in Klaassen and O'Malley, 2006). At the same time, the concepts of “networks” or “constellations” were raised by Carr (2005) who accepted that increasingly commentators were disagreeing with the analogy of a value chain, “arguing that the image is too linear for the internet age, and that what’s really being described is a value network or a value constellation”. Rather than trying to control what the consumer was provided with, Sherer called for organisations to focus on what added value for the consumer (2005 p81). In agreeing a fixed price mechanism – be that per track or monthly subscription rates - for music that was also available cheaply or freely, music

labels and retailers were accused of alienating significant elements of their audience, pushing them away from legal routes to market and encouraging illegal downloading. It is important to note that the customer was still portrayed as being firmly fixed at the end of the series of events which contributed value to the product of music, a passive recipient rather than an active partner. Holweg and Pil called for a more complex view of value and proposed a value grid, within which new value could be created through horizontal, vertical or diagonal pathways



**Figure 2.8 Holweg & Pil's value grid (2006 p.74).**

This construction adds another aspect to the more directly linear value chain processes already described, and yet as with all of them, the consumer is firmly fixed at the end of a series of processes from which they are completely separated.

The review of literatures so far supports the author's proposal that no representative framework has yet been provided which accurately reflects the effect of these changes and therefore there is no practical mechanism by which assistance can be provided to music industry actors – artist, label or consumer - in representing, supporting or building sustainable new music industry business models. This chapter addresses this deficiency

through the presentation of this dissertation's primary contribution: a new value framework which represents, supports, and informs the changing nature of the relationships between artists and consumers of music and the new business models which emerge from these. This new value framework is a more relevant, open concept of value adding activities in which the consumer and artist can together be participants in an entirely more fluid and integrated ecosystem of value. As Holweg and Pil wrote,

“(t)raditional value chains may have worked well for landline telecommunications and automobile production during the last century, but innovation today comes in many shapes and sizes – and often unexpectedly” (2006 p72)

Peppard and Rylander are other recent commentators on this trend:

“as products and services become dematerialised and the value chain itself no longer having a physical dimension, the value chain concept becomes an inappropriate device with which to analyse many industries today and uncover sources of value” (2006 p.131)

The new framework has been seen in Chapter 1, both in its entirety in figure 1.1, p.4, and decomposed in figure 1.2 (p.5) and 1.3 (p.6) and 1.4 (p.7). As these illustrations show, it retains the foundation of a traditional, linear set of processes, yet also illustrates, from the perspective of both artist and consumer, the increasing, technologically-mediated potential for both the creator and the consumer of music to move inside traditional value creation processes and to become integral, should they have the desire and the capacity, at any or all stages.

The new framework incorporates the new, direct interconnectedness between artist and consumer, and maps an evolution of value chain theory into a far more inclusive and integrated approach. Whilst firmly based upon the traditional value chain, which remains in order to represent the continuing momentum of the vertically integrated record labels in the global music industry (which certainly had sufficient momentum to continue ‘business as usual’ in the early stages of the 21<sup>st</sup> Century) this structure is also more open and flexible, providing a more responsive structure within which *all* stakeholders are able to add and extract value at every point along the way, through both direct and indirect linkages.

Importantly, the framework reveals a new, direct and reciprocal connection between artist and consumer. This supports the creation of new business models within which the consumer's direct input at points along the value chain becomes a source of value-added to other consumers, to the label and to the artist. However it also shows how both consumer

and artist can bypass the record label altogether and communicate directly. It is a concrete representation of what Bilton has called “the reorientation of the value chain” (2007 p.53) which he views as going far beyond simple disintermediation, to being a real devolution of power and responsibility to the consumer, redefining the meaning and value of the products that they want and are sold.

This revision of traditional value chain representations illustrates a number of new linkages which are capable, alone or in conjunction with others, of forming the basis for new models of business. As will be elaborated in Chapter 3, the internet and related technological developments (in particular that of the freely available MP3 compression software) allow artists to create, manufacture, produce, promote and distribute their work with or without the support of the label. Also artists now have the opportunity to be in far more intimate, unmediated proximity to their audience at far earlier points along the process of value creation. Consumers of their music are now able (and frequently encouraged) to participate in value adding activities that used to be under the strict control of the record label.

Evidence of these activities will follow in Chapters 5 and 6 of this dissertation. There it will be shown that at all levels of artistic endeavour – from part-time/no-label/own label artists, to previously signed artists and through to major label signatories, this newly reconfigured framework of value provides a variety of mechanisms by which artists and consumers can add, and acquire, new and sometimes greater value from their relationships with each other than had previously been possible through strictly label-mediated activities.

## **2.5 Open Innovation or Value Chain Analysis?**

Before continuing with the analysis of value chain literatures and their relationship to the construct of a business model, it is important to acknowledge the concept of Open Innovation (“OI”) as another possible mechanism which could have been used as a framework through which to understand the changing nature of value in the music industry and thus help to answer the research questions. The following section will describe OI, and identify those points of similarity and difference with the concept of a value chain, in order to clarify the researcher’s choice of literatures upon which to base her investigations.

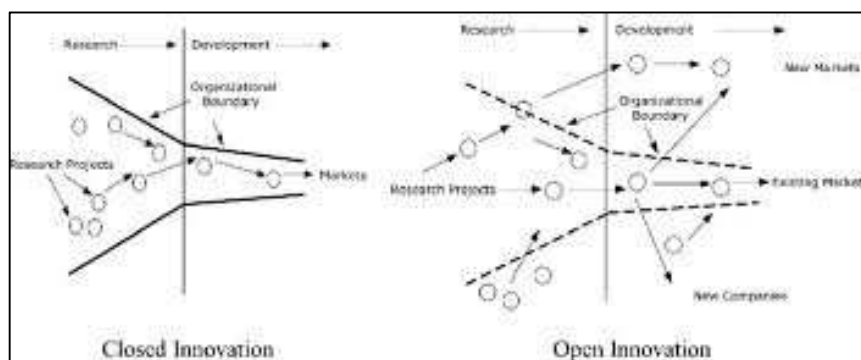
OI was first introduced by Henry Chesbrough (Professor at the Center for Open Innovation at Berkley, University of California) in his seminal book ‘Open Innovation: The new imperative for creating and profiting from technology’ (2003), in contrast to what he held

were the historically ‘Closed Innovation’ (“CI”) models of commercial research and new product development. The basic principle of OI is opening up the process of innovation: OI “assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as they look to advance their technology” (Chesbrough et al., 2006 p.1). One of the best known definitions from the same page of this work is:

“The use of purposive inflows and outflows of knowledge to accelerate internal innovation, and to expand the markets for external use of innovation, respectively”

Thus inbound open innovation and outbound open innovation become the paradigms to which companies should aspire in order to innovate successfully and profitably.

Chesbrough proposed that boundaries between the firm and the environment within which it operates have become increasingly permeable, moving from a closed, controlled space where the company was self sufficient, to a more open, fluid and permeable state of affairs, as represented in Figure 2.1.



**Fig 2.9 Closed and open innovation (after Chesbrough, 2003)**

Chesbrough proposed that innovation was historically ‘closed’: “successful innovation requires control” was the mantra (2003 p.36). CI was a highly controlled process, with R&D, new product development and innovation as the strategic assets. CI was achieved by having total control of the research and development (R&D) process from end to end, buying in the best and most intelligent employees. Only then could a company compete successfully in their field of expertise, as reflected in the left-hand side of Fig 2.1. If they could afford the up-front expenditure to resource an internal R&D team, enforce complete control and protect against outside interference in order to run an entire new product development process internally, they could ensure that competition was prohibitively



expensive for all but the largest. Thus CI models presumed that companies were self sufficient, with little if any communication across the firm's boundary.

A core tenet of OI is that companies should not endeavour to generate and control their own knowledge, patents and inventions in this CI way, but should rather open their doors to innovations and inventions created by external partners – whilst at the same time being more prepared to take internal assets that they are not using and, rather than keeping them secret and hidden, release them through spin outs, licensing or other partnership mechanisms as shown in the right hand side of Fig 2.1 above. As has Chesbrough identified, an increasing number of smaller enterprises are having increasing success in competing on their own terms, getting new ideas to market through a different set of processes based on OI principles, which he summarises and contrasts with CI in Table 2.2 below:

Contrasting Principles of Closed and Open Innovation	
Closed Innovation Principles	Open Innovation Principles
The smart people in our field work for us.	Not all of the smart people work for us* so we must find and tap into the knowledge and expertise of bright individuals outside our company.
To profit from R&D, we must discover, develop and ship it ourselves.	External R&D can create significant value; internal R&D is needed to claim some portion of that value.
If we discover it ourselves, we will get it to market first.	We don't have to originate the research in order to profit from it.
If we are the first to commercialize an innovation, we will win.	Building a better business model is better than getting to market first.
If we create the most and best ideas in the industry, we will win.	If we make the best use of internal <i>and</i> external ideas, we will win.
We should control our intellectual property (IP) so that our competitors don't profit from our ideas.	We should profit from others' use of our IP, and we should buy others' IP whenever it advances our own business model.

**Table 2.2 Contrasting principles of closed and open innovation (Chesbrough, 2003 p.38)**

This in itself might have been enough for this researcher to consider using the OI framework in order to interrogate her materials – the concept of increasing porosity and flexibility that Chesbrough shows echoes that which was found to be occurring within the music industry, but has been shown to be missing from the value chain literatures reviewed above. There were two main reasons why the author selected the value chain framework rather than the OI/CI model. First of all, there is still debate about the exact boundaries of OI and CI - Huizingh calls OI more evolution than revolution (2011 p.2) and suggests that whilst Chesbrough was successful in coining the phrase “OI” all he did was provide a useful label for a series of events that had been going on for some while: “(b)y giving it a label, it got a face, and the following stream of studies got it a body too” (2011, p.3).

Huizingh proposed that in truth very few companies have ever acted under a completely closed innovation model and illustrated that the mechanisms of OI have existed for some while through trends such as outsourcing, agility, and flexibility. He states that “open innovation is not a clear cut concept... (it) comes in many forms and tastes, which adds to the richness of the concept but hinders theory development” (p.3). Kirschbaum also suggests that “innovation is a culture, not a process” illustrating this with the case of DSM, in which various management styles were required across the course of the innovation process, from “scientific”, to “entrepreneurial” and finally to “risk averse” (2005 p.24). In comparison to this lack of certainty on the boundaries of innovation (whether OI or CI) and questions around definitions of innovation, the literature on value chains and the variations on this theme are well-recognised. Porter’s foundational value chain model provides a stable platform from which to move on to an analysis of other conceptions of value both generic and industry specific, as has been shown above.

Whether culture (after Kirschbaum), evolution, as Huizingh would propose, or revolutionary, as described in Chesbrough’s work, there is no doubt that the concept of OI was very much a product of its time, when a number of factors started to impact upon the relatively stable and almost unassailable position of companies taking a predominantly CI approach (Chesbrough uses the examples of DuPont, IBM and AT&T 2003 p.35). Factors identified by both Chesbrough and Huizingh include increased worker mobility and changes in working patterns, increasing venture capital activity, and the increasing capabilities of external suppliers, better market conditions for trading ideas, creating a new ‘knowledge market’ residing in universities, suppliers, competitors and even employees – Chesbrough’s “landscape of abundant knowledge” (2003, p.37).

This was another reason why the OI paradigm was not suitable for the researcher’s purposes – it is firmly rooted in industrial R&D processes. Chesbrough, Kirschbaum and Huizingh all relate their work to companies such as Dutch State Mines (“DSM”) (Kirschbaum, 2005 p.24) p24, telecoms rivals Lucent and Cisco (Chesbrough, 2003 p.35), IBM, JVC (Huizingh, 2011 p.4) and Intel, Microsoft, Sun, and Oracle (Chesbrough, 2004 p.23). Even in looking into OI in other industries, Chesbrough’s survey was based around questions of “technology licensing” and “innovation licensing” (Chesbrough and Crowther, 2006) p230 and so not surprisingly respondents were in chemicals, bioscience, medical devices, inks and coatings and so on (p.231) – not industries that reflected in any

way the internal organisational structures of a major record label, never mind an independent label or own label artist.

Piller and Walcher got close to the concept in their 2006 paper looking at user-generated ideas from “toolkits for idea competitions” (Piller and Walcher, 2006) but even then their focus remained firmly fixed on industrial R&D – literature reviewed covered the machine tool industry, scientific instruments, semiconductors, pharmaceuticals...(pp308-309). R&D processes as understood in these literatures are simply not germane to the music production process as described in Chapter 3, either within the context of a record label, for the individual artist or for smaller independent labels. For example, Chesbrough states

“(t)raditional business models center around the idea of developing a product from internal technology (R&D) and then producing, marketing and selling that product oneself. The use of partners in the research and/or development of a new product or service creates business model options that can significantly reduce R&D expense, expand innovation output, and open up new markets that may otherwise have been inaccessible” (Chesbrough and Schwarz, 2007 p.55)

Whilst “creativity” also suffers from the lack of a broadly accepted definition, as indeed do the ‘creative industries’, it is not appropriate to interrogate the creation of music through a framework that is built upon notions of industrial level research and development rather than individual creativity, new product development rather than artist development, and invention rather than artistic creativity.

## **2.6 Defining business models**

The concept of a business model is relatively new, unlike that of the value chain which stretches back over three decades. It has been suggested to the author that

“in practice, the business model driving an organisation is, tragically, simplistically, the budget which is an intended forecast of a reality driven from an unreality called an unknown market, supported by an estimate of real costs which have not actually happened without reference to what real costs could be!” (Nicholson, A., 2011, pers. comm.)

It is even possible that “a business model” can be decomposed into several models running concurrently and which may even sometimes or always be in competition with each other: marketing models, cost models, strategy models and even perhaps what Nicholson called “human models”. The concept of a business model in relation to this dissertation is a simplification of business activities in order to decompose them and understand how they can be adapted to benefit from the new value framework embedded at the heart of the

model. Whilst the “budget” can be, as Nicholson implies in his statement above, an *underlying* commercial driver – “what money is available, to implement what actions are necessary”, an equation critical to particularly smaller businesses – it is not the only factor to take into account. This chapter will show how it is affected by the product, the company infrastructure and the nature of the company’s relationships with its customer, as clearly laid out in Osterwalder’s framework. In order to present this with credibility, it is important to understand alternative interpretations of the business model concept and show how this framework stands up to scrutiny. As David Teece has said (2010):

“Designing good business models is in part an ‘art’- the chances of good design are greater if entrepreneurs and managers...analyze the value chain thoroughly so as to understand just how to deliver what the customer wants in a cost-effective and timely fashion” (p. 190)

It is important to note that Teece’s definition explicitly includes the individual or ‘entrepreneur’. Within the music industry it is *as* frequently found that an individual or own-label artist is supporting themselves (and often dependants) through acting as a sole trader or self employed individual, as it is that a fully incorporated record label with a more traditional management infrastructure holds a variety of contracted artists, who may be contractual employees, under its business umbrella. So throughout the dissertation the phrase ‘business model’ will be used to apply to individuals as well as incorporated companies.

Teece notes that a business model is only partly about how the value chain is organised but is also about the company’s value propositions and value capturing mechanisms; the links between the business model and value systems are close and mutually supportive. He thereby highlights the importance of the author’s contribution of a value chain which accurately reflects the market environment within which a firm or individual is operating, to the creation of sustainable and successful business models. Understanding a firm’s specific business model requires an initial understanding of the business model concept in general. This is problematic because there is no one fixed reference point, as the analysis below will show; quoting Teece again, “the concept of a business model has no established theoretical grounding in economics or business studies” (p.174).

Stähler and Magretta have both suggested that the term ‘business model’ came into widespread use with the advent of the PC, the advent of a large number of IT-focussed businesses and concurrently, the concept of an electronic spreadsheet. Stähler notes that the term was originally found in computer science journals in the 1970s before it was seen in peer reviewed scholarly articles, and comments that “the rise of the term is closely related to the emergence and diffusion of commercial activities on the internet”(2001).

Spreadsheets allowed large datasets to be used to test assumptions and make forecasts so that businesses could be ‘modeled’ before they were even launched (Magretta, 2002).

Although spreadsheets are not a new phenomenon (it was possible to ‘model’ a business in this sense well before the advent of the PC) it is nevertheless certain that the speed and simplicity brought by developing ICTs were part of this impetus for new attention to the business model phenomenon.

Morris et al (2005) also note that the interest in business models is relatively recent, and situate this school of research within the decade spanning the end of the 20<sup>th</sup> and beginning of the 21<sup>st</sup> Century. They also reference it to the “*new economy*” (p727), in which information and communications technologies underpin a wide range of new ‘e’-businesses and ‘e’-commerce opportunities. As early as 1985 Porter and Millar highlighted the strategic significance of the Internet and information technologies...

“...transforming the nature of products, processes, companies, industries, and even competition itself. Until recently, most managers treated information technology as a support service and delegated it .... Now, however, every company must understand the broad effects and implications of the new technology and how it can create substantial and sustainable competitive advantages” (Porter and Millar, 1985 p149).

Importantly, Porter and Millar identify three ways in which technology directly affected competitive advantage: by altering industry structures, supporting cost and differentiation strategies, and creating entirely new businesses. It is the last of these three which is of relevance here, as it is inclusive of the concept of the business model, for which can also be read ‘e-business model’, as the largest volume of research has come from electronic commerce (Mahadevan, 2000). It has been proposed that the business model is in fact the best available unit of analysis for value creation:

“(N)o single entrepreneurship or strategic management theory can fully explain the value creation potential of e-business. Rather, an integration of the received theoretical perspectives on value creation is needed. To enable such an integration, we offer the business model construct as a unit of analysis for future research on value creation in e-business. A business model depicts the design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities. We propose that a firm's business model is an important focus of innovation and a crucial source of value creation for the firm and its suppliers, partners, and customers” (Amit and Zott, 2001 p.493)

Whilst what Amit and Zott propose seems logical, its application can prove problematic. To use the concept of a ‘business model’ as a unique reference point can be complex because the definition of what ‘*a business model*’ is, represents or comprises, is has been shown, far from certain. However, in order to understand how they are changing in response to shifting boundaries and relationships within the music industry value chain, it is important for the author to propose one common understanding of what ‘business models’ actually are in order to ensure the robustness and generalisability of this research. Numerous commentators have doubts about the various definitions, frameworks and specifications that have been put forward:

Year	Author and commentary
2000	Gordijn et al (2000) : “how an e-business model must be defined and specified is a largely open issue”
	Mahadevan (2000) “a consistent definition and a framework for a business model for Internet- based business is still non-existent”
2001	Alt, (2001) “The term 'business model' often remains undefined and a consensus on the elements of business models is lacking”
	Porter (2001) “The definition of a business model is murky at best”
2002	Chesbrough and Rosenbloom (2002) “While the term ‘business model’ is often used these days, it is seldom defined explicitly”
	Osterwalder and Pigneur (2002) said “even though many people talk about them, rare are the business model concepts and nonexistent a common understanding of what is meant by a business model”
2003	Wang and Chan (2003) say “The term "business model" is not well defined despite the fact that it is so pervasively used”
2004	Osterwalder (2004) “some confusions exist concerning business models”
	Rappa (2004) said “Business models are perhaps the most discussed and least understood aspect of the web”
2005	Morris et al (2005) assert that “No consensus exists regarding the definition, nature, structure, and evolution of business models”

**Table 2.3 Commentary questioning the nature of a business model.**

However the relevance and validity of the concept is not in doubt:

Year	Author and commentary
2000	Berghel (2000) defined the business model as a “core business issue”; Gordijn et al (2000) say “An electronic business model is an important baseline for the development of e-commerce system applications”.
2001	Linder and Cantrell (2001) “How do companies succeed? They choose an effective business model and execute it superbly”
2002	Magretta (2002) “Business models are stories that explain how enterprises work. They answer age-old questions, such as who is the customer and what does the customer value? ...How do we make money in this business and what is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?”; Chesbrough and Rosenbloom (2002) discuss the “Role of business model in capturing value from early stage technology”
2003	Afuah and Tucci (2003a) discuss “the central role that business models play in the face of the Internet”; Hamel and Valikangas (2003) comment that “In a turbulent age, the only dependable advantage is a superior capacity for reinventing your business model before circumstances force you to.”
2004	Yip (2004) believes that “business models may shed important light on how we understand and practice strategy”; Osterwalder (2004) noted that “Though the excessive dotcom hype negatively earmarked the expression I believed the concept of business models would reemerge as a helpful instrument in management. This proved to be the right decision...”
2005	Morris et al (2005) note that “the business model holds promise as a unifying unit of analysis that can facilitate theory development in entrepreneurship”; Leyshon et al (2005) “examines responses to the crisis in the form of three distinctive business models that represent different strategies in the face of the contemporary crisis of the musical economy, an arena within which a range of experiments are being undertaken in an effort to develop new ways of generating income”.

**Table 2.4 Commentary confirming importance of a business model.**

Despite this widespread agreement on the ambiguous yet essential *nature* of the business model, one *definition* has yet to be agreed. As Petrovic et al have said (2001) it is necessary to ground the definition of a business model on established theory in order to ensure that the continued application of the author’s selected definition is resistant to challenge. Li has proposed (2007) that definitions all revolve around “how a business works and what logic creates its value” (p133) but this is not of significant assistance in trying to evaluate one particular model, so the following section appraises current definitions and explains how and why the Osterwalder ontology was selected as a framework to support analysis of the MVine business model. It is important to note that business models appear to have many different components dependent upon the market within which they are applied. Porter proposed that it is not possible to evaluate a business model independent of the industry context within which it is situated (2001) and this author

agrees: it is for this reason that the music industry background detailed in Chapter 3 is of such importance.

### 2.6.1 Categorising business models

The analysis of a business model is made more complex by suggestions that not only is a single definition either impossible or irrelevant, (Alt and Zimmerman, 2001) but also that agreement on a unique typology or taxonomy also seems to be impossible. A review of the literatures defining the business model construct highlights a wide variety of approaches from the generic and abstract (Magretta, 2002; Petrovic et al., 2001) to the concrete (Osterwalder and Pigneur, 2002; Timmers, 1998). Morris et al (2005) assert that there has been no attempt to prioritise critical research questions or establish research streams relating to models, despite the thorough analyses presented by Pateli (Pateli and Giaglis, 2004; Pateli, 2002), Vassilopoulou (2003) and Osterwalder (2004).

Vassilopoulou et al (2003) compiled a useful chart which demonstrates the variations within relevant literatures, which this author has expanded to take account of subsequent work in this area: some explain what the purpose of a business model is, whilst others focus on the business model's primary elements, and possibly the ways in which they are related – this work in itself clarifies some of the difficulties of applying business model as a unit of analysis:

Author(s)	Definition
Magretta (2002)	A story that explains how an enterprise works.
Petrovic et al. (2001) (Auer and Follack, 2002)	A description of the logic of a “business system” for creating value that lies behind the actual processes.
(Jutla et al., 1999)	The business model determines <i>processes</i> and <i>transactions</i> . (i.e. business process - retail [external, internal], procurement, transaction-buy, payment registration etc.)
Applegate (2001)	A description of a complex business that enables study of its <i>structure</i> , the <i>relationships</i> among structural elements, and how it will respond to the real world.
Timmers (1998)	An architecture for the <i>product</i> , <i>service</i> and <i>information flows</i> , including a description of the various business <i>actors</i> and their <i>roles</i> ; a description of the potential <i>benefits</i> for the various business actors; and descriptions of <i>sources of revenues</i> .
Osterwalder & Pigneur (2002)	A description of the <i>value</i> a company offers to one or several <i>segments of customers</i> and the <i>architecture of the firm</i> and its <i>network of partners</i> for creating, marketing and delivering this value and <i>relationship capital</i> , in order to generate profitable and sustainable <i>revenues</i>



	<i>streams.</i>
(Weill and Vitale, 2001)	A description of the <i>roles</i> and <i>relationships</i> among a firm's consumers, customers, allies and suppliers that identifies the <i>major flows of product, information, and money</i> , and the major <i>benefits</i> to participants
(Hawkins, 2001)	A description of the commercial <i>relationship</i> between a business enterprise and the <i>products</i> and/or <i>services</i> it provides in the market. More specifically, it is a way of structuring various <i>cost and revenue streams</i> such that a business becomes viable, usually in the sense of being able to sustain itself on the basis of the income it generates.
Tapscott et al. (2000)	A business model is about the invention of new <i>value propositions</i> that transform the <i>rules of competition</i> , and mobilize people and resources to unprecedented levels of <i>performance</i> .
(Yip, 2004)	A business model embraces the target <i>customer</i> , the <i>nature of the business</i> and how <i>revenues</i> (and hopefully profits) are generated.
Afuah and Tucci (2003)	The method by which a firm <i>builds and uses its resources</i> to offer its customers <i>better value than its competitors</i> and to make money in doing so.
(Rappa, 2004)	A business model is the <i>method of doing business</i> by which a company can sustain itself -- that is, <i>generate revenue</i> . The business model spells-out how a company makes money by specifying where it is positioned in the <i>value chain</i> .
(Mansfield and Fourie, 2004)	A business model most commonly describes the <i>linkage</i> between a firm's <i>resources and functions</i> and its <i>environment</i> . It is a contingency model that finds an optimal mode of operation for a specific situation in a specific market.

**Table 2.5: Business model definitions (after Vassilopoulou et al, 2003)**

The authors participating in the 2010 special edition of Long Range Planning add somewhat to the debate. Zott and Amit repeat their 2001 definition (2010 p.210) and it is also quoted by Svejenova et al. (2010 p.408) and Sosna et al. ( p.385). Gambardella uses David Teece's very similar definition, from the same issue, of a business model as "reflecting 'management's hypothesis about what customers want, how they want it, and how an enterprise can best meet these needs and get paid for doing so'" (2010 p.263).

Other similar definitions arise in the contributions of Casadesus-Masannell and Ricart (2010 p.196) Demil and Lecocq (2010 p.231) Wirtz et al. (2010 p.274) and others, all having in common the translation of value propositions into profit.

### ***2.6.2 Osterwalder, value chains, business models and the music industry***

The three sub-divisions of business model literatures that Osterwalder analysed deal with

- the **revenue/product** aspects of business (Rappa, 2004; Tapscott et al., 2000)
- those which deal with **business actor and network** aspects (Afuah and Tucci, 2003a; Amit and Zott, 2001; Gordijn and Akkerman, 2001; Timmers, 1998)
- those which deal with the **marketing-specific** aspects of business models (Hamel and Valikangas, 2003; Petrovic et al., 2001)

Osterwalder noted that “(m)ost authors that have written about business models cover one or two and sometimes all of the three aspects...” (2002 p.8). He illustrated through his review of relevant literatures that none of these approaches were practical; although some were rigorous they were mainly conceptual and others, being mostly descriptive, had “low conceptual contribution” (2002, p.8) in contrast to his highly logical and applied theoretical/ontological framework. Whether appraisal by author or by category of research, it is clear that this field requires more detailed analysis and that there is currently no standard definition or method of evaluation of a business model. However in view of the research questions proposed within this dissertation, Osterwalder’s model proves of significant value and reflects the very practical approach that this case-based research has taken throughout. As was noted in 2.5 above, “the concept of a business model in relation to this dissertation is a simplification of business activities in order to decompose them and understand how they can be adapted to benefit from the new value framework embedded at the heart of the model”.

Osterwalder proposes that new relationships and alliances within the value creation processes create collaborations of companies which in turn produce totally new – often information-based – products and services, each of which requires a business model specific to its particular characteristics. The author proposes that this inherent flexibility together with the embedding of the value framework within the business model ontology is critical to any applied understanding of the business model construct. As Bouwman and MacInnes have noted (2006), and as supported by Li (2006) Osterwalder provides a very useful set of tools through which a business model can be constructed, assessed, and even amended if required, to account for changes within elements of the ontology and in particular, through the integration of new or different understandings of the value chain.

He mentions not only Porter's original theoretical construct but also the proposed extensions of this into such new constructs as the previously-noted value shops and value networks (1998). Bouwman and MacInnes also highlight that although previous literatures on business models have taken each model to be static and inflexible, it is more important for a business model based on emergent and innovative technologies such as the Internet to be capable of changing over time, flexibility for which Osterwalder's framework provides.

Osterwalder proposed that the impact of ICTs in reducing the costs of doing business efficiently required an increase in the number of ways in which companies arranged themselves both internally, throughout the value chain, and externally through the value system, through alliances and partnerships of a variety not previously possible. One consequence of this was that companies could build up new networks and alliances, thus profiting from sharing the subsequent, more diversified revenue streams. Another consequence was that the number of stakeholders in the company's business increased, and the business itself becomes more complex both to understand and to explain. To assist in this explanation, Osterwalder offers nine different elements, each of which was proposed as a building block in the construction of the business model, defined by him as

“a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams”(Osterwalder et al., 2005 p18).

Pillar	Business Model Building Block	Description
	Value Proposition	Gives an overall view of a company's bundle of products and services.
Customer Interface	Target Customer	Describes the segments of customers a company wants to offer value to.
	Distribution Channel	Describes the various means of the company to get in touch with its customers.
	Relationship	Explains the kind of links a company establishes between itself and its different customer segments.
Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
	Core Competency	Outlines the competencies necessary to execute the company's business model.
	Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialise value.
Financial Aspects	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
	Revenue Model	Describes the way a company makes money through a variety of revenue flows.

**Table 2.6 Osterwalder's nine business model building blocks (Li, 2006)**

This definition and deconstruction of a business model is powerful: once realised, it allows those within and outside a company or organisation to identify those elements which contribute best and least to success. Osterwalder proposes the benefits of such an ontological approach as being helpful in understanding the elements of a business model and the relationships between them, thus helping managers to communicate those elements internally and externally, and allowing structured and thoughtful changes in the current model. He approximates his approach to that of Norton's Balanced Scorecard (Kaplan and Norton, 1992) in that it can not only help to change, but to identify where changes are required, and finally he proposes that his approach allows for business simulation rather than actual implementation allowing learning to come through painless synthetic activities (2002, p.2).

This author proposes that Osterwalder's robust, structured and detailed approach best enables a logical unpicking of the elements of any business model, regardless of its complexity, heritage or industry/sector context. The author proposes that internet related technologies have resulted in an evolution of the traditional music industry value chain into a more interactive value framework, from which new business models are capable of emerging that were not previously possible. For this reason, it is important to note that

Osterwalder's approach supports analysis of the effects of this new value framework upon music industry business models, as he embeds value propositions and value chains at the heart of his model in "Product Innovation" and "Infrastructure Management" pillars. It is also important to note that through the third pillar of "Customer Relationship" the customer is also in a centrally critical position, which again supports this dissertation's presentation of the consumer as more integrally involved in the value chain than has previously been possible.

The author realises that this integral, cross-cutting "embeddedness" provides a challenge when positioned within Osterwalder's very logical ontological approach. The author proposes to deal with this tension between logic and flexibility through the presentation of three results chapters. As the new value framework is deeply embedded within Osterwalder's ontological approach, it is first and foremost critical to provide evidence for its existence and structure, which is provided in detail in Chapter 5, providing a concrete answer to the first research question: how have traditional music industry value chains changed as a result of technological developments? Chapter 6 will apply Osterwalder's 4-pillar framework directly to the central case study of MVine, referencing collateral cases where relevant and identifying where the new value framework evidenced in Chapter 5 most directly affects and impacts upon Osterwalder's ontology. As Chapter 5, this chapter provides very detailed and substantial materials in order to present answers to the second research question, through identification of the key characteristics of music industry business models.

In this way these chapters will analyse and discuss the results of the research with reference to the specific research questions proposed, in order to reinforce this contribution of a new framework of value, and to show how the new framework provides a valuable guide to the creation of successful and sustainable music industry business models. The implementation of the new value framework contributed in this dissertation, incorporating that of Porter, but revised to allow for the newly interactive relationships between customer and artist, will therefore add a new layer of industry-specific relevance to Osterwalder's original model. This will make it even more useful for relevant actors as a guide to the understanding and creation of value in the modern music industry.

## **2.7 Summary**

This chapter has provided a description and analysis of the concept of a value chain and its evolution across the course of the last three decades into a more open, flexible and adaptable framework. The concept of a business model has been discussed and whilst definition of its nature and agreement on its constituent elements has been shown to be lacking, the author has substantiated her decision to select the framework employed by Osterwalder in analysing the business model of the focal case study as well as those of the collateral cases. She has also clarified the importance of the new value framework upon which these business models are based, illustrating the fact that it is embedded within, rather than mapped onto Osterwalder's framework.

Now that the concepts of a value chain and a business model have been discussed, it is important to provide the industry-specific context within which they are to be applied. Chapter 3 will elaborate on the nature of the music industry from its inception to the end of the 20<sup>th</sup> Century, providing a detailed backdrop against which to set technological developments which illustrate the impact of disruptive technologies on the music industry in the late 20<sup>th</sup> and early 21<sup>st</sup> Century. This helps to show the increasing flexibility of relationships and networks that resulted from this disruption, which underpin this dissertation's contribution of a new and more relevant, applicable and useful framework of value than those presented to date.

## Chapter 3. Evolution of the music industry

*"There was a time when a song couldn't be owned and I would like to go back to that. Honestly, I know this is shooting myself in the foot, but I'm not sure that musicians should be making a lot of money - if any money. I like the passing the hat. I like the idea that we could survive by playing music - but I'm a little more attracted to the idea of people who have a day job and do honest work, and their passion is music. There's a lot of honour in that. Right now those people are the heroes, because music is moving back to a time when it couldn't be owned." (Hersh, quoted in Shepherd, 2010b)*

*"Consumers have musical choice? What musical choice? In our society we choose only from what we are given to choose from, and that choice is determined by 5 major media corporations who control the exposure outlets that consumers depend on for their entertainment." (Christopher Knab, FourFront Media and Music)*

### 3.1 Introduction

This chapter illustrates the relative stability of music industry value chains and business models from Edison's invention of the phonograph in 1877 to the late 20<sup>th</sup> Century. It describes pre-Internet value chains, the (invariably) label-led business models in place which built upon them, and the importance of the doctrine of copyright in underpinning music industry practice of the time. This chapter thereby establishes an essential context in which to discuss the value-creating potential of traditional music industry business models and subsequent, technologically-mediated change within the industry. The chapter provides an essential and informative backdrop to the radical upheavals both outside and within the music industry as a result of the introduction of the internet and related technologies at the end of the 20<sup>th</sup> Century. This chapter goes on to outline the technological developments which led up to and followed the introduction of the internet, particularly free distribution of MP3 compression technology which allowed for unfettered copying and redistribution of unlimited high quality copies of music files through the

internet. The chapter will show how these events threatened the principle of copyright and thus contextualise subsequent analysis of new business models which emerged, building on new value adding relationships which had previously not been possible.

### **3.2 Copyright in the music industry**

“Music” as a pure concept proves hard to define. A Mozart symphony is indisputably music, but what of a mobile phone ringtone version of ‘Für Elise’? However Garofalo presents a succinct explanation of the *purpose* of ‘the music industry’: “fundamentally to transform its cultural products into financial rewards” (1999 p.318). This is echoed somewhat more stridently by Bishop, who said

“Below the glamour, glitter and stardom the bottom line of the music industry is to obtain high quality content as cheaply as possible and to vend that content to as many people as possible for the highest price the market will allow” (2005 p.445).

Indeed the title of this thesis reflects this perspective, in its use of the title of Pink Floyd’s 1975 track from their album “Wish You Were Here”, “Welcome to the Machine”, a song which reflects the band’s view of the music industry as a ‘machine’ which exists to make money, rather than existing to support and promote an individual’s artistic expression. The essential element in the formula which transformed music into money was the doctrine of copyright – see its position in the traditional music industry value chain in figure 1.2, where it can be clearly seen to be a critical component in the value chain of the traditional music industry. Whilst it is also present in the completed new value framework in Figure 1.1, it is equally clearly bypassed by the new linkages between artist and consumer and the ability of both to contribute value at all stages along the previously locked-down value chain that can be seen in this figure. These are proven through empirical research in Chapter 5 below. This is worthy of early attention, as it will be shown in this chapter that it was commonly available and easy to use technological developments which facilitated the evasion or complete avoidance of copyright restrictions in the music industry. As will be discussed in Chapter 7, the conclusion of this dissertation, there are other industries such as film, science, and print/television news where the technologically facilitated direct relationships between individual creators and consumers, overlaid with avoidance or evasion of copyright restrictions, has resulted in similar problems with similarly disruptive consequences.

A copyright – literally a right to copy - is a set of exclusive rights which are granted by the enforcing government. They are usually granted for a limited amount of time, to regulate



the use of a way or manner in which an idea or information is expressed. Copyright can be held in a wide range of creative or artistic forms or "works" including musical works and sound recordings. Copyright is a type of intellectual property ('IP'), which term reflects the idea that the subject matter of IP is the product of the mind or the intellect. Once established, IP is generally treated as equivalent to tangible property. For a brief history of the doctrine of copyright see Appendix A.

The term of copyright for a sound recording in the UK is 50 years (the current act is the Copyright, Designs and Patents Act 1988) although in other countries, for example the United States, it is 70 years. This (it has been said by many commentators, notably Frith 1988) was largely achieved by publishers pushing for greater expansion of their own interests and is frequently referred to as an example of how shifts in copyright law have been about extending copyright owners' rights at the expense of consumers':

“the history of copyright law is the history of the steady extension of what can't be done...and by and large... the law has worked to preserve copyright owners' monopoly rights whatever the changes in the means of reproduction” (Frith, 1988 p.71).

### ***3.2.1 Fair use***

'Fair use' in the US is known as 'fair dealing' in the UK and is particular to copyright law. It is also known as 'free use' or 'fair practice', and sets out certain actions that may be carried out without being regarded as an 'infringement' of the copyright in the work. The idea behind this is that if copyright laws are too restrictive, they may stifle free speech, news reporting, or result in disproportionate penalties for inconsequential or accidental inclusion. Under these rules, it may be possible to use quotations or excerpts, where the work has been made available to the public, (i.e. published) provided that:

- The use is deemed acceptable under the terms of fair dealing
- That the quoted material is justified, and no more than is necessary is included
- The source of the quoted material is mentioned, along with the name of the author
- Typical free uses of work include:
  - Inclusion for the purpose of news reporting
  - Incidental (i.e. unintentional) inclusion
  - National laws typically allow limited private and educational use

The introduction of new technologies, in particular the Internet and freely available compression technologies, makes this an even more difficult area of copyright law, increasing the possibility of public access via ‘fair use’ whilst threatening copyright holders’ rewards, and attacking traditionally impregnable and well-guarded musical institutions of reproduction and distribution.

As Garofalo noted, (quoting an article by Robert J. Samuelson in the Washington Post of 17 September 1998 (2003) the advent of digital technologies raised concerns:

“such measures compel us to revisit the diminishing terrain of fair use...if data can be protected by code, and it’s illegal to break the code, then fair use for anything that arrives digitally may vanish” (p.97)

Because they had the exclusive right to copy and distribute the work, record companies had a monopoly over distribution and this therefore made them the ones who initially benefited financially from the copying and dissemination of recordings. Although the system was vital for the continued existence of record companies as they were at the end of the 20<sup>th</sup> Century, there was more than a suspicion that copyright underpinned vastly unequal rewards (Kretschmer, 2005; McCourt and Burkart, 2003; Love, 2000). Although the recording and release of an album using traditional methods could be very costly, distribution of a successful album could recoup these enormous investments - for the majors, in particular, distribution was frequently cost effective, as it would be done through a wholly owned subsidiary company.

### ***3.2.2 Copyright and contracts***

Traditionally, taking a piece of music from the point of creation through to its purchase by a consumer was a long, drawn out and - importantly - capital-intensive and very expensive process. It involved a wide variety of people with many different skill sets (Harris and Colegrave, 2005; Passman, 2004; Dobie, 2001). The record company’s first point of contact with an artist was through A&R, those individuals whose job it was to continuously scout for talent that they believed would bring a commercial benefit to the company (Albini, 2005; Rushe, 2004; Hirsch, 1972). They approached such talent with a view to negotiating the signing of a recording contract, often involving the artist’s manager if they had one.

The ownership of copyright rarely remains where it starts (with the individual creator – in this case the artist) although it is vested there in perpetuity. In the music industry, it was

historically those intermediaries who provided such skills and abilities as promotional connections and experience, risk-capital and distribution who were the most likely recipients of copyright. These include record companies and publishers (Passman, 2004). Rights can be assigned from one party to another in order to be bartered for resources that the current owner does not have. The simplest recording contracts allowed for copyright (in one, some, all, or all future works over a defined period of time) to be exchanged for an advance to the artist so that they could pay their living expenses, recording studio time and other outgoings. Usually the contract required that the artist produced a specific amount and type of work (albums, singles, tours and so on) within a certain time period. The advance was then ‘recouped’ from any income the artist made from these activities before he or she earned any more money. Dobie saw this relationship in a very positive light. The record company provided the artist with

“creative space and access to facilities in order to encourage the creative process, nurturing the production and development of ideas that can be turned into marketable commodities” and all the artist has to do is “come up with the raw creativity” (2001 p2).

The converse of this is the very practical point made that an artist is only able to access this ‘creative space’ because they are sheltering behind a record label contract in which the label takes on responsibility for managing the various relationships required in the process of creating, recording, distributing, performing and profiting from music. Theoretically this leaves the artist free to focus on what they do best, making music. However it was proposed by some more critical commentators that the artist was put under undue pressure to produce ‘popular’ (i.e. profitable) music rather than what they felt was true to their artistic temperament and sensibilities (Albini, 2005).

The major record companies have great reach and strength through their vertically integrated network of promotional media opportunities including TV, radio, CD, film, books and magazines. This gives them additional influence over author and public, artist and audience, locally, sometimes nationally and, frequently, in the case of the majors, globally. Not only are they able to make more money out of these dissemination opportunities, but the continual expansion of copyright protection laws means that they are also able to make more money out of content for longer. Copyright has become, in fact, almost entirely defined in economic terms, as a way of ensuring that revenue is derived from usage of a work.

In legal terms, the basic argument is between those who see creative works as just another type of property, with what are increasingly presented as inalienable property rights, and those who see copyright as a deal struck with creative people by the state, one which is intended to benefit both sides. Copyright history supports the second view, but since the mid-1970's there has been increasing legal support for the first (Thompson, 2005).

The various rights of each participant in every stage of the creation, production and distribution process highlight the complexities of copyright law: “different rights subsist in the different parts of a music commodity, which in turn are exploited by one or the other of the intermediaries” (Dobie, 2001). Copyright law is complex because it is in a constant state of change: Litman (2000) attributed much of this constant state of change to the success of publishing industry lobby groups who, over the last half century, have been instrumental in shifting the dominant copyright metaphor from that of a bargain, to a set of incentives, to a system of controls. Copyright is also complex because it varies widely across different jurisdictions and technology spreads inconsistently across different territories and marketplaces: as Chris Anderson has commented,

“We talk about “the marketplace” as though it’s a static thing. But it’s more like a river. There are broad, slow moving parts, and there are rapids. We’re heading into some exciting rapids. And the only way forward is through”(2010)

### **3.3 Structure of the 20<sup>th</sup> Century music industry**

Against this backdrop of slowly evolving copyright doctrine, the structure of the record industry had crystallised by around 1945. From then until the early 21<sup>st</sup> Century, despite technological changes to methods of production, the basic industry structure and process remained the same (Ponce, 1999); a small number of large, integrated companies controlled the production of music, mainly through their ownership of the means of record production and distribution. In the evolution of market mechanisms which transform cultural products into such large financial rewards, the music industry has gone through three phases, each dominated by a different organisation:

1. *Music publishing houses*, which occupied the power centre of the industry when sheet music was the primary vehicle for disseminating popular music, but which have mostly devolved into subsidiaries of record companies;
2. *Record companies*, which ascended to power as recorded music achieved dominance, displacing publishing houses; and

3. *Transnational entertainment corporations*, which cross all networks, integrated inextricably with most, if not all functions of each. Increasingly these transnationals promote music as an ever-expanding series of revenue streams — record sales, advertising revenue, movie tie-ins, streaming audio on the internet — no longer tied to a particular sound carrier (Garofalo, 1999). Usually described both in terms of their size and also the degree of control they have over their product, there were three distinct and significant layers in the music industry hierarchy (Passman, 2004; Burnett, 1995), as follow.

### 3.3.1 ‘Majors’

Known colloquially but worldwide as the ‘Big Four’ or simply, the ‘majors’; SonyBMG, Universal, EMI and Warner are fully integrated, globally represented companies with a number of divisions, including ‘artiste and repertoire’ or the selection of potentially successful artists (better known, and identified from here on in this dissertation, as ‘A&R’), sales, marketing, promotion, product management, new media, production, finance, business affairs/legal, and an international division (Passman, 2004). The majors make less than 1 in 5 of all controlled releases, and sell about 70% of recorded music worldwide (Cumberland, R). The rest is sold by the independents. As can be seen from the image below, there has been a slow but steady consolidation of power and control within the majors, (Leyshon et al., 2005; Fox, 2004; Zhu and MacQuarrie, 2003; Kretschmer et al., 2001).

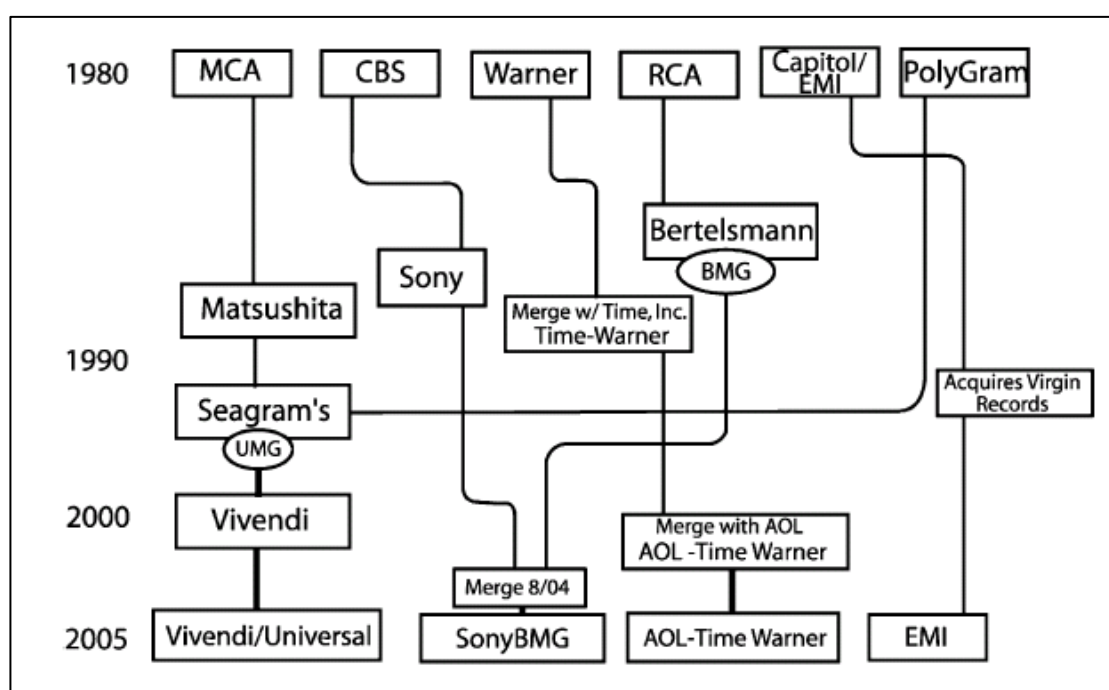


Fig 3.1 Industryconsolidation, 1980 – 2005 (Bishop, 2005)

The major record labels are rarely configured in the same way from one year to the next, and this makes it difficult to keep track of the permutations of ownership across the years. A joint venture between Sony/BMG was initially cleared by the EU in July 2004, reviewed and finally cleared in October 2007, reducing the number of major labels from the 'Big Five' to the 'Big Four'. However the combination was not successful and Sony bought out BMG for \$900m in October 2008 (Nakashima, 2008).

EMI and WMG each made a bid for the other in 2006, EMI was then subject of an unsuccessful buy-out by Permira, followed by a successful buyout by Guy Hands' venture capital company, Terra Firma in August 2007 for £2.4 billion. In November 2010 after fierce court battles, Hands lost his attempt to sue his erstwhile advisors in the buyout Citigroup, for their advice during his acquisition of EMI at the height of the boom in 2007. He admitted in court that EMI was only worth half the £4.2m he paid for it, and whilst it was expected that the other two majors will make a bid for some or all of the ailing major's assets (Armitstead, 2010) Citigroup bought the company in January 2011.

### ***3.3.2 Mini-majors***

The next layer are the 'mini-majors' (Lee, 1995), p20), smaller but still fully staffed companies with everything except the ability to distribute records to the stores; all are distributed by the majors and many are owned by the majors. Examples include The Beggars Group, V2, and Domino Records.

### ***3.3.3 Independents***

'Independent' or 'indie' labels are the final layer of the record company hierarchy and come in two types; major-distributed independents and true independents. The former may have little or no staff, but sign artists and contracts with a major or mini-major to perform all functions except for recording. The latter has no affiliation with any other record company, and is financed through its owners and/or investors (Passman, 2004). Both types of independent operate less conventionally than the majors (Cumberland, 2006). As McLeod notes (2005), although wary of romanticising independent labels, "they do tend to be more closely involved with artists, and are often run by artists" (p525).

They are often geographically local rather than national or international and focus on a particular type of niche music. Often these independents or 'indies' started up around an existing independent recording studio, representing types of music ignored by the majors (Burnett, 1995). Examples include Derek Birkett's 'One Little Indian', Damon Gough and Andy Shallcross's label, 'Twisted Nerve' and Greg Latterman's 'Aware Records'.

As Lee has pointed out (1995) as well as the perceived ideological attributes of the indie (personal dedication to the artist, affiliation with the music, lack of established business practices) there are many assumptions held about this category of label which could be challenged. It is frequently asserted that they come from entrepreneurial foundations (Brown, 2004), that they are more flexible, responsive to trends and democratic than the majors (Green, 2004) and so attract fresher, new talent (Gundersen, 2005) and that because of these facts they act as hot houses or 'R&D' for the majors (Leyshon et al., 2005; Leyshon, 2001) ultimately, if successful, to be assimilated into a larger corporate entity. Lee (1995) suggests that the relationships between 'major' and 'independent' labels are, in fact, more dynamic and complex than this slow and purportedly inevitable process of absorption.

### **3.4 The reproduction, distribution and promotion of music**

Whilst the creation of music was historically a process personal and particular to each artist, the reproduction, distribution and consumption of that music was very much under the control of the record labels, the only place with the capital and capacity to support such time consuming and costly processes which are described here.

#### ***3.4.1 Reproduction of music***

Reproduction of music was one critical aspect that newly developing ICT rendered easily accessible to a far wider range of people and companies, so it is important to understand the context against which this new freedom was set. The various stages of traditional production work required to create a finished product could be extensive and, even then, did not represent the end of the process. Once the artist had finished recording the tracks they had to be compiled and manufactured. Artwork, sleeve notes, lyrics and other information to be contained within the packaging of the album or single had to be created and approved. Manufacture was a straightforward but traditionally expensive job of 'pressing' (a phrase covering the process used in the creation of either CD or vinyl products), packing and storing the products until they were ready for distribution.

The Music Publishers Association (MPA) describes the music publishing industry as concerned with “developing, protecting and valuing music” (Scott, 1999). Most major publishing companies existed as a subsidiary of one of the major labels as has been shown and for these, their role was simply one of accounting. However, although the structure of music publishing was broadly similar to that of record companies, it differed in that there were a wide range of independent music publishers, because publishers didn’t need a distributor to do business (Passman, 2004). For publishing companies not connected to a major label there were a variety of jobs that they were expected to perform on behalf of the artist, including:

- Producing performance materials (score and parts) and demonstration recordings
- Producing and licensing the production of printed music
- Preparing promotional materials, including sample Compact Discs (CDs) and so on
- Promoting composers and songwriters to performers, broadcasters, record companies and others who use music on a commercial basis
- Licensing the use of music
- Monitoring and tracking the use of the music they own and ensuring that proper payment is made for all licensed uses
- Taking appropriate action against anyone using music without the necessary licence
- Making royalty payments to songwriters and composers in respect of the usage of their music

For international exploitation the publishers might enter into sub-publishing agreements with companies that had the required cultural connections and knowledge to fully exploit the musical works in their region. The relationship between a music publisher and a songwriter/composer was supported by a publishing contract setting out the rights and obligations of each to the other. Under these contracts songwriters and composers assigned the copyright in their music to the music publisher in return for a commitment to promote, exploit and protect that music. The publisher agreed to pay the songwriter/composer a percentage of any income earned from such exploitation as royalties. The publisher ensured that all uses of music were properly licensed and paid for and got commissions for new work, registering the works of songwriters and composers with all appropriate collecting societies and agencies.



### 3.4.2 *Distribution of music*

As well as making reproduction of music simple to do, new technologies also made it possible for artists, fans and labels to distribute far more music, far more widely, than had ever been possible before. Again it is important to describe traditional distribution processes in order to contextualise the immense advantages that newly developing technologies provided for independent musicians and smaller record labels, historically less able to afford access to this tightly controlled function of the music industry. What follows describes the complexity of the distribution function and illustrates how difficult it was for an individual artist to negotiate the processes of distribution without help from a record label which was well-connected to the various bodies to which payments must be made.

Distribution had been a lucrative part of the process, in particular for the major record labels, who acquired significant revenues from wholesaling large amounts of product through distribution outlets that they already owned, to retail outlets which could not get the product from anywhere else (Passman, 2004). Even independent labels sometimes used a major distributor to ensure that their products were circulated successfully. Once the product was ready for market it was the job of the record company's marketing department to ensure that it got the widest possible level of coverage, on both TV and radio (Burnett, 1995) and through retail outlets.

Collection Societies operate across the music industries and monitor both *duplication* of recordings to tapes and CDs, and *secondary usage* (in other words, performances in the media and in public places). The bodies vary from country to country but cover very similar interests; as a representative example, in the UK these are:

- MCPS (the Mechanical-Copyright Protection Society) which collects and distributes 'mechanical' royalties, generated from the recording of music onto many different formats, for distribution to their members - writers and publishers of music (<http://www.mcps.co.uk/>)
- PRS (the Performing Rights Society) which collects licence fees for the public performance and broadcast of musical works (<http://www.prs.co.uk/>)
- PPL (Phonographic Performance Ltd) a collecting society for record companies and performers, which licenses radio stations, TV stations and other broadcasters who use sound recordings (records, tapes and so on) including shops, clubs, pubs, restaurants and other music users who play sound recordings in public (<http://www.ppluk.com/>)

Rights exist in the composition, performance and recording of a tune and so there are at least three types of royalty that a copyright holder could expect to receive (Passman, 2004):

### **1. Artist Royalties**

A percentage of the retail price (normally around 10%) paid to the artist for each product (single, album, recording etc) sold to retailers.

### **2. Performance rights**

Royalties come from the ‘musical work’ itself and from its source, the ‘sound recording’. If a ‘*musical work*’ is performed or broadcast in a public place (e.g. on the radio) the royalty is collected by the PRS through a system of licensing and monitoring, then it goes to the publisher and songwriter. If a ‘*sound recording*’ is performed or broadcast, the radio station would pay royalties to PPL, who pay record companies their share (usually 50%) and performers (again 50%, redistributed 65%:35% between ‘featured artist(s)’ and ‘non-featured artists’).

### **3. Mechanical Rights**

For every mechanical reproduction of a recording (on CD, tape, vinyl and so on) the record company pays royalties to the MCPS which are then redistributed to the relevant member publishers and composers.

#### **3.4.3 Promotion of music**

As the sections above illustrate and as Hirsch has noted (1972), new music did not reach the consumer until it had been processed through a series of gatekeepers and promoted to the audience of consumers. Consumption in this sense did not necessarily require a ‘customer’, as music can be consumed without being purchased. The record companies would ‘plug’ (promote) the record to a radio station which would then play it on a rotation (i.e. a set number of plays per day) that reflected its potential and actual popularity. These were measured through a combination of what the presenters and management of each radio station thought of its chances of success, and its position in the charts. Leaving to one side for the moment the initial music industry problem of individuals’ illegal taping of music from the radio, ‘consumption’ of music was generally through listening to it on the radio or television, or through the purchase of vinyl/cassette tapes/CDs.

In order to purchase music the individual had go to one of the shops which sold the music that they wanted. Again the record companies spent a lot of time promoting their acts and artists to these outlets and ensuring that their artists were given the best possible 'rack space' (i.e. the number of physical CDs that were accommodated within the store at any one time) and promotional support, the latter often in conjunction with local radio stations. It is worth noting that a significant factor contributing to the weakening of the labels' strength was the increasing use of CDs as "loss leaders" by increasingly powerful retailers such as Tesco and Walmart, as a mechanism to get shoppers into their store by pricing them at far less than main stream record shops could afford to, in order that customers would stay and buy other items (Wood, 2008)

### **3.5 The Star System**

The record label took on all of the responsibilities listed above and had to find the best way possible to mitigate the enormous costs of production, manufacturing, reproduction and distribution of a record; of course, economies of scale and capital resources benefited the major labels (Burnett, 1995). However it was not just complex and expensive: the creation of a successful single or album was dependent upon another uncontrollable factor. It was very difficult to identify which artists would be successful before investing the time, effort and money required to get their music to market. Making this prediction about successful artists' output was not always simple: Hugely popular global artist Robbie Williams' long awaited 2006 album 'Rudebox' was a commercial failure despite being the 18th best-selling album of 2006 worldwide according to the IFPI; two heads of department responsible for its production got fired by EMI (Burmeister, 2007). Whilst at the same time, equally globally renowned artist Mariah Carey's contemporaneous album 'The Emancipation of Mimi', following on from critically panned albums 'Glitter' (2001) and 'Charmbracelet' (2003), was an unexpected success, receiving ten Grammy Award nominations (Masnick, 2010).

Making these sort of predictions about new and unknown artists was even more difficult, particularly in view of the shifting tastes of the consumer of music (Hirsch, 1972). Prior to digital distribution, many more records were made than could ever reach the end consumer through the finite resources of shop space and radio playlists. Very few of the many thousands of aspiring artists ever got to the stage of signing a recording contract and of those that did only 20% even covered their costs (Passman, 2004; Burnett, 1995; Chapple and Garofalo, 1977), so record companies had to try and predict which were likely to

succeed so that they did not waste resources promoting unprofitable artists (Caves, 2000). This necessitated the implementation of a strategy which became known as ‘the Star System’, in which labels presume that only one in ten artists on their books will be a ‘star’, generating enough revenues to support the less successful artists (Eisenberg, 2005).

The record company retained in the majority of cases “full veto power over any aspect of an artist’s work” (Diamond, 2003). Both new and established artists also resented the intense pressure that labels were said to put them under in order to produce a second album as soon as possible after the first one, which was held to be counterproductive. Labels often demanded this within only months after their first in order to capitalise on the market for their music - whilst at the same time the artist was very probably lacking in material (the best of which had been used up in the production of their first album) and lacking the time to produce more good new material because they were frequently also very busy touring to promote their first album. This became known as DSAS – Difficult Second Album Syndrome (Lynskey, 2003).

Some commentators (Albini, 2005; Harris and Colegrave, 2005; Barfe, 2004; Passman, 2004; Lam and Tan, 2001) note how much of the artists up-front payment was recouped by major labels in fees for tour support, promotional activities and so on: although a single CD of a popular artists work might have cost the label as little as 50p per unit to produce, it would sell for up to £15 per CD, of which the label kept between 80 and 90% (Diamond, 2003). However the ‘star system’ implies that these profits are required not only to pay the record label executives but also to cover the costs of the nine artists/groups/acts which do not succeed for every star that is born, which puts a different perspective upon the equation altogether.

### **3.6 Technology and the music industry**

The record industry exists in order to find and produce an artist and their work, and attempt to ensure the creative and financial success of that work through a variety of promotional methods. The majors in particular, with their far-ranging, vertically integrated and capital intensive operational structure, have historically been able to make a huge profit out of these operations (Chapple and Garofalo, 1977). Copyright protection is what makes it possible for these operations to make a profit at all: without the ability to rely on and enforce copyright, the industry’s business model and revenue streams would have been

under serious threat. The development of digital technologies heralded the first stirrings of true disruption for the music industry.

### ***3.6.1 Analogue to digital***

From the invention of the gramophone until 1982, music was stored in an analogue format; the only way to copy this audio effectively was to take the original, ‘master’ recording and copy directly from it – an expensive, laborious and time consuming, industrial-scale process. This problem was overcome in 1948, when the 33rpm (‘revolutions per minute’) LP (‘Long Playing’) record and the 45rpm vinyl recording format was produced. The 45rpm became the preferred format for the single, particularly as it suited the requirements of jukebox manufacturers, and the ‘LP’ 33rpm became the usual format for albums.

That same year the hardier transistor replaced the fragile vacuum tube, facilitating the development of mass-produced radios that were smaller, lighter and more durable than ever before. These portable transistor radios permitted the development of a new, post WW2 ‘babyboomer’ audience of music consumers with a higher disposable income than their parents had enjoyed at their age. These “teenagers” now had the opportunity to listen to their music in privacy rather than being tied to the music which their parents listened to on the family radio; and their music was “rock ‘n’ roll”.

The next important technological advance was the invention of magnetic tape. Radio stations and record companies took to it immediately (Burnett, 1995) and by 1950, electromagnetic tape had completely overtaken disc recording (Frith, 1998). The introduction of magnetic tape into recording studios to replace the original and cumbersome wax masters spread the accessibility of recording technology (Gronow, 1983). It was re-useable, reproduced sound better at higher quality, had a longer playing time and could be physically edited (Negus, 1993b). Importantly, it also reduced production costs, which enabled independent producers to join the recording market, because a record could now be made almost anywhere, just as long as a pressing company was available to produce the discs for sale.

### **3.6.2 *MTV, DAT, CD, CDR***

The advent of music television and a dedicated music press followed these technological developments. The idea behind MTV (which launched in 1981 and was dubiously received at first), was that the music industry would send their videos, a relatively recent promotional format, to MTV at no cost. The videos would then be aired freely to consumers; the channel would be entirely advertiser-funded. The concept was extraordinarily popular with the youth of America, where it was first launched, and spread rapidly throughout Europe in the following decade.

In 1983, the Rotary head Digital Audio Tape (RDAT, universally abbreviated to DAT) was invented. This represented another technological double edged sword; using DAT, digital audio could be perfectly ‘cloned’ (Eisenberg, 2005) – transferred any number of times from one carrier to another without any loss of quality. The threat of DAT copying was overcome by the ‘Serial Copy Management System’ that was built into every DAT recorder made from 1992 (which limited the number of copies that could be made from any particular source material to one) but even so it was becoming apparent that every new technology seemed specifically designed to bring down the costs of production whilst increasing the potential sound quality of reproduction and put simple, cheap and effective recording technologies into the hands of more and more people outside the record companies of the time.

By the late 1980s it was becoming increasingly apparent that the 45rpm, 33rpm and tape were coming to the end of their natural supremacy over the music-buying public (Laing, 1993; Laing, 1992; Laing, 1991).

“Developed and refined between 1965 and 1985, compact-disc technology swept the consumer market during the late 1980s and early 1990s, displacing almost completely long-play vinyl albums” (Fisher, 2000).

The digital Compact Disc or ‘CD’ format was introduced 1980 by both Philips and Sony – apocryphally, its maximum playing time of about 75 minutes was fixed because the President of Philips wanted to hear the whole of Beethoven’s 9<sup>th</sup> symphony without interruption (Eisenberg, 2005). The technology was licensed liberally in order to encourage adoption of this new format, as well as to sell software products: Philips owned Polydor,

Sony owned CBS Records of Japan (Gandal et al., 2000). By 1981 more than 30 firms worldwide had signed licensing agreements to use the Philips technology and other forms had withdrawn competing prototypes so that by the early 1980s the CD player was a fairly standardised product (Grindley and McBryde, 1992). The CD played a key role in opening up another revenue stream for the majors – their back catalogue of music. A new and better format for old music meant that consumers could upgrade and update their music collections with new, CD versions of all their favourites. The importance of an artist's back catalogue (and copyright ownership thereof) within the traditional record label business model, both major and independent, is worth assessing in more detail. It is not just the revenue that the back catalogue generates in itself, but other, far deeper leverage that it provides. There are three main factors which come into play:

1. Back catalogue can affect retail through market share.
2. Compilations, which represent around 25% of the market, are frequently oriented toward catalogue content.
3. Re-signing a star/successful act is far more likely when they come to the end of their contract if the label has their catalogue. An artist is far more likely to agree a new deal for their future recordings with a label in this position for many reasons, two very powerful ones being continuity and to avoid clashing of release scheduling. In the absence of any good reason to leave this is a very powerful factor in retaining a star act.

However although the CD was higher quality, cassette tapes continued to be the preferred format (outselling CDs two to one) until the end of the decade, principally because they allowed for copying. The introduction of the recordable CD ('CD-R') allowed the transfer of any digital audio from one CD to another without restriction and ended the dominance of the cassette. The majority of consumers had limited access to sufficient broadband width to allow them to send such files electronically, but despite this, the CD-R made widespread copying and distribution possible. The computer industry lobbied long and hard against any legislation which incorporated copy protection into computer devices; their industry was in its infancy and any government regulation would preclude ongoing innovation. Shortly after the CD-R came to market, the music industry saw the first indications of potentially threatening change as home computers began, routinely, to include the software and hardware required to enable simple and fast copying of digital audio onto blank CD-Rs.

### ***3.6.3 The internet***

Whilst they were undoubtedly an irritant, none of the new formats in themselves represented a potentially fundamental threat to traditional music industry business models. The widespread introduction of the internet, its nature and capabilities (Kasaras, 2001) did, however, have that effect. The internet was an unusually robust, damage-tolerant, anonymous, open and interoperable network, a fortuitous and unexpected consequence of government-sponsored research to establish a lead in military applications for science and technology known as the ARPANET or the Advanced Research Projects Agency Network (Hafner and Lyon, 2003; Healy, 2002).

By the mid-1980s both ‘personal computers’ (‘PCs’) and hardware and software standards were well established. In 1990, the HTTP (hyper text transfer protocol) created by Tim Berners-Lee, made the internet easier to navigate with more intuitive ‘point and click’ programs. If the internet is seen as the hardware which constitutes the joined up networks (the cables and switches), the World Wide Web (“WWW”) can be described as the abstract information space, with ‘browser software’ being the programs that people use on their computers to access that information hosted on Web pages using text, hyperlinks and graphics (Dobie, 2001). The final barrier to global expansion was removed when the National Science Foundation lifted restrictions against commercial use of the internet in 1991 (Hafner and Lyon, 2003) and the PC at home and at work became the gateway for access to the internet. Figures to June 2010 show over 1,966,514,816 users worldwide, a 444.8% growth since 2000 [www.internetworldstats.com](http://www.internetworldstats.com).

### ***3.6.4 Creative destruction and the music industry***

To understand the changing nature of music industry value chains, this dissertation has already examined the concept, contents and categories of business models, to provide a clear framework of reference against which an examination of new music industry business models emerging from this changing framework of value can be undertaken. But where does this new value come from? The value creation potential of innovation has been articulated clearly by Schumpeter in his theory of “creative destruction” (1942) Schumpeter’s theory propounds that progress – capitalism – has at its heart a difficult but essential process of creative destruction which destroys old methods and processes as it creates the new ones that will inevitably take their place. History shows that, from coal age to oil age to information age (Hart and Milstein, 1999) new ways of creating value have



indeed been inspired by innovations arising from technological developments. Schumpeter introduced the concept of ‘creative destruction’ and the rents (later becoming known as ‘Schumpeterian rents’) that became available subsequent to these technological changes. These rents stemmed “...from risky initiatives and entrepreneurial insights in uncertain and complex environments, which are subject to self-destruction as knowledge diffuses” (Amit and Zott, 2001 p497-498)

The introduction of the internet was the stimulus for another wave of creative destruction. In the early years following its introduction, whilst the internet was accepted to create a variety of opportunities, it also provoked a wide range of opinions about whether and how the business environment of the future would change. As Afuah and Tucci commented,

“The ability of technological change to destroy old industries, create new ones, or simply provide the basis for overturning or reinforcing existing competitive advantage has been the subject of research since Schumpeter” (2003, p.395)

Early literatures were conflicted. Rappa (Pateli and Giaglis, 2004) noted that as well as undermining – some might say reinvigorating – current business models, the internet brought into prominence older models of doing business such as the auction (through websites such as [www.ebay.com](http://www.ebay.com)). The internet blurred the traditional operational boundaries between companies, customers and suppliers and to a large extent allowed them to bypass other players in an industry's value chain – ‘disintermediation’ (Janson and Mansell, 1998; Benjamin and Wigand, 1995) – as well as providing a tool for developing and delivering new products and services to new customers (Ghosh, 1998).

It was also proposed that the internet would allow some companies to dominate the electronic channel of an entire industry or segment, control access to customers, and set business rules (Bodily and Venkataraman, 2004; Amit and Zott, 2001; Tapscott et al., 2000; Kung et al., 1999; Rao, 1999; Ghosh, 1998; Evans and Wurster, 1997) and facilitate the creation of new value by the ways in which transactions are enabled (Amit and Zott, 2001). Others stated that it was simply a complement to other ways of working (Bodily and Venkataraman, 2004; Porter, 2001).

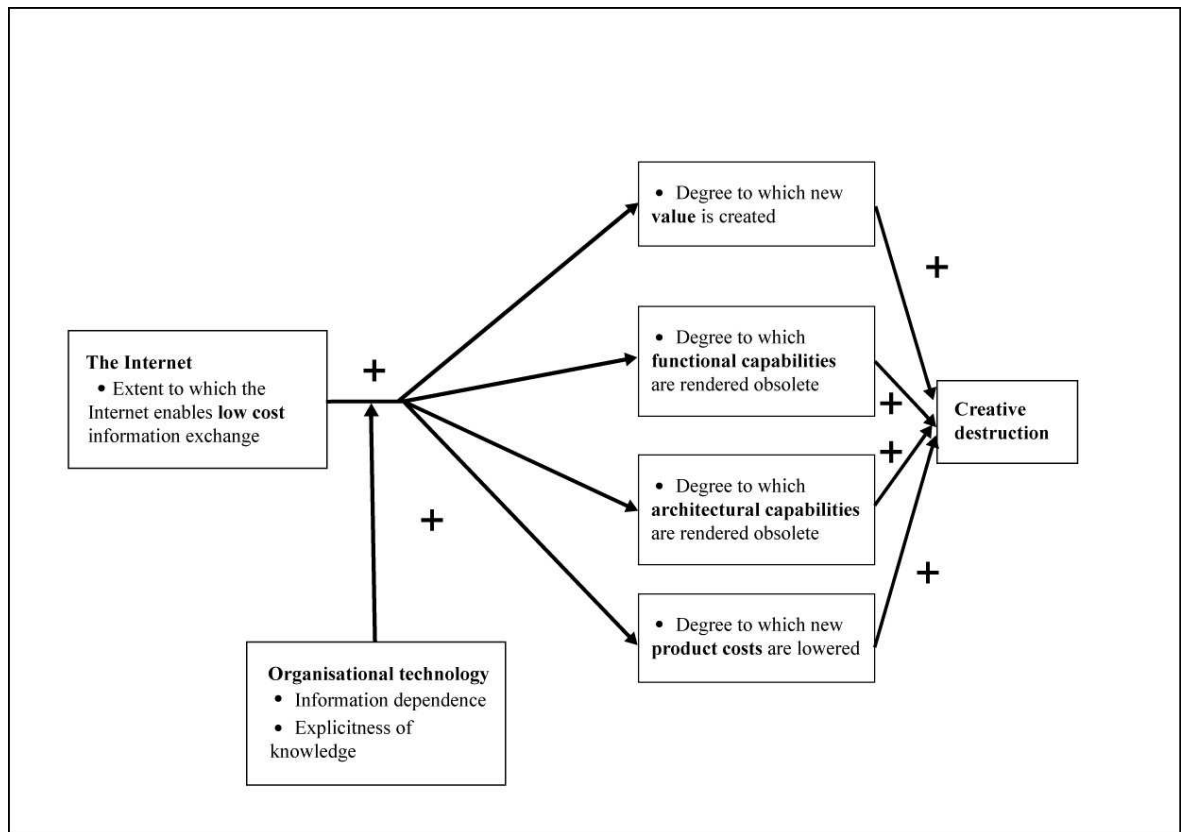
History describes many instances of firms already in a powerful position within an industry or sector which have rarely been immediately successful in taking advantage of waves of creative destruction (Hart and Milstein, 1999). These authors also note that to do so

requires a swift and flexible approach, that many managers of incumbent firms are reluctant, or unable, to take. They use the examples of sailing ships, horse-drawn carriages and steam locomotives, but they could easily also have used music industry major labels:

“Frequently, incumbent firms have either discounted the significance of an emergent technology or have reacted to changes by becoming more committed to existing products and markets. Incumbents that survive episodes of creative destruction do so because they display more foresight than their peers; they invest and form partnerships to acquire new competencies and experiment in new, untested markets. They are not held hostage by their current technology or market position” (p21)

One of the major problems facing companies in the music industry at the end of the 20th Century was that regardless of foresight, alliances and competencies, it was almost impossible to predict events correctly in order to prepare for the rapid and fundamental upheaval of the music industry that the internet and related technologies would bring. As has been noted above, the various technologies of compression and connectivity were frequently developed for completely different industries and purposes and therefore regardless of any vigilance remained largely ‘off radar’ until it was too late to adapt to or allow for their effects. However far more importantly, the rapid and pervasive response of an increasingly digitally-conscious and (critically) *connected* consumer could not have been predicted.

In an attempt to provide a more practical and applied predictive models to alert companies to such new opportunities Afuah and Tucci have proposed a set of determinants of creative destruction from the internet, as can be seen in figure 3.2 below.



**Fig 3.2 Determinants of creative destruction from the internet (Afuah and Tucci, 2003b p.395).**

They identified three research streams which looked at how technological change can be seen as a creative destroyer. Firstly they looked at the literatures which argued that technological change would only assist new market entrants to gain a competitive advantage over incumbents if

“(n)ew technology renders existing products or services uncompetitive and, therefore, reduces established incumbents’ incentive to invest in it...new entrants have less to lose” (ibid p396)

Secondly, even following heavy investment by incumbent firms, they proposed that ‘capabilities inertia’ – in other words a too-large difference between the incumbents current set of capabilities and those that would be required to exploit the new technologies – could result not just in the incumbent being unable to exploit the new technology but can actually constitute a barrier to their ever being able to do so.

Finally Afuah and Tucci considered the value network view. From this perspective, technological change must create products which fit with customers' current value network(s); existing customers of an existing product which 'suffices' will have little or no use for new products which fell outside their value network, and which may in fact require effort for no pre-determined or apparent reward. If this happens it leaves room for new entrants into the market place that can benefit from the incumbent's "blindness" to the new opportunity; not only by capturing new markets in the short term but ultimately by replacing the incumbent as the technology develops enough to satisfy a more mainstream market.

Whilst Afuah and Tucci's analysis is valid in so far as it goes, it raises an issue that they do not discuss and yet which is critical to the understanding of creative destruction in the music industry. Their conception of the value network view assumes that not only the business but also its *customers* fail to see a use for the new technology. There is no analysis of what happens when, as in the case of the music industry, the *customers* see a use for the new technology but the *company* does not see its application within their current business model, or can only see that it disrupts their current business model and so tries to defend against it.

When the major labels tried to defend against their own customers' uncontrolled and almost uncontrollable use of these new technologies, as will shortly be described, there was an immense tension. This is also not tackled in Afuah and Tucci's analysis. Rather than, as they suggest, companies being "blinded by listening to their important customers" (p.396) who don't see a use for the new technology, some record companies could be said to be both blind and deaf to many of their customers completely. Possibly this is because they are ignoring them in the hope that the technological threat will somehow, eventually, be neutralised, but equally likely is the possibility that they are being driven by the needs and requirements of a completely different set of 'customers' to those who buy the records; perhaps the shareholders, perhaps the one in ten superstars whose revenue-generating properties satisfy the shareholders, more likely a combination of both.

To acquire financial returns through innovations arising from the creative destruction wrought upon the music industry by the introduction of the internet and related technologies requires some form of enforceable legal right, creating a tension between this

requirement for tangible ownership in the face of the ambiguity and elusiveness of digital content. Teece (1986) had already emphasised the importance of enforceable intellectual property rights in the face of creative destruction. The importance of an enforceable doctrine of copyright has been shown in previous chapters to be critical to the continued existence of the music industry as it was configured at the end of the 20th Century. However, through what Christensen calls disruptive innovation (2003), the introduction of the MP3 undermined the doctrine of copyright, made such legal rights less enforceable and thus posed new problems for the music industry.

### ***3.6.5 MP3 compression technologies and disruptive innovation***

There were two main technological developments which enabled the transfer of digital musical data from one carrier or device to another without restriction. These were the digitisation of audio, and the increase in computer-based semi permanent memory (such as computer hard drives, Zip drives, and CD-Rs). However it took a third factor, the development of simple and free compression technologies in 1997, to enable music files to be simply and quickly transferred – copyright free - from one device to another, frequently through peer to peer (“P2P”) file-sharing networks. It was only then that the music industry found itself confronted by a new and seemingly insurmountable threat, that of illegal downloading. This was only exacerbated by greater ubiquity of broadband internet access on a global scale, which made the downloading of compressed music files not only simple and fast but also widespread.

As was discussed in section 3.2, copyright laws are seen to express the tension between the need to spread culture, and the need to reward authors/copyright holders. Each technological development in the last 20 years appears to have increased the possibilities of public access whilst related extensions to copyright are seen to largely reduce authors’/copyright holders’ rewards. In December 1998 the rise of P2P file sharing networks was made possible by the development of MP3 streaming software (Ponce, 1999) and the MP3 format achieved global relevance to the music industry, its artists and consumers (Katz, 2004; Kasaras, 2001). In 1999 internet searches for ‘MP3’ had overtaken the number one search term, ‘sex’ (Sullivan and Jones, 1999). The MP3 facilitated the free – and copyright-free - trading of music over the internet and not only revolutionised the audience’s listening experience but also undermined the financial importance of physical

recordings and therefore, potentially, the importance and power of the music industry companies built upon them (Alderman, 2001).

Where the paradox of ‘creative destruction’, as described above, initiates a series of events with wide reaching and deep impact, it was the smaller ‘disruptive innovation’ (Christensen, 2003) of the “MP3” that really changed the music industry. Whilst the internet was a fundamentally disrupting influence on many organisational forms worldwide, for the music industry it was not until the introduction of the MP3 that any significant threats to the status quo were noticed. In the late 1980s investigations into compression techniques at the Fraunhofer Institute for Integrated Circuits led to the eventual development of Motion Picture Experts Group MPEG1 Layer 3 (now better known as the MP3 format) in 1992. Its use for the compression of digital music files was completely unintended (Fox, 2002; Leyshon, 2001): it was initially intended to be an international standard for the coded representation and combination of moving pictures and audio, to help develop a competitive interactive television industry.

MP3 is a compression program which analyses the profile of digital packages and simply removes repetitions and redundancies (Katz, 2004). MP3 allows for near-CD quality audio fidelity, certainly high enough to satisfy all but the most sensitive listener, and very small file sizes; dependent on certain variables, a track would occupy up to a twelfth of the space that it would usually take up on a CD without any readily discernable compromise in audio quality.

MP3 had no immediate impact on the music industry (Leyshon, 2001). In the early 1990s very few people were aware of the format, and even fewer had access to MP3 software files. By 1996 however, microprocessor speeds in home computers had developed to the extent that the MP3 decompression algorithm would run in real time. At this point, Fraunhofer released the MP3 encoder and decoder as freely available ‘shareware’ on the internet. This was critical to the development of the MP3. Unlike cassettes, CDs and other technologies discussed so far, MP3s could be reproduced over a general, open and international standard hardware configuration (in the main, the PC) without requiring users or listeners to buy dedicated reproduction equipment, apart from a relatively inexpensive software package (Leyshon, 2001).

Increased connectivity and new software, such as Shaun Fanning's development of peer-to-peer ("P2P") file sharing service, Napster, was needed to spark wide interest in the possibilities inherent in the MP3 format. Napster was the most famous of the early P2P networks, started in 1999. Whilst closed down through legal action in 2001, the court case brought to do so served only to highlight to previously unaware users that P2P networks existed, and spawned a wide variety of other less easily located file sharing networks which continued to undermine traditional music industry business models and value chains. Even after Napster was closed down in its illegal iteration, increasing numbers of file sharing networks are in action and increasingly popular, efficient and effective: "consumers have a great reluctance to pay for music in digital form, mainly because in recent years so much of it has been freely available on the internet" (Leyshon et al., 2005 p.5).

New, smaller or less well-established record companies and artists started to realise that some of these new technologies – in particular file sharing and P2P networks – could perhaps be of benefit and help them to take advantage of the increasing porosity of the traditionally enclosed and costly networks of production and distribution by giving them more direct access to a wider group of potential consumers (Breen and Forde, 2004).

As Hirsch points out (2000), as the cost of technologies for making a record decreased, so the control of distribution networks became more critical if the majors were to control returns on their investments, a sentiment later echoed by other commentators (Leyshon et al., 2005; McCourt, 2005; Dolfsma, 2004; McCourt and Burkart, 2003). The control over and boundaries between the elements of the music industry value chain were threatened as control looked to be wrested from the record companies in particular through use of the MP3 – as it was a new, ungoverned and perhaps ungovernable technology which completely disrupted the old order of locked down distribution. If control of distribution was lost, so was control of the revenue streams generated through copyright ownership. Dolfsma predicted that:

"the current system of copyrights based on geographical boundaries, an institution which distributes income within the industry...will lose much of its rationale. As a result, the music industry will change dramatically. Attempts to maintain or strengthen excludability and rivalry created by copyrights on music products is (sic) both undesirable and infeasible. The current system of copyrights is largely ceremonial, benefiting non-creative intermediaries handsomely. Changes in the way in which this industry works will be welcomed by both consumers and musicians" (2000)

Christensen (2003) describes this sort of disruptive innovation clearly in his book, 'The Innovators Dilemma'. Christensen did not accept the explanation of why large, incumbent firms often lose market share to new technologies (which, in essence, was usually attributed to poor management). Instead, he argued that good management advances *sustaining* technologies (those that improve the performance of their proven products) but fails to advance *disruptive* technologies – those where the new product or service costs less than existing products based on the old technology but performs less well to start with. Technological progress swiftly enables this disruptive technology to outperform sustaining technologies but by this time it can be too late for incumbents - who have not invested from the start - to take advantage of the disruptive technology enabling new entrants to compete and defeat them.

Christensen's distinction between 'sustaining' and 'disruptive' technologies provides powerful insights if applied to the music industry. Christensen predicted that, over time, disruptive technologies would improve in features, reliability and provision of value to the customer, and often penetrate the lower end of the traditional technology's market, a description which matches exactly to the development of the MP3 format. Christensen proposed that the disruptive technology is usually, initially, inferior to the established technology, and consequently has nothing to offer already established customers.

It should be noted that although *established* customers may find no value in these technologies, disruptive technologies generally offer value to some users, however peripheral and new to the market they may be, otherwise they would never get purchase on the marketplace at all (Moore, 2004). To music industry artists, record labels and consumers the fundamental difference between the internet and all technological developments before it was the internet's provision of borderless interactivity, allowing for freedom of exchange of ideas, opinions and – critically – digital information (which included high quality music files).

Although the music industry had been threatened by home-taping of copyrighted music direct from the radio onto music cassettes in the 1970s, there were significant differences between cassette taping and digital file exchange. Cassette taping had proved a double edged sword, increasing sales and revenues, but encouraging the industry's two main financial headaches; home taping and piracy (Hallberg, 2003; Garofalo, 1999). The industry



responded swiftly; a major publicity campaign that exclaimed '*Home Taping is Killing Music*' was initiated, and the IFPI instigated an international campaign to tax blank tapes and equipment that could be used to compensate copyright holders for their loss of income (Garofalo, 1999). However, serial copying with magnetic cassette tape led to severe degradation of quality after the 3<sup>rd</sup>/4<sup>th</sup> generation copy and also was mainly restricted to local networks of contacts within physical or occasionally postal range. Digital file exchange did not cause degradation; every copy was as good as the first, so one unauthorised copy could flood the illegal marketplace, with a direct effect upon legal sales. Also digital files could quickly, simply and freely be exchanged worldwide through the P2P file exchange mechanisms simply found on the internet using almost any home, school or even office computer. Despite the conceptual similarities between the two types of sharing, there was no doubt as to which the music industry feared the most. To the traditional music industry, P2P file exchange embodied the worst aspects of a fusion between home taping and digitisation. It offered unlimited potential for unauthorised, copyright-free, serial copying as well as distribution, combined with no loss of audio quality, and there seemed to be few, if any, effective restrictive mechanisms that the industry could use to combat or control this activity.

### ***3.6.6 Stealing, sharing or sampling?***

Far from taking advantage of or following the technological possibilities that emerged throughout this period, record labels and their representatives protested that illegal file sharing was detrimental to sales of music (Engber, 2005). The more of a problem it became, affecting CD sales and industry revenues, the louder the labels and trade bodies such as the BPI protested. However it could also be proposed that P2P networks facilitated the exchange of information and taste and was a way to discover new music, recommend music, and to filter music, based on user's knowledge of each other's preferences. Initially, the main users of illegal P2P file sharing systems were those in their youth. Not only was music a central focus around which much of their social activity took place, but also they were far less likely to have the credit cards which would enable them to buy online. In 2005, Jupiter Research found that "the bulk of paying downloaders come from the 25-44 age group" (Slocombe, 2005).

There were some important exceptions to this finding, whilst also providing a clear example of how technologies could facilitate consumers' acquisition of music in a new way, distant from the control of the record label. D, a mini-major label owner, said:

“podcasting is bloody disruptive if you are a copyright holder! But it’s a tremendous opportunity for consumers and for radio, for example. Look at the Radio Three Beethoven experiment, it’s a case in point, They were expecting 40,000 downloads, and in the first week alone got 657,000 and counting, all getting the hang of getting around control mechanisms. Once these hundreds and thousands of people realised how simple it was – and even though they were an older demographic I bet, it won’t have taken them long – voila. A whole new ship full of potential bloody pirates” (7<sup>th</sup> July 2005)

The experiment, in which all nine Beethoven symphonies were made available to download for two weeks, ultimately attracted 1.4m downloads. However despite this cynicism, D was clear that he felt the music industry had been slow to take up the opportunities offered by technological developments

“The music industry has been stupid – music has always been about technology - why do you think so many musicians are mathematicians and vice versa? But how strange is it that the industry has always got technology wrong? In the 30s they tried to kill radio, and when the internet came along nothing was done about it for 10 years except by the little guys, the individual musicians who could see immediately how they could take back a bit of control...the industry is not sexy, cool and fast moving – it is essentially a very conservative and slow moving business, where those in control have others who make their phone calls for them”

Although sharing violated the author’s right to issue copies of his work to public, if it exposed new music to a consumer likely to buy music then it could encourage sales: “sharing of digital material might actually facilitate buying in the long run” (Brown et al., 2001). If it was true that when consumers made copies they would not buy the originals, they would deprive rights holders of revenues and ultimately defeat the purpose of copyright (Gal et al., 2003). Early literature suggested that those who copied illegally were also enthusiasts who also bought music legally (Brown et al., 2001; Burnett, 1995). Garofalo (2003) highlighted a study by the University of Southern California, which that over 73% of students who downloaded MP3s still bought spent at least the same amount of money on buying CDs as they had before downloading was possible – and sometimes more. This was supported by later reports (Matthews, 2005). Empirical evidence from Oberholzer-Gee and Strumpf revealed that “downloads have an effect on sales which is statistically indistinguishable from zero” (2007) a stance absolutely inconsistent with claims that file sharing was the cause of the decline in sales of music. Their work is

supported by research on the Japanese (Tanaka, 2004), American (Gopal et al., 2006) and Canadian markets (Andersen and Frenz, 2007).

CD sales showed a gradual but consistent year on year decline over the first few years of the 21<sup>st</sup> Century, from 2.5bn units in 2000 to 2.043bn units in 2004. The rise of the digital format started to be tracked officially by the IFPI in 2005, when it accounted for 5% of all music sales, reaching 27% in 2009. But the telling statistic across this time period is that despite a 940% increase in digital sales between 2004 and 2009, the total music marketplace was drawing in 30% less revenues overall (IFPI, 2010). Oberholzer-Gee and Strumpf (2007) proposed a number of alternate reasons for the dramatic reduction in sales of CDs which had nothing to do with illegal downloading, and more to do with poor macro economic conditions, changes in music distribution (in particular its use as a loss leader in major retailers like Walmart and Tesco), and the natural conclusion of a period within which customers were replacing their older music formats such as cassette and vinyl with CDs. However they also highlight a more overreaching trend, that of increased competition from other entertainment forms and technologies such as DVDs, and mobile phones. It should be noted that the later Canadian report by Andersen and Frenz, referenced above, disputed this, finding that

“purchases of other forms of entertainment such as cinema and concert tickets, and video games tend to increase with music purchases. It has been argued in the literature that the increase in the number of entertainment substitutes has led to a decline in music purchasing, but our results do not support this hypothesis.” (2007 p.3)

The Canadian study showed that the impact of P2P file sharing was in fact to *increase* sales due to the sampling effect; where files were downloaded for free they were acquired in that way more because they simply were not available elsewhere rather than in substitution for purchase. Gopal et al in their study in America also found that

“decreasing sampling costs not only lead more potential consumers to sample unknown music items but also lead more consumers to buy the music items that they have sampled. This directly follows from the fact that lower sampling cost have a positive effect on the consumer surplus of samplers, which, in turn has a positive effect on their purchasing intentions” (p.1529)

Oberholzer-Gee and Strumpf found that the effects of file sharing were somewhat ambiguous, raising some difficult questions: do more people buy music as they are able to sample to more music and find new artists that they are prepared to pay for? As file sharing tends to attract those who are time-rich but cash-poor are they therefore less likely *ever* to

buy music? Does the network effect of being able to share music devalue the original? A robustly-constructed and significant piece of research performed in the Netherlands across 2008-2009 and published in February 2009 answers some of these questions:

“File sharing provides consumers with access to a broad range of cultural products, which typically raises welfare...one track downloaded does not imply one less track sold. Many music sharers would not buy as many CDs at today’s prices if downloading were no longer possible, either because they cannot afford it or because they have other budgetary priorities: they lack purchasing power. At the same time, we see that many people download tracks to get to know new music (sampling) and eventually buy the CD if they like it. To the extent that file sharing does result in a decline in sales (substitution), it usually entails a transfer of welfare from producers to consumers.” (Huygen et al., 2009 p.3)

### ***3.6.7 Music industry responses to technology***

Record companies have continued to aggressively defend against P2P file-sharing technologies, through digital rights management (DRM) formats (Garfield, 2005; Garfinkel, 2002 CHECK REFERENCE) and legal action. It was not only the main industry representative bodies which were against software formats; many artists were also supportive of the traditional power relations within the industry (Leyshon, *ibid*, p53). Unlikely collaborators Madonna and heavy metal group Metallica (Anonymous, 2001) were high profile proponents of the major labels’ stance on software formats – although opposed by equally high profile artists as both Bruce Dickinson of heavy metal band Iron Maiden, and John Barlow, lyricist for The Grateful Dead and co-founder of the Electronic Frontier Foundation, a collaboration of pro-sharing artists. Barlow has commented pithily: “You gotta love Metallica. They were a pain in the ass to their parents. Now they’re going to be a pain in the ass to their kids.” (Barlow, 2001). After the release of the album *Year Zero*, Trent Reznor of Nine Inch Nails told fans in Australia during a live tour to

“STEAL IT. Steal away. Steal and steal and steal some more and give it to all your friends and keep on stealin’. Because one way or another, these motherfuckers will get it through their head that they’re ripping people off and that’s not right” (Moses, 2007).

Other artists exhibited a more progressive discourse surrounding the emergence of software formats, asserting that, whilst they may radically change the structure of the music industry, destroying the hierarchies, notions of ownership and exploitation of property rights that are dependent upon that structure, this may be a desirable outcome. A useful example of this discourse can be seen in Rose (1999), a heated exchange between Chuck D (of pro-sharing

rap group Public Enemy) and Lars Ulrich (of anti-sharing group Metallica). In the process, this discourse taps into the romantic, David and Goliath notion of the ‘artist against the corporation’, creativity set against commercialism in a digital context (Negus, 1999; 1995).

Leyshon et al, in an analysis of the musical economy after the internet (2005) described the response of the majors as “a range of offensive and defensive strategies” (p.199) all intended to preserve the traditional business model of the music industry. As has been described earlier in this dissertation these strategies include defensive attempts to maintain their dominant position, whilst attempting to change the nature of networks of reproduction by shutting down P2P networks wherever possible (and suing the users of those that withstood legal process) whilst trying to replace them with proprietary subscription and downloading services. At the same time, they held on to their position within traditional physical distribution networks and tried to lock in a position closer to the artist than they had previously occupied by moving into areas that were previously left to agents, artists and management teams. These included ring tones, merchandising, live events, advertising sales on artists’ websites, and licensing of album artwork.

DRM has been less than successful: BMG caused high profile consternation in 2002 when it sold CDs loaded with copy-protection software without putting warning labels on the CDs (Smith, 2001) and Sony’s attempts to implement similar technologies ended up rendering users’ computers open to malicious viruses and resulted in a number of lawsuits against the company (The Associated Press, 2005). Wigand had already proposed that technical solutions to combat unauthorised copyright use would always be overcome: “technical solutions by their nature will always be temporary *ad infinitum*” (2003 p.250) and this was proven by the next wave of P2P services which did not take long to establish themselves. KaZaa, MusicCity, WinMX, Bearshare, Mesh, and Aimster were all confident that they would have more staying power than Napster (Leonard, 2001). This assertion was boosted because of how this new wave of P2P networks was established; they were

“a-centred, and difficult to ‘ground’ once they are in operation. They exist as relational entities, self-organizing software programmes (sic) that operate on the internet through the computers that happen to be running them at any one time” (Leyshon et al., 2005 p.13).

As for legal action, it has frequently been pointed out that litigating against customers is not a sound business strategy (Deshmukh, 2004; Kushner, 2002; Sherman, 2001). It is important to note that the application of legal tenets to an increasingly digital music industry creates unusual problems. It is by no means easy to establish a definition of ‘a musical work’ (is a ringtone a musical work?), the ‘author’ of a musical work (especially in the case of technologically-facilitated, complex sampling and adaptation of other people’s music), or the various rights of the various ‘creators’ of that work (Frith 1988).

Litigation was a public relations disaster for the music industry: users were pushed towards more anonymous services where infringement was not so easy to track (Resnikoff, 2006; Scott, 2001). The Recording Industry Association of America (‘RIAA’) which represents the major labels of the recording industry in the United States, was initially prepared to issue subpoenas against individual users of Napster (Mamudi, 2003) – in particular students with ready access to high bandwidth connections from their colleges, as well as the parents of file sharing children. The RIAA stated that every downloaded file represented a lost sale although as has already been noted in this chapter, this has been disputed in a number of respected texts (Andersen and Frenz, 2007; Oberholzer-Gee and Strumpf, 2007; Tanaka, 2004) and typically sought around \$750 damages per file. As well as being criticised for intimidation and the abuse of bulk legal action or ‘spamigation’ (Templeton, 2004) the RIAA rendered their actions less than credible by sending subpoenas to, amongst others, a dead grandmother (Bangeman, 2005), a computer novice of 66 accused of downloading rap records (BBC, 2003), children under 12 (Borland, 2003), a teenage transplant patient (Ryan, 2008) and even those with no computer at all (Bylund, 2006). As Lewis et al commented in December 2005:

“The current ongoing legal battles may not in themselves resolve any... issues in the supply of music. What they have done is attracted a great deal of attention towards the issue of digital music, how it should be made available to the public, and at what price. The major question that all this poses however is how the music industry will change in response to this” ( p.355).

As a result of this pressure upon copyright as a revenue generating mechanism, two shifts in approach have supplemented and at times replaced record companies’ traditional reliance on distribution as the key income-generating activity. Firstly, the major labels moved towards a narrower focus on popular music, internationally known classical repertory, and a small selection of more niche artists (usually already well known in their own right) in order to benefit from the ‘star system’ described in 3.5 above (McCourt and Burkart, 2003;

Burnett, 1995; Gronow, 1983). Secondly, there was an increase in the generation of revenues through the administration of a wider range of rights in addition to that of copyright, leading to the so-called ‘360°’ (known colloquially as a ‘kitchen sink’) deal, in which the record label took a percentage of a far broader range of products and services surrounding the artist than just record sales as was more usual. They would then pay a very large upfront fee to the artist, but take a large percentage of merchandise, tour income, video sales, licensing, ringtones and other relevant content and collateral that an artist might generate. One driver for this has been the rapid increase in the size and nature of the media marketplace, and a consequent requirement for more content; the revenues generated from performance rights, for example, increasing as a result. Thus for established record companies, the decreasing importance of physical distribution in the face of digital downloads was supplemented by the ongoing extension of copyright, more control of existing rights (such as exclusive rights over broadcasting and back catalogue), the creation of new rights (such as translation rights) and attempts to control *all* uses of a work (McCourt and Burkart, 2003; Dobie, 2001). However Bilton identifies another, possibly more disturbing but, for many artists interviewed throughout the research, true reason for these deals:

“one high profile advance promulgates the myth of the majors...encouraging losers to keep playing the game” (2007, pp16-17).

The transition of music from analogue to digital formats was not in itself a significant change. It was certainly an *evolutionary* step in that it shifted much of the distribution of music to an electronic supply chain, removing the absolute need for many intermediaries. The *revolutionary* aspects come from the fact that digital technologies changed the locus of value within the music industry and started to renegotiate the music marketplace for labels, artists and consumers. As a result, business models have had to be reconfigured in order to adapt to the new environment, which this author has described as providing a plethora of opportunities for small independent labels such as MVine (Papagiannidis et al., 2005).

An interview-based study of the impact of internet technologies on the music industry suggested that changes in the music industry would be far-reaching, but disputed the likelihood of total disintermediation of the record company (Kretschmer et al., 2001). Wigand asserted that technology was an enabler, but that it was a record company’s business model, rather than technology in itself, which was the key to success in the new

era of digital music (2003). The possibility of a new consumer-led distribution channel was highlighted (Milom, 2006; Lam and Tan, 2001) the latter proposing that this was because competition would be intense and that, to remain truly relevant and valuable to these newly empowered customers, the key players in the music industry would have to concentrate on their core competencies whilst re-examining their value propositions.

Linder and Cantrell repeated the requirement for elasticity within music industry business models, saying that they would need to be flexible and adaptive because “business models wear out. Competition catches up, markets shift, technology changes, and firms must alter their business models to remain viable” (2001). This principle was underlined almost a decade later by David Teece, who said “The right business model is rarely apparent early on...entrepreneurs/managers who are well positioned and can learn to adjust are more likely to succeed” (2010, p. 187). Firms would thus need to alter and adapt their business models to remain viable in the face of new entrants to the market place.

What has not been articulated to date was the fact that these ‘new entrants’ might not be other record labels, but could be an industry entrant from a sector previously not directly related to music production, such as event management companies like Live Nation. Or it could be an individual. Svejenova et al. note that artists, amongst others, have individual business models which allow them to pursue specific interests. In their article they follow the emergent business model of a chef; “gastronomic innovator and entrepreneur Ferran Adria...of three-star Michelin restaurant el Bulli” (2010 p.409). This study shows that the concept of a business model has both significance and usefulness when applied to an individual. Thus an artist without a label could be a “new entrant”, historically tied into the music label business model but increasingly free to produce, distribute and profit from their own work without assistance.

### ***3.6.8 The ‘Long Tail’ and the ‘Strength of Weak Ties’***

Whilst advances in hardware and software technologies provided the consumer with greater access to more ways to listen to and store music, there was also a rapidly increasing range of available music that the consumer could access. The consumer was able to use internet based social networking sites such as Bebo, Facebook, MySpace and Friendster, recommendation websites like Pandora.com and MusicIP.com or simply a globally-



extended word of mouth network through email, blogging, communication networks like Twitter and instant messaging, to discover artists that they would otherwise never have come into contact with through the traditional music 'gatekeepers' of TV, radio and the music press. These networks of communication, facilitated through new technologies, tie directly in to Granovetter's theory of the 'strength of weak ties' (1973).

Consumers of music found a collective voice and experience on online social networks that started to emerge in the early years of the 21<sup>st</sup> Century. The concept of a social network is not a new one. Garton and her colleagues, in studying online social networks in the very early days of the internet defined a social network as "a set of people (or organisations or other social entities) connected by a set of social relationships, such as friendship, co-working or information exchange." (1997). The effect of technological developments such as the internet and the related increases in compression ability and storage capacity redefined the notion of a social network, expanding its reach through a global online presence and redefining the content of and contributors to networks – online social networks enabled people to connect beyond the local, whilst retaining common ground.

Granovetter distinguished between the effects of 'strong' and 'weak' ties in social groups, making it possible to distinguish between 'reciprocity' and 'reach'. In his American Journal of Sociology article he described the strongly reciprocal ties of friends, family and close collaborators which create efficient, tight knit communities of practice sharing ideas, information and values. Whilst efficient, these communities lack reach, are also often insular, inflexible and so can become cut off from new ideas, information and values. Granovetter identified the 'strength of weak ties' as lying in their increased reach; the extension of the grouping to include less directly reciprocal ties of acquaintance between intermediaries who might otherwise not speak with or learn from each other, never achieving what Bilton has called "the frisson of the unexpected encounter" (2007 p.47). These developments sometimes presented social network users with problems as well as benefits, in particular that of filtering through the rapidly expanding volume of available music content, as increasing numbers of own label and unsigned artists used new, accessible and simple to use technologies to make their music available to anyone in the hope that potential fans would hear it.

Through internet technologies Granovetter's concept of reach can be applied to newly emerging musical networks. It highlights the opportunity for those at the adjoining peripheries of a music-related network to enrich each other through exposure to new and different music that would not previously have been obvious to either party. This can be seen in operation through recommendation networks such as Pandora, as well as file exchange through P2P networks and collaborative filtering mechanisms – MySpace's recommendation mechanisms, Amazon's 'if you like that you might like this' function.

The internet thus provided not only access to the so called 'Long Tail' - the "world of abundance" predicted by Anderson (2004) – but also offered a platform for a variety of guides through the content to be found there, as out-of-print or niche music was as easily accessible as that week's Top Ten. Where the consumer had previously been restricted to the purchase of physical, officially released and currently available singles or albums it was now possible to download individual tracks, from current popular hits to rarely-available music. The consumer could find and acquire what they otherwise may not have been able to access. The benefit to the artist was not always directly from income, particularly when music was downloaded illegally, but they could increasingly easily acquire and exploit profile and consumer interest through the revitalisation of individual tracks, entire albums and other musical works that would otherwise have been inaccessible to, and possibly unknown by potential consumers.

Globally, the music industry has generated significant financial rewards, although overall sales of music fell dramatically over the first decade of the 21<sup>st</sup> Century. The industry's total global retail value in 2000 was \$36.9bn and this has declined to \$27bn by 2009, of which over 27% was generated by digital channels (IFPI, 2009)

In 2008 two further milestones were reached. Atlantic Records became the first label for whom the revenues from digital sales of their artists work were greater than physical product sales (Tryhorn, 2008). And importantly, revenues from live events overtook those from recorded music sales in total for the first time, pointing to the increasing importance of live performance. "it is clear that the "value" in music lies in persuading fans to part with large sums to see someone sing it live" (Milmo and Hughes, 2009). As Hersh has explained in interview with Shepherd (2010b) it may be that history will reveal this time as being a brief period when instead of having to 'listen with their feet' by attending live performances, audiences could buy into a commoditised and mass-consumption model

repertoire of pre-produced musical content on cylinder, wax, tape or disc. The compression and digitisation of music via the MP3 and its successor technologies freed it from this commodity status and the live performance becomes unique, special and prized alongside, if not above, ownership of the recording.

Holt has recently written persuasively on this subject (2010), pointing out that whilst music recordings become promotional products with a more virtual existence, live music has become an extremely important part of an artist's professional activities – “artists consider recordings less a revenue stream than a publicity tool for touring” (p. 248). A report from PRS suggests that (in the UK at least) there are in fact fewer live music events which nevertheless led to a productivity gain over 2009 as “the majority of events sold out and did so with higher ticket prices” (Page and Carey, 2010). However this does not take into account those many unnoticed occasions where an artist will play unpaid, or for nominal fees in local clubs and pubs for the value of the exposure alone. Not every artist is able to charge superstar prices, if they charge at all, for their live work. And the nature of the live music promotional industry makes it almost impossible to track these details precisely, as Frith et al. have recently commented:

“The (live music) promotional business is a mess of contradictions – a contract based business without contracts, an exploitative business based on face-to-face goodwill, a highly regulated business which often seems close to chaotic (and criminal)...what matters is to understand that local, small-scale do-it-yourself promotion remains as necessary to the live music ecology as Live Nation et al”(2010).

### **3.7 Summary**

This chapter has clarified that the ability to exploit copyright is central to the business models, operations, decisions and profits of the music industry. The ability to upload and download recorded material whilst bypassing this central control was a fundamental threat to the continued existence of the traditional industry business model. The effects of this upon the traditional music industry have been shown in this chapter and so a number of potential consequences can be determined; disintermediation of traditional record labels from their previously privileged and protected roles; opportunities for some artists to sidestep the requirement to be subsidised by a record label advance in order to have any chance of ‘success’; the consequent demand upon artists to take responsibility for the business aspects of their music, in particular the marketing and promotion of their work;

the increasing importance to consumer, artist *and* label of live performances; the increasing involvement of the consumer with the newly expanded and permeable music value chain.

Boundaries between artist, distributor and consumer were starting to blur. This was particularly significant to the record companies as it problematised issues of ownership. If one could simultaneously, simply and cheaply act as both artist and record label, how would this affect issues of control, both of product and of revenues generated from that control, which had up until now supported the structure of the music industry (Beer, 2005b; Poster, 2004)? As Martyn Ware, founder member of popular 1980's bands including "The Human League" and "Heaven 17", said when interviewed in early 2006:

"the lines are dissolving in the music industry... and collaboration between artists and labels and other parts of the cultural or marketing industries are definitely the way forward" (Cooke, 2006).

The central importance of the research questions proposed is therefore highlighted – what do these technologically mediated changes mean for future music industry value chains and business models? Chapter 4 now describes the methodological approaches selected by the author in order to find valid, generalisable and robust answers to these questions.

## Chapter 4. Methodology

*“If we don’t know how we are going to do this, how the hell can we know where we are going with it?” (M)*

*“But if we don’t know what we are trying to do, how can we know when we are doing it right?” (J)*

### 4.1 Introduction

This chapter assesses the methodological options open to the researcher in the light of the practical issues surrounding this research. Alternative methodologies are evaluated, along with analysis of their underpinning philosophical perspectives which creates a structured rationale for the proposed research design and methods. Taking into account both the opportunities which made this research possible, as well as its limitations, the chapter details how a final selection of methods, design and analysis were made, guided at all times by the centrality of the research questions. The chapter describes the central, instrumental study of MVine Ltd, about which there is more detail in later chapters. It provides practical illustrations of the reasons for and the methods of triangulation used in the research. The chapter also presents a discussion of how ethical issues relevant to the methods used were managed and discusses how unforeseen issues were handled as they arose. This chapter bridges the gap between what is being investigated, and the results of that investigation, presenting a clear overview on precisely how the research was performed.

### 4.2 Research aims and objectives

All research needs to be organised around a common set of structures, issues or concepts; these are framed here in the research questions, which (as has been elaborated in the introductory chapter) are the result of a process which refines the nuances of increasing complexity that arise across the course of every type of research. As has been demonstrated in the early chapters of this dissertation, two primary questions emerge.

*Q1 – how have traditional music industry value chains changed as a result of technological developments?*

*Q2 – what are the key characteristics of successful music industry business models arising from these changes?*

### **4.3 Philosophical perspectives**

This section tackles the philosophical issues attendant upon the choice of research design, the detail of practical and theoretical challenges that might be made, and the researcher's responses to these. The following section discusses the underpinning theoretical frameworks applied to the research, the application of which helped to move it consistently and cohesively from initial research design to data gathering, analysis and presentation.

Crotty (2003) establishes four essential questions which need to be answered when developing a research proposal. The first two are more practical in nature: what methods are to be used, and what methodology governs the choice and use of these methods? The second set of questions lends itself more to the philosophical issues involved: what theoretical perspective lies behind the chosen methodology and what theory of knowledge, or epistemology, informs this perspective? All research is based on some underlying assumptions about what constitutes 'valid' research and which research methods are apt for the particular subject matter (Silverman, 2005) and this basic set of assumptions and beliefs – or worldview – sets a researcher's approach to both the social sciences as a whole and to the validity of their own work (Creswell, 1994). It is for this reason that every researcher must outline the paradigms that guide their research, the patterns or examples that underlie their methodology.

Each researcher has a different way of viewing, experiencing, and therefore researching their world. Their underlying ontologies (the study of being: the way that the researcher views the world) and epistemologies (the study of knowledge, science, model and testability, together with the assumptions that the researcher has about knowledge and truth, and how these can be obtained (Bunge, 1996) comprise their Inquiry System (Mitroff and Linstone, 1993). Without a sound understanding of philosophical issues the researcher can not clarify the research design, or be able to recognise those research designs that will and won't 'work' in their particular circumstances. A knowledge of philosophy helps to create or identify designs outside a researcher's own experience, including the adaptation of designs in accordance with the constraints of different subject or knowledge structures (Easterby-Smith et al., 2003).

The most relevant assumptions to start with are those which relate to the epistemology guiding the research. Guba and Lincoln (1994) suggest four underlying paradigms for qualitative research: positivism, post-positivism, critical theory and constructivism. Orlikowski and Baroudi (1991) suggest three approaches: positivist, critical and interpretive, each based on the underlying research epistemology. The following discussion shows why, for this research, it is the interpretive approach which will be adopted here. But it should be noted that the philosophical differences between these categories are not always reflected in the practice of social research (see, for example, Lee, 1989), and that it is not generally agreed whether these research paradigms are necessarily opposed or whether they can be combined within one study (Myers, 1997).

#### ***4.3.1 Positivistic***

Positivistic research is often associated with quantitative data collection methods, and it evaluates reality using objective measures independent of the observer and their instruments (Easterby-Smith et al., 2003). Strategies frequently used in quantitative research include surveys, laboratory experiments, statistical analysis and mathematical modelling. Positivists focus on facts, and search for regularities and causal relationships through a process of reductionism, in which the whole is further and further reduced into its simplest constituent parts. It is unrelated to any religious, political or ideological set of beliefs, and founded on mathematics (therefore having a universal language) which provides a formal basis for quantitative analysis. Usually positivist studies try to test theory to increase predictive understanding of phenomena. Research is positivist if there exist

- Evidence of formal propositions
- Quantifiable measures of variables
- Hypothesis testing
- Drawing of inferences about the phenomenon from a sample, to a stated population (Orlikowski and Baroudi, 1991)

Positivistic research frequently derives its hypotheses from existing theories, which are then submitted to empirical tests; this reliance on existing theories is criticised by opponents as being more inclined to preserve older, and not necessarily better theories (Feyerabend, 1975).

It is apparent from this description that a positivist approach would be impossible to apply to the research questions under consideration. Not only can a researcher not evaluate and measure music and the industry surrounding it in any statistical sense, but also the methods recommended (statistical modelling, laboratory experiments and the like) are inappropriate to establish a rich and detailed understanding of new interpretations of value, or effective analysis of emergent business models.

#### ***4.3.2 Critical***

Research is classified as ‘critical research’ when the researcher attempts to critically evaluate, and acts consciously to change, the social and economic circumstances under investigation. Although people can consciously change their economic and social circumstances their ability to do so is generally limited by various forms of political, social, or cultural domination (Klein and Myers, 1999; Myers, 1997). Critical research is mainly aimed at social critique and attempts to be emancipatory, bringing restrictive conditions to light and focussing on oppositions, conflicts and contradictions in contemporary society (Myers, *ibid*). This research aims to describe and evaluate the effects of technological change and development upon the music industry. It is not concerned with social critique and so critical research is not a relevant epistemological approach.

#### ***4.3.3 Interpretive – the selected approach***

This dissertation will be based upon an interpretive perspective, rather than the alternative positivist or critical approaches outlined above. The interpretive approach starts with the presumption that reality (given or socially constructed) can not be understood independent of its social actors. An interpretive researcher believes that reality can be accessed only through social constructions such as language, consciousness, shared meanings, documents, tools and other artefacts (Klein and Myers, 1999). The world is not, in this view, made up of a fixed selection of objects, but is more an emergent social process which is an extension of human consciousness and subjective experience (Orlikowski and Baroudi, 1991).

The philosophical foundations for interpretivism are hermeneutics - originally the art of interpreting biblical or judicial texts, with a contemporary focus on the interpretation of languages, culture and history - and phenomenology, which in its broadest sense insists on the primacy of immediate subjective experience as the basis for knowledge (Boland, 1985; Susman and Evered, 1978).



“The phenomenologist views human behaviour... as a product of how people interpret the world...in order to grasp the meanings of a person’s behaviour, **the phenomenologist attempts to see things from that person’s point of view**” (Bogdan and Taylor 1975, p.13-14, emphasis in the original, quoted in Bryman, 2004, p. 14)

Rather than predefining dependent or independent variables, interpretive methods focus on the full complexity of human sense-making as each situation emerges (Kaplan and Maxwell, 1994) – an ideal approach to analysis of an industry in the throes of turbulent and chaotic change such as the music industry in the early 21<sup>st</sup> Century.

An important characteristic to note is that ‘qualitative research’ is not necessarily the same thing as ‘interpretive research’ although interpretive approaches frequently call for qualitative research methods. Qualitative research can be interpretive, positivist or critical; the choice of qualitative method is totally independent of the philosophical position adopted. Case study research, as an example, can be positivist, interpretive or critical dependent upon the underlying philosophy of the researcher. Yin (2003) and Benbasat (1987) are good examples of positivist case studies, whilst Walsham’s work (Walsham and Waema, 1994) provides a good example of an interpretive in-depth case study.

#### **4.4 Qualitative research methods**

Qualitative research was developed within the social sciences, to enable researchers to study social and cultural phenomena (Myers and Avison, 2002). It is useful in understanding the meaning of phenomena which develop over time, within context-specific settings (Walsham, 1995) and is of value in investigations of issues that are not easily divided into separate entities, as in this dissertation. There are varieties of qualitative research methods, or strategies of inquiry, which move from the underlying philosophical assumptions that the researcher has, to the design of the research and ways in which data is collected. The initial choice of which method or methods are going to be used influences the way that a researcher gathers their data, both primary and secondary. Each method requires a specific set of skills, and implies specific assumptions and research practices.

Qualitative methods are useful for developing explanations of actual events and processes. When using them, the researcher assumes that they do not know enough about the situation in advance and an iterative approach to theory testing or generation is most appropriate (Kaplan and Maxwell, 1994). Case study research design is frequently used, containing

such methods as interviews as well as ethnographic approaches such as participant observation. Every qualitative research method uses one or more techniques for collecting empirical data – although the word ‘materials’, rather than ‘data’ may be more exact, as qualitative data is not often or even mainly numerical – ranging from interviews, observational techniques (participant observation, fieldwork) archival research and written sources (published, unpublished documents, company reports, memos, letters, email, faxes, newspaper articles and so on).

It is of interest to note a relatively recent inclination towards qualitative research methods in Information Systems (‘IS’) research. IS is a new but developing discipline which emerged in the 1960s, focussing on the development, use and impact of information technology in business and organisational settings (Myers and Avison, 2002; Myers, 1999). Reviews of IS research literature show that much early research from the 1960s was technical, focussing on the abilities and potential of the supporting software and hardware, and therefore undertaken from a predominantly positivist perspective (Orlikowski and Baroudi, 1991). However by the 1990s IS research related to a far broader range of relationships between IS and the organisation. As this dissertation reflects, it has expanded to cover issues such as communication, inter-organisational systems, collaboration, electronic commerce and the Internet. IS is recognised to be

“much more than simply the development of computer-based business systems— electronic and information technology is now so fundamental within society that IS as a discipline must concern itself with the general evolution of human communication” (Mingers and Stowell 1997 p240).

#### **4.5 The research design**

Having analysed the various philosophical and methodological options available it became important to look at those selected and understand how best to apply them to the particular – and frequently changing – circumstances of the case in order to answer the research questions satisfactorily; as Kumar has stated, “The validity of what you find largely rests on how it was found” (1999 p.16). This involved preparing a research design which would be robust and yet flexible, in order to allow it to track the nuances arising as the research developed. The prospective, rather than retrospective, and emergent nature of the research subject matter did not lend itself to the implementation of a rigid, prescriptive research design. It was also imperative that the research design encompassed two essential concepts, those of both internal and external validity.

The research was predominantly performed using a longitudinal study involving the instrumental case of MVine Ltd., a start up independent record label. The company considered that they had the opportunity to be the first to benefit from the application of a variety of newly available technologies to the *traditional* music industry business model and in the process create new mechanisms for creating value and so create a *new* business model. These technologies were underpinned by the Internet, and included software which allowed MVine to interrogate site usage statistics and to accumulate data on comments and ratings. This provided MVine with the ability to interpret users reactions to music hosted on the website to inform and thus identify which artists were most popular (and so were significantly more likely to be successful) and should be signed up to the label. This case was triangulated against the collection of collateral studies and expert interviews across the course of the research period in order to ensure representative information was gathered from all possible actors in the music industry, rather than relying on one bounded case to the exclusion of other informative and contemporary phenomena.

Orlikowski and Baroudi propose four case study time periods across which cases can be studied; the one-shot cross-sectional, cross-sectional across multiple time periods, longitudinal and process traces (1991). The first two, both ‘cross-sectional’, are static, snapshot research of a phenomena, and are most common in IS research – in the case of the latter of these two, multiple time periods use some measure which is applied on several separate instances. Process traces are those which don’t fit into any other category, for example, one in which continuous data collection is carried out, but over a single discrete event rather than over a period of time. Longitudinal time periods are those in which a researcher engages with the phenomena over an uninterrupted time period, as was the case here.

The study population comprised

- MVine (an in-depth study representative of an emergent technologically facilitated music business)
- established major and smaller record labels and artists (in order to answer to the research question around changes to traditional music industry value chains)
- new/emergent individual and own label artists, record labels and other businesses moving into the music industry (reflecting the changing nature of relationships resulting from technological developments which occurred as the research progressed)

Data collection methods used included participant observation, semi-structured and occasionally unstructured interviews, and the study of collateral examples through a structured yet evolving variety of online and offline mechanisms detailed below. The time frame for the research was “retrospective-prospective” (Kumar, 1999 p.87) from December 2003 until March 2006, followed by continued triangulation through the study of new and emergent activities within the remit of the research, and ongoing expert interviews where relevant and possible from this time in order to ensure continual interrogation of the results of the empirical research.

#### **4.6 Internal and external validity**

Whilst each research method selected within the case study design will tackle these issues separately, issues arise around internal and external validity which will be discussed here.

*Internal validity* requires the structure of the research design to enable absolutely unambiguous conclusions to the research questions. The way that the research is designed must be such that there cannot be any alternative explanations or interpretations for the findings produced. Equally, it is frequently held that the results of the research must be *externally valid* - generalisable to other situations outside those investigated. De Vaus has proposed that the goal of case analysis is theoretical generalisation rather than statistical generalisation (p.221). However, for subjects in the social sciences these requirements can be more problematic than for other academic disciplines, as the emphasis is on interpretation, and the findings could be said not to be findings at all but rather assertions. As will be discussed in more detail at the relevant point in this chapter, the author agrees with Stake’s proposition that “the real business of case study is particularization, not generalisation” (1995, p.9). It is also important to note the complexity introduced because

greater variety increases the extent to which results are generalisable, whilst at the same time homogeneity enhances the internal validity of such studies.

#### **4.7 The study design**

The use of multiple sources of evidence and combinations of methodologies in the study of the same phenomenon is identified by Yin as one of the fundamental principles of data collection within a case study, helping to ensure ‘construct validity’ by using multiple sources of evidence to establish a full chain of evidence and cross-validation (2003).

Eisenhardt has also acknowledged the fact that the triangulation made possible through acquisition of materials from both primary and secondary sources makes the substantiation of hypotheses proposed far stronger than materials gathered from using one single method (1989).

Yin (2003) describes a case study as an empirical enquiry that investigates contemporary phenomena within their real life context, especially when the boundaries between phenomenon and context are not clearly evident. De Vaus elaborates upon this in his description of a case study as “particularly suited to situations involving a small number of cases with a large number of variables” (p.231). De Vaus emphasises that case study is not a method, but an object of study, an element of the research design, a unit of analysis within which many methods may be applied (Vaus, 2001); “Any method of data collection can be used within case study design so long as it is practical and ethical” (p. 231).

Yin agrees with this emphasis, noting that the potential set of available methods with which case studies can be analysed has yet to be identified (Yin, 1989 p.27). Case studies have been advocated for both building and testing theories (Eisenhardt, 1989; Benbasat et al., 1987). Benbasat et al (1987) also clarify the case study as being suitable for examining a phenomenon (which may not be well defined at the outset) within its original social or commercial context, when a variety of methods are used to collect the data from individuals, groups or the organisation itself.

##### **4.7.1 Yin vs Stake – a choice**

The author finds Yin’s definition of a case study as a ‘unit of analysis’, and his very prescriptive approach to be problematic, drawing boundaries around what can and can not be legitimately studied within the research. Stake has proposed that “Case study is the study

of the particularity and complexity of a single case, coming to understand its activity **within important circumstances**” (1995 p.xi, the author's emphasis ). Benbasat et al (1987) reinforce this wider and less bounded perspective, noting case study design as being particularly appropriate for “sticky” problems, where action, experience and context are critical factors.

Yin (2003) comes closest to this approach in his emphasises on the value of an ‘explanatory’ case study for situations when the researcher wants to ask ‘how’ and ‘why’ questions, when they have little control over events, and when the focus is on a contemporary phenomenon within some real life context. Yin’s table, reproduced below, shows his interpretation of how these factors can influence the researcher’s choice of approach.

Strategy	Form of research question	Requires control of behavioural events?	Focuses on contemporary events?
Experiment	How, why?	Yes	Yes
Survey	Who, what where how many, how much?	No	Yes
Archival Analysis	Who, what where how many, how much?	No	Yes/No
History	How, why?	No	No
Case Study	How, why?	No	Yes

**Table 4.1 Relevant situations for different research strategies (Yin, 2003)**

Reflecting the difficulty that the author finds in applying Yin’s understanding of case study research to this current situation, it would seem that the instrumental study of MVine could be said to fulfil every one of the seemingly contradictory criteria for one, in-depth ‘case study’. This is said by Yin (2003) to be most appropriate when it represents an extreme or unique case, or when it is a representative or typical case, or when it is a study of a situation previously inaccessible to investigation.

- At launch, MVine was ‘unique’ - the only one applying its specific business model, which was created with the support of developing technologies.
- However it was also ‘representative’ - one of a spate of contemporary companies using new technologies to variously sell or promote music online, in which sense it was a representative of that group.

- The music industry is highly secretive and normally equally inaccessible to investigation. As such it is very unusual for external researchers to get access to the detailed workings of such a company, yet this researcher was extremely fortunate to be given open access to all aspects of the company, which in turn opened many doors that would otherwise have been closed to her. Even before being offered the opportunity to become part of the company, the researcher had a uniquely privileged insight into the creation and development of the company's business model and associated events. This was through her previous association with one of the two founders, which would not have been possible for any other individual to access

Whilst Yin's very linear and methodical approach does not therefore seem appropriate, Stake (1995) presents a perspective on case study research which this author finds more realistic and more suitable to the vagaries of case fieldwork, proposing that each is "a specific, a complex, functioning thing" (p.2). Stake recognises that whilst it is possible to identify different types of case and styles of study of these cases he makes distinctions between them,

"not because it will be useful to sort case studies into these three categories (often we cannot decide) but because the methods we will use will be different, depending upon intrinsic and instrumental interests" (p.4)

Stake's categorisation is that an **intrinsic** case is studied when actually it is not a choice at all, but studied because of its particular, specific and intrinsic interest, because it is important to know about that particular case. **Instrumental** cases such as the MVine study described in this dissertation, on the other hand, are undertaken in order to assist the researcher in coming to a fuller understanding of a more broad-based subject of interest. **Collective** cases are where it seems more appropriate to study several cases, each being instrumental to the subject under study, in order to gather learning from each and where such collective learning is mutually reinforcing.

The instrumental study of MVine represented an opportunity to access the sector through highly engaged actors who were hospitable to the particular enquiry that the researcher was making. Concurrently, collective studies were built up in order to provide materials which were important to co-ordinate between the MVine study and those activities which developed in the music marketplace as MVine progressed. Of concern in this regard was the ability of a single or of a collection of studies to provide the basis of scientific

generalisation. This issue is raised in part because of the different interpretations of generalisation in qualitative and quantitative research.

Yin (1994) proposes that case study generalisation is about theoretical propositions, not about populations, and as such a case study, carried out with rigour, could certainly be capable of providing analytical and scientific generalisation. However the author agrees with Stake, who takes a contrary view, proposing that a case study is not and should not be about generalisation (except as far as a case can modify a generally held perception) but about particularisation. By coming to know one or a few cases particularly well, the emphasis is on uniqueness. To establish this uniqueness, first of all one has to be able to say how this case or cases are different from others similar to it. In the researcher's efforts to document the progress of the MVine case and those gathered alongside its development, she tried to preserve what Stake called "the *multiple realities*, the different and even contradictory views of what is happening" (p.12). The selected method of data collection for the instrumental case in this study was participant observation. Despite what this author considers to be the significant advantages of the method, it has been criticised for a variety of reasons, each of which is discussed below.

#### **4.7.2 Selection**

This research investigated traditional relationships between stakeholders in the music industry and the impact of technological developments on these relationships, and as such required a detailed contextual setting, not only the analysis of subjective opinions of key actors within MVine but also triangulation against sequential collective cases and expert interviews gathered across the course of the research. To quote de Vaus,

"case study designs rely less on comparing cases than on exhaustive analysis of individual cases and then on comparing cases" (2001 p.50).

The researcher was provided with an opportunity to have privileged access to the internal workings of MVine, a new, independent record label which intended to use the Internet to replace the more traditional human A&R function. In the period leading up to the researcher's involvement in MVine a number of online collaborative and social networking environments had begun to emerge, many of which involved music as a feature either at launch or shortly thereafter. To name only a representative few with their launch years (specific months or dates are somewhat arbitrary as many launched at first in 'beta' or



‘closed’ mode for varying lengths of time), there were such companies as Garageband.com (1999) Pandora Internet Radio (2000), Rhapsody (2001) LastFM (2002), signhereonline.com (2002) Myspace.com, Magnatune.com and Apple’s iTunes (all launched Spring 2003). The emergence of these frequently experimental online business models was another major factor in this researcher’s decision to take advantage of the opportunity to study MVine when it was presented.

Many authors have also identified music as a key industry affected by the Internet and related technologies including Vacarro and Cohn (2004), Beer (2005a; Beer, 2005b) and Peitz and Waelbroeck (2006). Selection of this independent start up record label was also supported by Chesbrough and Rosenbloom (2002) who noted the need to

“learn more about the forces that facilitate and impede the search for constructive adaptation in the elements of an extant business model. The process of adaptation appears to be either more highly motivated or more easily implemented in independent ventures than in established firms...these issues are well worth further exploration” (p. 552).

Beer also commented that:

“the development of accounts that capture the details and complexity of digital technologies require a form of ongoing study that frames the digital in the everyday” (Beer, 2005b).

These comments served to reinforce the author’s decision to perform the instrumental case study on MVine.

#### **4.7.3 Access**

Bryman has stated that “(o)ne of the key and yet most difficult steps in ethnography is gaining access to a social setting that is relevant to the research problem in which you are interested” (2004, p.294). The researcher was fortunate to have the MVine opportunity actively presented to her by the rest of the company members in December 2003, although in order to ensure that the company would be of value to her research, she undertook to follow its progress for one year to start with (which took her from conception through the development process to its form as of November 2004). This one year ‘pilot project’ helped to ensure that the access offered would be sufficient in both nature and kind enough to ensure that the material generated would prove sufficient and suitable for a doctoral thesis. It also helped to reassure the author that she was quite able to objectively observe and

capture the processes of creating and managing the business whilst also being able to participate actively in those processes.

The process and outcome of this pilot study resulted in the development of initial theoretical constructs whilst also highlighting some of the problems that would face the researcher in conducting research in such a turbulent, uncertain and sensitive environment. Across the pilot study the researcher was able to develop professional relationships both within the company under study and with individuals from industry bodies, publications, and companies relevant to the study. As a result, she was able to produce academic papers, book chapters and conference proceedings which demonstrated recognition of the value of her work (Florida et al., 2010b; Berry and Papagiannidis, 2007b; Berry and Papagiannidis, 2007a; Berry, 2006; Berry and Papagiannidis, 2006b; Berry and Papagiannidis, 2006a; Papagiannidis and Berry, 2006; Berry, 2005; Papagiannidis et al., 2005) and which therefore encouraged her to continue her investigations when offered the opportunity.

By November 2004 the researcher had established that there was a real value in continued study of MVine in order to help her in answering her research questions. She had also established to her own satisfaction that she was comfortable assuming the position of participant observer, and that it would provide her with significant advantages over other available methods of researching this subject. Whilst possible results were starting to present themselves, these in turn indicated the importance of further research. In a move which underlines the pilot study period, the researcher accepted an offer to take up a 2% shareholding in MVine. This provided evidence both of her commitment to the MVine team and of their belief in her value to them. It ensured their continued acceptance of her work as both shareholder and researcher, and facilitated the continuance of in depth observation and analysis of the MVine business model, its development, and that of the marketplace within which the record label was operating.

Access to the company was continuous through a variety of both physical and remote mechanisms. Meetings were initially held in the Institute of Directors ("IoD) on London's Pall Mall and latterly also in the IoD's suite of facilities at 123 Pall Mall, where more modern computing facilities were available. Also regular use was made of HP and M's house in New Malden, Surrey. Whilst J lived in Brussels, he brought the researcher, HP, M, and F across to his house there for meetings when required, and once re-established in the

UK his house in South London was also used for round table discussions. Whilst it was less usual for meetings to be held in Newcastle, there were occasions when HP would travel to the North East to meet with the researcher in order to ensure consistency of contact, information exchange and collaboration on marketing and communication issues. M also came to the city whilst on tour with a variety of artists, and the author ensured that she took maximum opportunity to meet not only with him but also those artists he was accompanying in order to broaden her understanding of and engagement with the music industry at work.

Although the researcher was not able to be at every MVine meeting, she was welcome at all of them, and made every effort to adjust her personal commitments to attend those meetings which seemed most informative, pivotal or illustrative of the research questions. The MVine team were fully compliant in trying to set meeting dates as far as was possible around her availability as well as their movements.

#### ***4.7.4 Data gathering***

The researcher took a ‘participant observation’ perspective and gathered materials across four distinct phases:

- Dec 03-Oct 04 – pre start-up
- Nov 04-Dec 05 – start-up and initial development
- Jan 06-Mar 06 - the demise of the company
- May 06-Nov 10 - post field work analysis

Meetings were, in general, recorded using either mini disc, computer with built in microphone (this belonging to M who would then burn off the data onto a CD for later retrieval and transcription), digital voice recorder or, latterly as the technology became available, recorded onto an iPod with removable microphone. The richness and complexity of meetings between so many different people (frequently up to 10 and rarely less than 4) demanded a permanent record so that individual voices and quotations could be extracted from what was frequently a concurrent and non-linear set of conversations. After formal meetings (as opposed to more casual encounters) that she was not able to attend, the researcher contacted all participants by telephone, IM (online ‘Instant Message), Skype (a free, telephonic communication using Voice Over Internet Protocol or ‘VOIP’ software)

web-cam or email and transcribed their recollection of the event and its outcomes, as well as ensuring that where they were taken, she was sent the minutes.

Large quantities of commentary and rich detail were therefore acquired, although at one remove. The researcher took notes of phone calls and was occasionally even sent transcriptions of or comments on conversations of which she was not a part by other MVine team members. Although the validity of these was of course always an issue, they helped to fill in any possible gaps in understanding the progress of the business and the interpersonal relationships within it, and at times prompted subsequent direct conversations. See Appendices for examples of these: B for transcription of phone call notes, C for transcription of meeting notes and D for transcription of IM conversations.

As is the nature of participant observation the phases of research were not specifically pre-planned but emergent, unpredictable events, frequently clearer by far in hindsight than at the start of the research process. This section therefore outlines the initial design of the research informing this dissertation and the subsequent changes that were made in order to accommodate the varying circumstances of the industry environment, MVine's organisational structure, and the lives and commitments of the individuals involved, including those of the researcher.

#### **4.8 Participant observation**

Through the instrumental study of MVine, the researcher was able to take advantage of a uniquely privileged position within which she could both observe objectively and participate actively in MVine's developments as the small record label tried to exploit ongoing and increasingly disruptive changes in the music industry. There was no desire or intent to apply action research methods. The researcher was not employed to apply her academic knowledge and understanding to the company's development, but to apply her previous experience and personal skill set. From a practical perspective the market environment and internal organisation of the company set against that were both far too fluid and dynamic to allow for the step by step, progressive problem solving approach required of action research. She was, however, very privileged in being able to observe and to participate in the development of the company's business model as it evolved over time. This privileged position gave her unique access to the thoughts, feelings, actions and

reactions of company members as they attempted to create a robust, technologically mediated business model.

The researcher worked closely with MVine members and other informants from the pre-start up phase in December 2003 to final conversations in March 2006, following this period up with intensive desk research. In undertaking this case study through the use of participant observation the researcher was aware that both philosophical and practical criticism has been levelled at this approach, in particular at the apparent tendency of participant observation to produce invalid and unreliable findings. This section describes and assesses the potential problems with and criticisms of participant observation and shows how the research design responded to these.

#### ***4.8.1 Subjectivity***

A fundamental issue with participant observation lies in its very nature – as Benjamin Paul stated in 1953, “Participation implies emotional involvement. Observation requires detachment” (p441). The most well known, although rarely encountered illustration of this is ‘going native’, where the researcher becomes an integral part of the field in which they are researching to the extent that they forsake objectivity and research altogether and live as one of their participants. Tedlock describes many respected ethnographers who have ‘gone native’ socially but not culturally, and highlights that “(t)he number of fieldworkers who have given up anthropology altogether in order to join the flow of life elsewhere is very small” (1991 p.70).

Tedlock believes that it is the tension described by Benjamin Paul between the participant and the observer, implicit of a deeper tension between objectivity and subjectivity, which critics see as the real danger of participant observation. She notes that these critics seem to believe that “the domain of objectivity is the sole property of the outsider” and this author believes, rightly insists that the time has come for acceptance that “intensive enculturation” (p.71) does not dilute the value or the impact of the resulting research. It is proposed that it is more intuitive, natural and better to accept the fact that there is an internal dialogue which can result in real-life, robust and informed research, than such research being published as a novel (under a pen name or even anonymously) or emptied of all references to the participant observer, or any other human characteristics, left as a bare abstract of the study;

as has Devereux said, “a professional defense mechanism producing "scientific (?) 'results' which smell of the morgue and are almost irrelevant in terms of living reality” (2010 p.97)

Whilst some personal opinion is therefore considered appropriate, it was important from the very beginning of her involvement with the company for the researcher to distance herself from activities, interpretations or approaches which could later be used to substantiate charges of preference or bias. Of great help in this was the fact that, within her role, she was required to act as central information co-ordinator, generating what came colloquially to be known as “TIM” reports (the acronym standing for ‘Today I’m Mostly...’) which were sent out to everyone and allowed the whole team, wherever they were based and whatever their occupation, to keep up to date with what other team members were doing. See Appendix E for a sample TIM Report.

The researcher also made use extensive use of what Creswell calls ‘member checks’ (Creswell, 1994) as a method for ensuring internal validity. Silverman describes this as “whether or not the researcher is calling what is measured by the right name” (1994, p289). She kept all team members apprised of the nature and content of her work throughout the writing up process, requesting their feedback and comments for the drafts of each section as they were completed, and was able to contribute to this process by asking expert interviewees who were interested in the subject matter to read through sections of the thesis as they were written as well.

#### ***4.8.2 Observer affecting behaviour***

A common criticism of the practice of participant observation is

“that people are likely to react to the researcher being present by engaging in untypical or extreme forms of behaviour” (p. 161 Waddington, 2004).

This is of course only the case if the respondents are aware of the fact that they are under observation. For respondents such as the artists and musicians involved in MVine as users of the system or members of the company team, who spend a large proportion of their working lives ‘under observation’ the dynamics change somewhat, as the researcher discovered. She was consistently transparent about the dual nature of her role within the company and frequently found that, once respondents discovered that her involvement with the company was part of a major research project, they became more helpful, rather than less. In introductions at the first meeting held with E, a senior executive for one of the UK’s

music industry trade bodies, the researcher described these dual identities and asked whether the conversation could be recorded for future transcription and use within the thesis. RE responded:

“That’s fantastic – I have just started doing my Open University MBA, at some point I will have to do a dissertation and I was thinking of doing something exactly along these lines! Record away – perhaps once you are done we can compare notes? If you want me to read through and comment I would be really happy to and I promise not to copy!!” (23<sup>rd</sup> August 2004)

Dryden suggested that ongoing access to a research environment can be better achieved through “playing up your credentials”, passing tests and the acquisition of a role (1994, p299). There was no doubt that each one of these approaches was of value to the researcher in different circumstances. Her background in starting and running small creative businesses was valuable in establishing credentials within and outside the MVine team, and she was meticulous in ensuring that confidences were kept as and when appropriate. Her commercial MVine role and the verifying materials surrounding it (business cards, email address and so on) were of equal importance to some of the interviewees and respondents within her research activities. It is proposed by Waddington that the longer a researcher spends with their subjects the less likely they are to be deceived, as those under observation get used to the participant observer’s presence and find it less necessary, or become less able or willing, to sustain atypical behaviour. Waddington also notes:

“Whilst a researcher’s presence is bound to have an impact on his or her data it is preferable to address the possible effects head on than pretend – as positivists do – that research can be carried out in a social vacuum” (p. 162 2004)

This commentary presumes that the participant observer is viewed by the observed individuals as somehow different to, alien from and outside their experience. It is of interest to note that the MVine team comprised a number of individuals who could be described as somewhat larger than life – a self made millionaire, a famous singer / songwriter / producer / manager, his very glamorous and equally high-profile wife, a major music label lawyer; these were all individuals who demonstrated complete self confidence, supported by extensive world experience and who, from the researcher’s perspective, were almost *too* used to being observed.

The researcher was therefore put into an unusual position; rather than her presence and interaction affecting the behaviour of those observed, the behaviour and interactions of

those individuals who were habitually observed in their day to day lives, and whose behaviour therefore appeared to be completely natural and unaffected at all times whether observed or not, had the potential to affect her own perspective. If someone rang the front doorbell in the middle of a meeting at M's house it was as likely to be a global rock star as a local housewife. It was important to avoid being a little 'star struck' at times.

The researcher was always careful to ensure that all participants were reminded regularly of the fact that the dialogue generated during every meeting, phone call, web conference or other occasion during which she was recording or noting down the content for her primary material, would be recorded, transcribed and possibly used within the thesis unless anyone objected. Across the duration of any day-long meetings she made a point of reminding those present about the fact that she was recording, to ensure confidentiality and trust. However again because of the nature of those that she was observing, it rapidly became apparent that this procedure was potentially counterproductive. Where, with a group of less high profile individuals, the observer's continual reminders might serve a purpose, in the circumstances the researcher found herself reminding people who really didn't need to be reminded, and at times the reminders served only to irritate and affect their behaviour more than no reminder at all would have done. Whilst it was still important for the purposes of the research to ensure that everyone around the table was aware of the issue, these reminders therefore needed to be made with great delicacy to avoid this effect.

To illustrate this: M was a producer, manager, songwriter and singer, and as such was very used to spending time in front of a microphone. The researcher was concerned that he would forget that the purpose of the microphone was to record for later analysis rather than instantaneous transmission of what he said at the time, and it was important to ensure, albeit with a sense of humour, that he remembered this fact. Half way through a daylong meeting held on 25<sup>th</sup> October 2004, the researcher said

“Please don't forget that I will be transcribing this meeting today so every time you click that pen, think of my migraines. I already have enough problems with M's bracelets jingling about 3 inches from the microphone”.

Reminders were also necessary for people who came and went across the course of the meetings; F arrived 2.5 hours into the same meeting discussed above which was being recorded, and the researcher had to point out:



“I am, just so you know, taping all of this so it saves my hand from dropping off and me writing and not listening to what anyone is saying. I will of course ignore all profanity if you want and leave out anything else you want me to”.

#### **4.8.3 Contingency**

*External validity:* As well as generally implying that the researcher does not have full control over the environment within which their research is performed, participant observation tends to result in the researcher collecting a very large quantity of material and very detailed descriptions. The inherent difficulty in generalising from such research findings, or the ‘contingency’ effect, makes it difficult to prove their external validity as the participant observer can find it hard to analyse these materials systematically, and it is thus difficult to identify cumulative evidence for a particular phenomenon, effect or construct. As has already been noted this is an issue if the researcher is emphasising interpretation, producing assertions rather than findings. But if the research perspective is one of particularisation (coming to know a specific case well in itself) rather than generalisation, external validity becomes less problematic. “There is emphasis on uniqueness, and that implies knowledge of others that the case is different from, but the first emphasis is on understanding the case itself” (Stake, 1995, p.8).

Whilst understanding the instrumental case in great detail is necessarily of great value to this research it is still important to ensure as best possible that a system of checks and balances is implemented in order to ensure that the case is not seen simply a story without a context. Howard Becker (1958) has offered a useful analysis of checks and tests which the participant observer can use to ensure that their work is systematically analysed and presented in such a way as to provide valid findings. Whilst as the date of Becker’s publication shows this analysis is not contemporary, it has stood up well to the test of time and remains a useful start point for participant observers concerned with the validity of their findings. He points out that participant observation analysis is, by its nature, sequential. So, the participant observer can only take direction for further gathering of materials by relying on a somewhat provisional analysis of the materials that she has acquired to date. These in turn may be circumscribed through the limitations of each unique field work situation. The end result of this is that “final comprehensive analyses may not be possible until the field work is completed” (p.653). Becker proposes three field-based phases and a subsequent desk-based phase of analysis.

### **Phase 1. Selection and definition of problems, concepts and indices**

Through this process the participant observer can identify problems and concepts that promise to reveal the most possible information about the organisation under study, and items that may be useful indicators of less easily observable facts. In this case, the researcher undertook an initial year pilot study which enabled her to do exactly that. The concept of the MVine business model which emerged from the conversations and interviews with MVine team members appeared to be a new one, easily distinguishable from any other business model in the music industry of the time. How this was to be executed was less clear and so became a focus for future research activity throughout the second phase.

In this initial phase, Becker recommends a number of tests for evidentiary credibility in order to avoid wasted time following up irrelevant leads and reduced validity. He recommends that the *credibility of the informants* is assessed. The MVine team has already been described in outline, and as has been made clear they were all very high profile individuals in their own right, with backgrounds in e-commerce, music, law, software, marketing and other disciplines sufficient to convince this researcher that their opinion *on those subjects in which they were expert* were valid and credible. Whilst they were all more than capable of having opinions on those areas less core to their own skills and abilities it was rare that any major boundaries were crossed – J never questioned M's abilities as a singer, songwriter, or producer of music, M did not query the legal advice provided by C, F never asked about the relevance of marketing and communications activities undertaken by HP and the researcher.

Becker also recommends *the observer-informant-group equation*. This is complex, in particular when dealing with a team of individuals whose responses are all very different dependent upon who is present and who is not and also varies across the course of the research as the participant observer became a more integral part of the MVine team herself. It revolves around the veracity of an individual's behaviour dependent upon whether the observer and or other group members are present or not. As a simple example, and largely as a result of the trust and belief in her confidentiality built up across the pilot period – any one of the team members talking together with the researcher were far more likely to provide commentary that accurately reflected their opinions than when talking in front of the entire team. This was particularly highlighted as their comments reflected their opinion

of the capabilities, opinions and activities of other team members but was also noticeable in their personal reflections on the reasons behind their involvement, the aspirations that they had for MVine and their part in it, and their belief in the eventual development of the company from a corporate, personal and professional perspective. There were some team members who were noticeably negative in private conversation with the researcher, and yet who would be much more positive if prompted in open discussion with other members of the team.

There were variations upon this theme across the course of the research as individuals came and went and the researcher had to be careful to note the configuration of meetings, conversations and conference calls to acknowledge that there were some combinations of individuals/groups, set and sub sets of people who would not necessarily provide material which could be relied upon in analysis.

## **Phase 2. Checking the frequency and distribution of phenomena**

Many early conversations involved the discussion of new ways in which value was being added to the work of artists for their benefit and that of their consumers and fans arising out of technological disruptions in the music industry, and planning how best to capture and monetise that value through the MVine business model. These conversations were informed by the increasing number of new online music labels and companies, operating through business models which were new to the music industry but which incorporated new ideas and were based on new concepts of value.

The researcher created a timeline in order to check the frequency and distribution of a fundamental element of her research, emergent, technologically facilitated music industry businesses. An outline can be seen in Chapter 2, where it is used to contextualise the review of relevant literatures before the full context of the 20<sup>th</sup> and 21<sup>st</sup> Century music industry could be explained in detail. As Becker has already noted, it is not just many *items* of evidence that the researcher needs but many *kinds* of evidence. And so in this instance it was not just many new online record labels (with elements of those concepts MVine was, or was hoping to incorporate) but many new, different types of activities in the online music environment, some legal, some illegal, some inspired by individual artists and others driven not by record labels but by players previously unseen in the music industry, yet all

facilitated through the same technological disruption that earlier chapters of this dissertation have identified.

As the pilot study continued, not only did these initial companies change, adapt, and variously succeed, expand or fail, but other new online companies launched containing elements of the MVine business model. The researcher and MVine team were fully aware that starting in a marketplace which already contained some serious and well-capitalised contenders for success would require a business model that was robust and which offered real initial and up front value to consumers and artists alike. At this point Becker's third sequential point was reached.

### **Phase 3. Incorporation of individual findings into a model of the organisation under study**

In her previous review of the literatures involving emergent business models and the changing nature of value, the researcher has illustrated that the framework provided by Alexander Osterwalder (2004) for the analysis of a business model suffices in this respect. It was of value to have a model already in mind whilst working on the final analysis rather than having to recheck and rebuild a model of the researcher's own making. Whilst this research highlights deficiencies in the framework proposed by Osterwalder (in particular his lack of emphasis on the requirement for timely and critical mass of users) it still provides a robust, logical and steady framework within which the researcher can finally present her findings in a systematic and logical fashion.

### **Phase 4. Final analysis and presentation of results**

Becker calls for a systematic analysis of qualitative data, in order that the analysis can be worked through logically and in a linear and consistent fashion. The very linear nature of the framework selected in order to carry this out (see 3 above) has been of great assistance in this regard. However the vast amount of materials gathered throughout the research period were of a largely qualitative nature and therefore hard to manage, file and assess in any simple and meaningful order. As Stake notes, "analysis is a matter of giving meaning to first impressions as well as to final compilations. Analysis essentially means taking something apart" (1995, p71).

An heuristic approach, requiring filing, repeated readings, annotations, indexing and re-filing of the materials took up much of the researcher's time not only throughout the various research phases (in order to ensure that the subsequent phase was based upon assumptions for which there was sufficient evidence) but also many months of post fieldwork time. This activity, whilst time consuming and repetitive, was of great value. The researcher was able to uncover serendipitous comments and conversations which, whilst seemingly unimportant at the time of annotation, transcription or journal writing, ultimately became of critical value to the final analysis (as Becker has said, "The best evidence may be that gathered in the most unthinking fashion" p.659). Equally, huge tracts of transcriptions of activities which had at the time of transcription seemed not only germane, but "obviously" core to the research on which she was engaged became, in retrospect, redundant information.

From the splitting of the original MVine team into two separate companies in March 2006 until the final submission of this dissertation, a rapidly increasing number and variety of new ways to create and acquire value in the music industry were uncovered, resulting in a dramatic increase in new businesses, and established ones which adapted in new and interesting ways. These continual, frequently dramatic and often headline events continued to inform (whilst also unintentionally extending) her post field work analysis, whilst lending essential evidence in contribution to the empirical work that the researcher had already performed in answering her original research questions.

#### **4.9 The case study, collective studies and expert interviews**

This dissertation is based upon the central research activity of an instrumental study of MVine Ltd., performed over the research period through a process of participant observation. The researcher also gathered triangulation materials through concurrent collective studies of other relevant phenomena, and conducted a variety of expert interviews across the course of the study, as well as thereafter, in order to build up a strong set of material evidence to set against the results from the instrumental study.

Triangulation allows a researcher to address "a broader range of historical, attitudinal and behavioural issues" and importantly, allows "the development of converging lines of enquiry" (Yin, p.98) which will make findings and conclusions more convincing and accurate and can address any potential issues of validity. Creswell proposed various purposes for combining methods in a single study:

- “1. triangulation in the classic sense of seeking convergence of results
2. complimentary, in that overlapping and different facets of a phenomena may emerge (e.g. peeling the layers of an onion)
3. developmentally, wherein the first method is used sequentially to help inform the second method
4. initiation, wherein contradictions and fresh perspectives emerge
5. expansion, wherein the mixed methods add scope and breadth to a study” ((1994)

Primary materials are commonly gathered through methods such as observation, questionnaires and interviews. However the researcher faced an immediate challenge in selecting the music industry as a source of primary materials. The music industry has long been secretive and highly suspicious of potential industrial espionage (Wallis, 2001; Negus, 1993b) which makes primary data collection of any sort, qualitative or quantitative, very difficult. The opportunity to be involved with a company, every member of which was happy to give the researcher privileged and open access to every detail of its plans and conversations from conception to launch and beyond was, therefore, extremely valuable to this research.

#### ***4.9.1 User interviews***

Across the course of the study the researcher interviewed (either by phone, or in person dependent upon their location and availability) 74 individuals who were registered upon the MVine website as users. Their status as registered users indicated that they were suitable individuals to interview about the impact of technology upon music whether they were creators or consumers thereof; as Stake has said, “much of what we cannot observe for ourselves has been or is being observed by others” (1995, p.64). These interviews were semi structured and based around the two research questions, allowing the researcher to ask consistent, core questions focal to the research whilst also allowing a broad ranging discussion around other relevant and interesting topics as they occurred and ensuring that the researcher was able to take advantage of her interviewees’ rich and deep personal experiences.

#### ***4.9.2 User interviews – data gathering***

The interviewees were first of all categorised as to their interest in MVine – artist looking to be signed, or consumer looking for new music. The core questions that the researcher asked were as follows, adapted dependent upon the individual to whom she was talking:

1. How do you know about MVine and what do you think of it?
2. What changes has technology made to your creation of or consumption of music?
3. How is this different from your traditional activities in these respects?
4. How has your relationship with the record label/consumer/artist changed as a result?
5. What in your opinion are the key characteristics of successful modern music businesses?

The advantage of presenting these questions within a semi structured approach was that the researcher was able to explain in more detail where it might be required exactly what the question encompassed. In pilot tests of the interview questions, as recommended by Stake (p.65) the researcher found as she had expected that simply starting the conversation by reading out the initial question resulted in comments like “what do you mean, technology?”, “Why do you want to know?”. Occasionally the questions needed to be paraphrased, or examples provided, to assist the interviewee in finding a suitable response. An example of this frequently happened when asking Question 4: the researcher found herself supplementing the question with comments such as:

“...for example, you have mentioned that you really rate them, so what is Garageband doing right?”

“You use CDBaby a lot by the sound of it: why do you feel that it’s such a good site?”

The researcher preferred face to face interviews when time and location allowed: it helped to assess the validity and strength of an opinion when talking to people face to face, and dig a little deeper into subject matter to which their body language indicated they were particularly sensitive. If a particular avenue of investigation proved of real interest, the interviewer could step away from the core question set and gather material that added depth and richness to the information that she had already collected. The researcher’s position as Commercial Director of MVine lent her an apparent credibility which ensured that those to whom she spoke provided answers as honest and open as could be expected; particularly when she noted her interest in the subject matter because of her academic studies, which many interviewees were keen to hear more about.

The interviews were recorded as frequently as possible to allow the researcher freedom to observe, listen and interact with interview subjects most effectively. Whilst Stake resists the idea of word for word transcription as being less useful than capturing the idea behind what is meant, the researcher found it a useful exercise. Transcription shortly after the interview provided the researcher with a period of time, whilst typing out the conversation, to think about underlying themes and ideas, which she then captured as interpretive notes at the end of the transcription. The entire conversation needed to be listened to at least twice to capture the wording correctly and this added to the time for cogitation. A typical interview transcript can be seen in Appendix E.

Telephone interviews were slightly more complicated as they had to be transcribed as they occurred, which is always off-putting for the interviewer, although the process had the benefit of immediacy. The researcher could also ask “what do you mean by that” and require interviewees to repeat themselves in different words to ensure that a point made was clearly understood. Whichever method of data capture was used, the interpretive notes were sent back to the interviewee so that they could comment, and correct if need be, the researchers understanding of the sense behind what they were trying to say.

#### ***4.9.3 Expert interviews***

The MVine team were expert interview subjects themselves. The researcher spent time with and interviewed MVine team members both within and outside the usual office/work environments in which she encountered them, not only recording and transcribing team meetings but also making field notes of conversations carried on whilst walking dogs in Richmond Park or on train journeys and telephone calls. The individual members of MVine had a variety of useful contacts which they were frequently happy to pass on to the researcher so that she could also gather more interview materials from them. Interviewees included record company employees and directors, signed and unsigned artists and their managers; the researcher went to trade body meetings and conferences around the country and watched musicians in performance, spending time with them afterwards as they ‘came down’ from their on-stage exertions. She spoke with music industry journalists as well as representatives of official bodies such as the Association of Independent Musicians (AIM), the British Phonographic Industry (BPI), the International Federation of Phonogram and Videogram Producers (IFPI) and the Musician’s Union (MU). As was to be expected



bearing in mind the previously-noted tendency towards secrecy within the industry as a whole, it was very rare for individuals to agree to named commentary, preferring to remain anonymous.

The researcher's own contacts from her previous experiences and positions also provided a number of contacts who were happy to provide either direct informed input or introductions to individuals who would be interested in helping her research. The collation of concurrent case studies also provided occasional opportunities for the researcher to set up interviews with expert informants or with contacts to whom they referred her. Some interviews proved to be particularly useful as the informant was often happy to provide contact details and introductions to further industry specialists and experts that they knew for the researcher to interview in turn. A number of times this 'ripple effect' resulted in the researcher approaching an unknown potential informant, only to find that they were aware of her work in this area and had already been in touch with other interviewees to whom she had spoken in order to find out more about the nature of the conversation that she was proposing.

#### ***4.9.4 Expert interviews – data gathering***

The same issues around the gathering of data pertain here as in the discussion around user interviews above. However it is also worth mentioning that the mechanics of interviewing expert informants came with its own unusual set of challenges which did not occur in the more controlled environment of the user interviews. Some of the more high profile interviewees were seen quite frequently at industry events, conferences, seminars, live concerts, either, or both, before and after the formal interviews were held. During such 'casual' meetings they could frequently contribute rich, informed and detailed insights that were highly relevant to the research, either on purpose or in passing. These casual although informative conversations were rarely very long, frequently interrupted and occasionally held in environments which were hardly ideal for the acquisition of clear and considered responses to the questions being asked.

It could be proposed that one is more likely to get the unguarded and unfiltered truth out of an artist, journalist or record label executive in a bar at 10 o'clock on a Friday evening than in their office at 10 o'clock on a Monday morning. However for the purposes of rigour the researcher attempted to ensure that the formal 'foundation' interview environment was as

calm and controlled as far as was possible. Another challenge was that whilst notes of all interviews, formal or casual, were sent to interviewees for ratification after they were transcribed, it was not unusual for these either to come back with deletions of useful materials (despite these being readily accepted as ‘quotable’ at the time) or not to come back at all despite frequent prompts, either way rendering the material unusable.

At interview the issues in which the researcher was interested frequently broadened to include conversations around copyright, legal/illegal downloading, music industry models of profit and artist support; these were sensitive issues for some of those interviewed and it was very important to ensure that their responses were as balanced/measured as possible. As an example, the researcher met Z a few times before the formal interview took place. Z was a signed artist whose label had taken her on in 2002, but since then, in her opinion, the label had not supported her by promoting, marketing or otherwise helping her make her music a success. At the same time, the contract that she had signed prohibited her from going to any other label, or from distributing herself any music made whilst under contract to that label, for three years.

She had made her frustration about this very clear to the researcher in a number of conversations of a more casual nature. When she was asked in a more formal setting about new and more flexible relationships within the music industry, her response was most definitely coloured by the fact that she felt herself tied to an archaic and unproductive relationship through her label contract. Equally, label executives exhibited an almost universal frustration with artists under their control, who they felt did not understand the business of music and the importance of timekeeping, productivity, and marketing. On both sides the interviewer had to endeavour to find out the informants’ true feelings whilst avoiding unproductive ‘rants’ which sidetracked conversation and if not carefully managed, could colour their responses to subsequent interview questions.

There were many for whom a face to face interview would simply have been impossible to set up. This might have been because of their geographic location, the fact that they had a random and frequently changing agenda, or sheer lack of available time for the researcher’s questions. In these cases, it was felt that any contact was better than none. This resulted in a number of exchanges of questions and answers by email, through instant messaging (‘IM’) technology or on the telephone. Whilst face to face interviews provided more

contextual information in the sense that body language, hesitation, emphasis and so on were far more pronounced and clear, there were still benefits to be gained from alternate, non-visual forms of communication. The researcher was aware that whilst committing opinion to writing as in the case of the IM interviews and (less time-pressured) email exchanges could lead to individuals being less than forthright, or more circumspect in their stated opinions, equally it meant that those opinions which they did express were more likely to be those to which they were committed.

#### ***4.9.5 Collective studies***

The researcher had been aware of increasingly interesting changes in the music industry. The first exposure that she had to such issues was in early 2001, when she had to sack a member of staff at her dot com company because he was found to have downloaded significant amounts of music, movies and other illegal materials through Napster and other online P2P providers onto his work computer in breach of his contract of employment. Across the following three years her work in online entertainment and subsequently her MBA studies, and concurrent Masters-level “E-business” module teaching, increased her awareness of new, emergent models of business in a variety of sectors (increasingly frequently in the media and entertainment business) that were built upon the very particular capacities of the Internet and related technologies.

When invited to work with MVine across the course of the pilot study, it was already therefore quite apparent to the researcher that the story of MVine would only provide one perspective on the rapidly changing music industry landscape. Already companies as various as Magnatune, MySpace, Pandora and Last FM had launched and presented various offerings to music consumers and creators; it was clear that a single case study would not produce a valid, reliable or meaningful story in a vacuum empty of other reflective sources of information. A huge and increasing variety of new models of reaching out to both creators and consumers of music was emerging, of which MVine represented only one – and in the early stages of the start up, as with all business ventures, there was no certainty that the company was going to succeed. Even if MVine did fail to survive in its intended format, as was eventually the case, the researcher believed this company could provide valid proof of key characteristics for successful business models in this turbulent climate, and would be enhanced by the collation and tracking of contemporaneous

activities of companies - labels, or otherwise - and individuals, as these would provide more or less harmonious counterpoints to the theme of the instrumental study.

“It is highly desirable that the logic of the research design remains clear. The reader should be clear about the proposition(s) and why a particular case was selected to test the proposition. The reader should be able to see that there is a structure and logic to the selection of cases – that they have been selected for a purpose rather than simply because they happen to be available” (de Vaus, 2001, p. 243)

As de Vaus comments, it is important to ensure that there is both structure and logic in gathering data from a multitude of sources. The researcher therefore decided to take note of other new music-related phenomena as they arose across the research period. Reflecting back upon the research questions guiding the dissertation, the researcher selected those music industry cases (for which read artist, label, or other related entity) which fit one or more of the following criteria:

1. using technology to add value to their offering
2. using technology to reach their target audience
3. using technology to interact with their target audience
4. creating or exploiting a previously unknown relationship between all or a sub set of the consumer, the artist, and the record label in order to add value
5. doing business in a way that was not reflected in traditional music industry business models

The existence of this specific list of requirements meant that the researcher had a simple and clear set of guidelines. Whilst she gathered a wide and various range of information across the research period, the questions helped her to filter out the issues that could shed light upon her research questions. They also helped her easily to request assistance of others in identifying cases that may be of interest to her. As the subsequent section in data gathering highlights, there were many individuals who wished to assist in this manner and the clarity that such a list of specifications provided was most helpful to them.

#### ***4.9.6 Collective studies – data gathering***

As has been identified in the section on selection of collective cases above, the researcher had a clear list of parameters that defined the boundaries of the cases in which she was interested. Materials were acquired in ‘real time’, as new relationships and methods of

exploiting the shifting boundaries of music industry value chains, emerging business models and structural changes within the industry itself were frequent and increasingly common across the research period. For this reason they were selected from a wide and global network of sources. Whilst running her own companies prior to this time the researcher had built up a wide ranging network of information sources. These included contacts within the music, financial, marketing, management and communications industries.

At the start of her PhD, the researcher made a point of getting back in contact with a variety of individuals in order to request that they keep her informed of any interesting or relevant information as it pertained to the field of music and emergent music industry business models. Journalist contacts at nationally respected publishing houses were frequently aware of useful and indicative information through the publications produced there relevant to both the advertising industry and the digital industry for which it ran the trade publication. It was useful to have occasional emails and telephone calls from these contacts pointing out information of relevance and use that was going to be put into one or other of these.

Through her initial pilot study, as MVine was investigating music industry contracts and Musicians Union support for the idea behind MVine, the researcher came into contact with MU representatives and journalists for the MU magazine, who also became useful sources of information across the course of the research period and beyond. Through the pilot study period, the researcher was introduced to a variety of artists and in some cases, their managers. Whilst these were not always able to provide useful direct information they served as significantly important signposts to alternate sources of music industry information about which the researcher would not necessarily have known otherwise. Websites such as CMU Daily and Digital Music News were not known to the researcher before she was directed to their attention by artists, who saw their daily email newsletters as a critical daily snapshot of news relevant to their industry. They proved to be a reliable and up to date source of trends, activities and cases of emergent music industry business models, whilst also providing information and further industry contacts which could be of value to her research.

Other online sources of information included artists' and music fans' websites and online newsletters and a number of online publications, newsletters and podcasts from the technology, communications and other non-music entertainment industries which helped to signpost emergent trends and activity of interest to the researcher. Particular reference should be made to Wired and The Register, MIT Technology Review, and Forbes, all of which provided regular email updates and newsletter which contained informative and up to date - if sometimes opinionated - information around the business and technology of media, including the music industry.

A series of 'alerts' set up using global search engine Google helped to keep track of emerging events, activities and phenomena as they were gathered. It was important to select the keywords used to manage these alerts, as too broad an approach resulted in an enormous amount of information, much of which was irrelevant, coming into the researcher's inbox. The use of phrases such as 'download' and 'music' generated many megabytes of mostly useless information. However more carefully targeted phrases such as 'unsigned artist', 'music business model' and 'music industry' ensured that more relevant information was gathered on a daily basis. This generated an enormous amount of information to digest and apply; on average 26 newsletters each week, each containing at least 5 news items of potential interest.

The researcher was fortunate to acquire a Research Assistant in 2008 as a result of a successful ESRC application to investigate sustainable business models in the creative industries. The RA was also a DJ and self taught electronic/digital musician, and both as RA and DJ provided useful information, personal experience, sources of information and points of contact with lesser known music industry individuals and categories with which the researcher would otherwise never have come into contact.

#### **4.10 Analysis and interpretation**

Evaluation of qualitative materials is acknowledged to be one of the more challenging tasks confronting the participant observer. Wolcott presents a valuable approach to solving this problem:

“the critical task in qualitative research is not to accumulate all the data you can, but to “can” (i.e., get rid of) most of the data you accumulate...because we can accommodate ever-increasing quantities of data – mountains of it – we have to be careful not to get buried in avalanches of our own making” (1990 p.35)

A vast amount of data was generated by this research. By far the bulk of this was in digital format: the “Company” file on the researcher’s computer occupied 1.42 GB, excluding email materials. Emails were originally exchanged between the researcher’s university account and the current email addresses of individual members of the company although from July 2004 a separate @mvine.com email address was set up so that users could access a central repository of email rather than having to sift between corporate, personal and MVine related information.

This information also excluded the content of the centrally accessible ‘.mac’ domain to which all company members had access. Whilst it was slow to use, even once installed directly on an individual’s computer, this functionality allowed every user to access the same version of a document or file rather than requiring the transfer of information between individuals on email or post, thus assisting consistency and reducing the propagation of false and incorrect iterations of documents, audio, visual and other information. More recent technologies such as drop box also provide a similar, although far more effective and efficient function but were not available at the time of the research.

The basic goal of qualitative data analysis is to develop an understanding or interpretation of ‘what is going on?’; an iterative process that takes place in and evolves over time (Walsham, 1995). Analysis has, as noted in 4.8.3 above, been simply defined by Stake as “taking something apart...giving meaning to the parts...that are important to us” (p.71). Stake goes on to assert that within the context of case study, analysis and interpretation are a concerted effort to find out how each part relates to the others that we have identified as being important, and highlights the importance of keeping the study and the key issues that it raises or represents, in focus. The analysis of study materials must be theoretically informed, and de Vaus reinforces this, saying “(a)ny attempt to present all the facts will result in an indigestible mess that is both unreadable and unread” (2001, p.244)

Whilst the interviews were semi-structured and therefore provide a sound base for textual comparison and analysis, presenting study materials in a way that is robust and defensible – and not simply ‘storytelling’, which by its nature contributes nothing to serious research - is a more complex matter. Stake proposes three alternate paths that such reporting can follow:

- “a. A chronological or biographical development of the case
- b. A researcher’s view of coming to know the case
- c. Description one by one of several major components of the case” (1995, p.127)

The researcher reflects the chronological context for the case through the timeline, but the approach taken in analysing and interpreting the instrumental case and others is largely descriptive of major components as they are relevant to the research question posed. Although quantitative research allows for an unmistakable distinction between data gathering and data analysis, qualitative research is not so clear cut, and this can cause challenges for the qualitative researcher which it is important to meet at an early stage in any research; Stake notes that “even for the quantitative researcher, analysis should not be seen as separate from everlasting efforts to make sense of things.” (1995, p.72)

Theory-building research from the primary study is derived through an hermeneutic, repetitive, overlapping process of data analysis and collection (Glasser and Strauss, 1967). Importantly, in this case, this allowed the researcher to take advantage of flexible data collection and provided the freedom to make adjustments during the process of data gathering, so that emergent themes could be assessed (Eisenhardt, 1989). The initial pilot study allowed the development of an initial understanding about the environment, nature, experiences and perspectives of the people and organisation under study. As the research took on a different character following the pilot study, the researcher was able to test, modify and develop her understanding of the changing music industry and the business models emerging from this changing environment through additional cycles of data gathering and interaction.

Hermeneutics has been used frequently as a method of analysing data in interpretive IS research (Lee, 1994; Myers, 1994; Orlikowski and Baroudi, 1991). When the hermeneutic approach is used, each member of that organisation will have different, incomplete, and sometimes contradictory views on many issues; hermeneutic analysis tries to make sense



of the whole, including relationships between people, organisation and information technology.

As Crotty emphasises (2003 p.91) the hermeneutic approach takes into account not just the semantic detail of texts but also the relationships and contexts surrounding them. It has practical purposes and applications, rather than representing a purely academic exercise, and as such is particularly suited to analysis such as that in this dissertation, which tries to make sense of relationships between organisations, people, processes and information technology. These hermeneutic principles were used consistently and selectively during analysis in order to help build a coherent framework within which the research questions could be answered.

Klein and Myers (1999) derived seven principles of hermeneutic research, and as has been detailed above many of these were applied to the conduct, evaluation and reporting of this research:

1. The hermeneutic circle
2. Contextualisation: the researcher's critical reflection on the social, historical, political and economic background so that the audience can understand better how the situation under investigation emerged
3. Reflection on the social construction of research materials through interaction between researcher and participants
4. Relation of the abstract or analytical generalisations which result from case study research to theoretical concepts
5. Dialogical reasoning: the researcher must clarify any preconceptions which guide the original research design
6. Multiple viewpoints: the researcher must study the phenomena from different perspectives to get a full understanding of the whole picture.
7. Suspicion of bias and distortion in participant narratives

Of these, the hermeneutic circle is the most fundamental and essential principle. The essence of hermeneutics is a circular relationship, in which no knowledge is possible without presuppositions (Susman and Evered, 1978). Within the hermeneutic circle a description is guided by anticipated explanations, the researcher having an expectation of meaning from the context of what has gone before (Gadamer, 1976).

The principle of the hermeneutic circle was a guiding tenet across the course of the research and a regular point of reference for this researcher. A deep awareness that descriptions can be (mis)guided by anticipated explanations proved very valuable in assisting with self disciplined objectivity and analytical freedom whilst writing of matters that had become of personal importance.

#### 4.11 Key themes and patterns

It is essential that the researcher can make sense of what is encountered in the process of gathering and analysing materials from field experience. However at some point it is essential to be able to share this with others by organising, writing and building up a reasoned, coherent argument. In order to do so the formation of ‘themes’ was a useful tool used within this writing (Holliday, 2002).

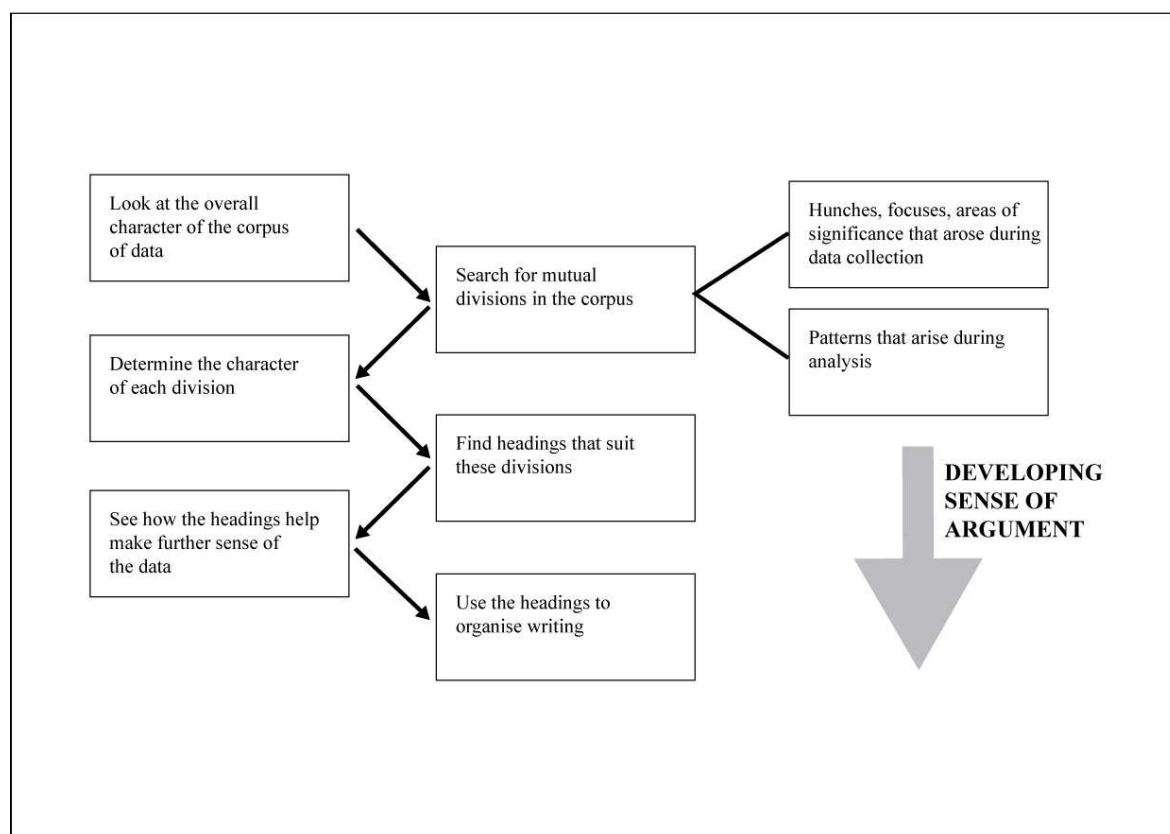


Figure 4.1 Formation of themes (Holliday, 2002)

#### 4.12 Ethical considerations

De Vaus (2001 p.245) raises four main areas in which such research a design as that laid out here might raise ethical issues. He specifically raises a number of issues particular to case study design and one which was of direct relevance to the researcher; when the

presence of the researcher affects the outcome of the case, and the attendant decision about overt or covert observation is primary. It was inevitable that the activities of the researcher would interlink with those of colleagues within MVine and informants surrounding the company and the potential knock on effects of this interaction had to be made explicit. Permissions had to be obtained, confidentiality maintained and identities protected. The principle of informed consent was overriding (Winter, 1996).

Because of the ambiguity in the researcher's position – neither a full time employee nor a completely impartial outsider, the concept of multiple identities was a crucial issue as she had a wide variety of different identities which she had to assume throughout the research. As well as fulfilling the roles described above, either simultaneously, serially or severally, the researcher had a number of different 'external' identities. Internally her two main identities were as shareholder in the company, with the vested interest that this entailed, and (ultimately) as Communications Director, tasked with the co-ordination of commercially impactful and financially robust activities within the marketing and communication spheres of the company. External to these identities however, she was also situated permanently within the University environment, and responsible for fulfilling the terms of her ESRC PhD studentship as well as continuing collaborative research with peers, conference and workshop attendance and research training as well as carrying out a variety of teaching responsibilities. She therefore had to ensure that she was able to dip in and out of her internal and external identities as events dictated. This was a factor slightly complicated by the geographical distance between the University in Newcastle and the company in London, and the more usual restraints of personal and family life.

Whilst never a problem raised by the MVine team, the issue of insider/outsider identity was brought into relief when undertaking external interviews, which had to be very carefully positioned; individuals interviewed included artists, label executives, artist managers, industry body executives, industry commentators and a variety of other people directly and indirectly related to the music industry. Presenting herself as 'from independent record label MVine' led to one predominant result when requesting an interview – a simple refusal. Presenting herself as a PhD research student from Newcastle University Business School usually succeeded in opening doors that would otherwise have remained firmly shut to her. However it was essential to the integrity of the research that

she clearly stated her various identities to every individual with whom she spoke, and clarified that her questions would not be such as to provide MVine with any competitive advantage, rather simply be used to inform the research that she was undertaking. Most usually this information was contained in an email that was sent subsequent to her telephoning the individual concerned, so that they had a permanent record of the context within which they were being questioned.

The researcher interviewed a wide variety of very senior individuals in the music industry, whose commentary and opinion are catalogued in the chapters which follow as they pertain to the fundamental upheavals taking place at the time of the research, subsequent new appraisals of value in the music industry, and the key characteristics of new business models emerging from this turbulence. This access was occasionally made possible by the researcher's previous contacts in and understanding of the increasingly global broadcast marketplace, which shared many corporate structures with the music industry. Indeed there were a number of individuals that she knew who migrated between the worlds of business, broadcast and music and who could either introduce her to relevant individuals or who became pertinent to her investigations, having initially been somewhat distant from the environment that she was studying.

However the influence of her MVine identity should also not be ignored. M was a globally respected musician, manager and producer, and was able to introduce the researcher to friends, relations, and contacts who were all very valuable sources of opinion and information about the research being undertaken. J was equally well connected in the world of software licensing (in particular of course the software underpinning the MVine business model) and was able to inform the researcher's contacts in and subsequent work on expanding her field of review outside the music industry.

#### **4.13 In Summary**

This chapter has shown the range of philosophical and methodological options which the researcher could use to investigate music industry value chains and business models. It identified the rationale behind the selection of the chosen methods, identifying how potential weaknesses were addressed and illustrating how the methodology was strengthened through triangulation. The chapter described the materials analysis techniques

that were applied and illustrated how the research managed the potential ethical issues facing her. The following chapters detail the results of the research and analyse their importance in light of the theoretical framework presented.

## **Chapter 5. Proving the new music industry value framework**

*“The only thing that a record label offers an artist now is money. Everything else they can do themselves. The clever ones, anyhow, only need us as a glorified bank.” (A, senior executive at major label)*

### **5.1 Introduction**

This chapter provides substantiation for the development of controlled, linear value chains into the more open and interactive framework presented in figure 1.1, p.4, thus answering the first research question: how have traditional music industry value chains changed as a result of technological developments? The new value framework emerged from the author’s empirical research, through her work with MVine, the collective cases and the expert interviews undertaken across the course of her doctorate. This chapter illustrates the new direct linkage between artists and consumers, as well as showing other opportunities for both artists and consumers to create value within the new value framework. The chapter provides evidence for the admissibility of this new understanding of value in the music industry through a logical and sequential examination of illustrative emergent relationships and collaborations between artists and consumers across the framework. These illustrations cover a wide range of actors from labels to artists - both high-profile and well known, to recently signed and own-label/independent artists. As this value framework provides new ways in which companies and individuals can create value, so new business models arise in which this new framework of value is embedded, and these mechanisms are analysed in Chapter 6.

### **5.2 Background overview**

The doctrine of copyright is largely responsible for the fact that music industry value chains had remained relatively linear, despite the increasing flexibility in the mechanisms whereby value was created and acquired by stakeholders within and external to other digitally-enabled industries. Whilst it remained easily enforceable, copyright acted as a barrier between the artist and the record company that (in the main) held the copyright in their work. This meant that the record label controlled the impact of all of the subsequent value-adding processes and over the mechanisms whereby the consumer was able to acquire the artist’s music.

As has been seen in this dissertation's early chapters, the majors in particular had a vested interest in maintaining the status quo because of their vertical integration into the entire music industry value chain. Although the major labels held quite stable market shares (taking into account mergers and acquisitions) across the 20<sup>th</sup> Century and into the 21<sup>st</sup>, rivalry was intense, signed artists were locked into exclusive contracts and consumers were not directly involved at any point along the traditional music industry value chain. The literature review demonstrated a movement toward increasingly flexible and interactive formations of value, reflected in the author's published papers (Florida et al., 2010b; Berry and Papagiannidis, 2007b; Berry and Papagiannidis, 2007a; Berry, 2006; Berry and Papagiannidis, 2006b; Berry and Papagiannidis, 2006a; Papagiannidis and Berry, 2006; Berry, 2005; Papagiannidis et al., 2005). Despite the emergence of a variety of more transparent, porous and flexible concepts over the last 15 years the review of literature in Chapter 2 clearly illustrated the shortcomings of current theory in its analysis of the creation and development of value within the modern music industry.

The new, more flexible and interactive framework of value seen on in figure 1.1 has emerged from the author's empirical research into the creative destruction of traditional music industry organisational structures and controls. It illustrates clearly how changing music industry value frameworks empower the artist and the consumer in a way that was impossible prior to the Internet's existence. It drives a repositioning of traditional record label models in order to capture value from these new relationships.

This new conception of value, derived from the authors empirical observations about the evolving business model of MVine and those of other contemporary music industry businesses, illustrates how the consumer and artist are able to occupy a more integral position within what were previously quite exclusive value creation processes. It reflects the fact that it is now possible for consumers to ignore copyright by acquiring music directly through P2P and MP3 technologies. Equally it reflects the fact that these and other internet technologies made it possible for the artist to ignore the record label and do their own recording, manufacturing, marketing and distribution, without losing control of the copyright in their work. At times they made a far greater percentage from their work than they would if contracted to a record label. Although this may possibly represent a smaller total amount of revenues than if they had been under contract with a label, the fact that

many such artists were not contracted to a record label implies that they got more income than would have previously been possible for them.

Although alternative business models are emerging, this dissertation does not support the ‘death of the label’ arguments which have occasionally been voiced (Barlow, 2001). At the time of writing, the traditional record labels remain representative of the bulk of music produced, and the mechanisms by which they achieve this status appear unlikely to alter drastically in the short term, regardless of the shifting marketplace environment within which they operate. The sheer size of the major labels in particular, and their interconnected, vertical integration across the entertainment and communications industries worldwide generate a momentum which is difficult, if not impossible, to resist. This remains the case, despite the fact that the combination of the Internet and other developing and related technologies has the potential to lead to a far more transparent, flexible and responsive environment within which it is possible for the artist, the consumer and even the label to interact in a more direct, focused and cost effective way than had previously been possible. Nick Stern, manager of indie band “Clap Your Hands Say Yeah” commented on the importance of the significant financial support that only comes with the operational and infrastructural support provided by a major label recording contract:

“It all depends upon what a band wants...if they want to be rock stars, they still need a label and they still need money. That next level of getting onto MTV and all the rest doesn’t happen naturally. Even for a band like Arcade Fire, even with all the backing from David Bowie and David Byrne, they would need to make the leap from selling 200,000 to 2million. Until the day comes when rock stars don’t like getting laid and being famous, that’s the day the world will no longer need major labels” (Anonymous, 2005a)

A variety of new relationships did, however, emerge as a result of this shift. From being a final recipient of pre-determined value either outside or at the ‘end’ of a linear value chain, the research shows that music fans are now able, should they wish, to take a position of greater interactivity at almost all points along a more flexible and responsive selection of value adding and creating processes – not all of which contribute value to the artist. Equally the artist is freed, should they wish, to participate at stages along the value chain which had previously been outside their reach; either locked down through the transfer of copyright to a record company, or simply too expensive or time consuming for an unsupported artist to contemplate. Whilst consumers can benefit to the apparent detriment of the artist, by acquiring their musical output for free (although as will be seen on the next



page some artists valued the opportunity to reach a wider audience by giving their music away in this manner), there is also a newly available collaboration between artist and consumer. They have the capacity to become co-creators and arbiters of value-adding processes which had historically been mainly positioned within the jurisdiction of the record company. Therefore what every record label and many individual or own label artists faced was the challenge of creating a successful music business in the face of the 'lure of free'. Interviews reinforced the finding that artists were increasingly empowered to move beyond and outside a traditional record label contract. O, artist and manager, commented;

“It’s not like punk in the 70s. Once upon a time all you needed was three chords to have a credible band, and though I have said this before it’s absolutely true, now all you need is three chords and a broadband internet connection. A record label just lends you the money to make a record. Why pay the interest, when you can do it yourself?...the usual business for record labels was to react, they don’t, haven’t really ever been creative, it’s always been like that. They wait for something to happen then go out and buy it, or bid for it, and hope that they can bring it in-house. It’s all changing – as an artist, or even as a manager, what motivation do I have once I have got the business, and got people’s interest, to go out and sell myself cheap? If you can get someone with a little black book to do the PR side of things for you and get you airplay, the web will make everything else possible for a fraction of the price that you would previously have sold your soul to a record label for.”

That there was major disruption in the music industry is not in dispute. When confronted with the notion of creative disruption interviewees revealed a variety of responses. The challenges to copyright were a key discussion point, with responses ranging widely. Trade body representative E said “I have warned people time and again that unauthorised file-sharing is simply not legal and that anyone who does it could have to pay thousands (of pounds) in compensation”. But many artists and their managers, showed a far less concerned approach, saying variously:

R: lead singer of a band “My kids download music for free from the Internet and even though I try to explain to them that if they and their pals keep doing that I won’t be able to afford their cereal, they just can’t see how it makes any direct difference. There isn’t any pain for them, and the pain of the musician is just too remote for them to give a damn about”

S: Independent musician with own label “My copyright is my copyright – but then I have to toss up don’t I. Would I rather get exposure and hope that some people buy into me or ignore the web and hope against hope to be discovered the old fashioned way?”

T: electro punk artist with a large following on MySpace "...of course we use the web to get exposure – people come to our gigs and pay and it makes up more than enough for what we might otherwise make selling stuff. And they only come to gigs because of the stuff they hear online, so why wouldn't I give it away?"

As these comments show, although a label would consider 'value' to have predominantly financial characteristics, the concept of value has also to be understood as how much something is worth to each stakeholder relative to other things – and those 'things' may not always be money. For the consumer of music, price is a factor but so too is variety, quality and ease of access: although they can download a track for free, they may consider it 'worth' paying for, or paying more for, if they get what they perceive to be a more 'valuable' product. Equally, although revenues generated from sale of their music are of value to the artist, they also value exposure to a wider, more varied, and larger group of fans, possibly so much that they may decide to provide their music free in order to achieve this. Value is thus best considered as subjective experiences that are dependent on context, and which occur when needs are met through the provision of products, resources, or services – usually during some form of transaction or exchange. Value is an experience flowing from the person (or institution) that is the recipient of resources – it flows from the customer (Feller et al., 2006).

As the possibilities inherent in these new constructions of value became increasingly apparent, a variety of artists started to take advantage by moving away from record label contracts to take a more "do it yourself" approach, reaching out to fans and potential new consumers through the Internet. The following sections provide evidence for this shift, and provide illustrative cases for each new linkage on the value framework as represented in figure 1.1, p.4.

### ***5.2 1 The 'consumer – artist – consumer' linkage on the new value framework***

The research process identified this dynamic as being created through a combination of linkages derived from the original elements of the value chain, reconfigured in ways which were previously not possible, through technologically mediated processes. It is important to recall, as noted early in this dissertation at section 2.4 above, that traditional labels such as "manufacture", "reproduce", "distribute" and "promote" cannot be separated from each other in the digital music age and in some instances, as will be described below, may at times all be seen as one and the same activity. As Jon Webster, the BPI's director of independent member services, and a former managing director of Virgin Records before its

acquisition by EMI said at interview in 2005, “As the options for artists have multiplied, the rules governing access to market have been blown open” (Chesbrough, 2003). For example, an artist or consumer may be said to be simultaneously creating, reproducing, distributing and promoting their work when they create an MP3. In an interview with the Independent newspaper, Peter Jenner (former manager of Pink Floyd and now Emeritus President of the International Music Managers' Forum) said that he

“doesn't like to use the term "consumer" in the context of the digital realm, however: "In the digital world, we don't 'consume' files: there is no limit to the number of files that can be copied; and every time you send a file to someone else, you increase the supply.”” (Gill, 2010)

An example of the difficulties faced in trying to disentangle previously discrete value chain processes was provided in November 2005. US born brothers Isaac, Taylor and Zac (better known in the days of their 1997 hit ‘MMMBop’ as the band ‘Hanson’) launched a new album, their own record label and a documentary intended to show students about “the growing epidemic of corporate control over bands’ creative processes” (Tumas, 2005). Hanson were previously signed to Island/Def Jam records, a company they considered to be under significant corporate pressure to produce ‘one hit wonders’ rather than listening to and developing them as a band. After launching their own label, 3CG, they expressly invited consumers to use their cell phones, social networking websites and e-mail to widen support for local bands, saying

“We want to encourage you guys that this is a time when you as fans have an opportunity to completely reshape the way music is exposed, purchased and the way that the industry as a whole - from record companies to radio stations - reacts to what you say”.

Thus for Hanson, their consumers became directly involved in promotion and distribution as well as consumption of music. Hanson reached out to their audience directly, not simply to encourage them to promote their music, but also to use a variety of digital formats and mechanisms to copy, distribute and share it across digital networks. They encouraged their fans to bypass traditional distribution mechanisms such as television and radio, as they believed these were too centrally controlled for true freedom of access by artists who were not part of a major or influential independent record label.

The case of Clap Your Hands Say Yeah (“CYHSY”) provides more evidence of artists’ increasingly broad range of abilities, as well as creation of their music. The band was strongly protective of the content that they created, and not only controlled this tightly but also controlled the manufacturing, distribution and promotion of their music to great effect. CYHSY is a US-based band which refused to sign a record deal prior to the release of their debut album, instead marketing, distributing and releasing their disc independently. The band posted up rough-mixed versions of each track up on their website as it was created. Although this in itself would only have meant that they reached an audience who already knew they were there, a contributor to well known independent digital music blog [www.saidthegramophone.com](http://www.saidthegramophone.com), Dan Beirne, found their music on a peer to peer file sharing network. He listened initially because of their unusual name (taken from graffiti seen on a wall in Brooklyn) but then realised that their music, although low production quality, was very good. He wrote about the band, and following this, and subsequent critical acclaim by popular music websites in the US, CYHSY initially packed and shipped issues of their first, eponymous album on their own, managing to sell 50,000 copies. Following this they contracted to a distributor, ‘Witchita Records’, to ensure that their sales were officially recorded and to save them having to personally wrap and send their CDs out. Songwriter Alec Ounsworth said:

“I asked record labels, what exactly can you do for us that we're not doing for ourselves? And nobody had a reasonable answer. So it seemed to me if we could handle it, we could handle it” (Mead, 2006).

The far greater capacity for artists and consumers to do themselves what had previously been the preserve of the record label was well recognised. E managed a large part of one of the UK’s music industry trade bodies which dealt largely with independent record labels and said to the researcher in an email in November 2005

“Thanks to the digital revolution, the capability to record, manufacture and market has fallen into the hands of pretty much any individual with a modicum of musical talent. Whilst writing a great song or a great piece of music remains as elusive as ever, the evolution of online promotional tools such as MySpace, the launch of legal download services and, crucially, an audience that has grown rapidly more mature in terms of their understanding of online consumption, it has been proven beyond doubt that certain artists can sell a certain threshold of music off their own back...it’s not a revolution...it’s an alternative route to market.”

However as E said, these new relationships brought responsibilities as well as opportunities;

“Moving away from the relative safety blanket of label financing is not without risks and it’s not for everyone, mostly because of the trade offs in terms of creative control as against being responsible for the financial issues, as well as trying to get a basically creative head around business issues...”

This point was reinforced by major label executive, A:

“In a time when making music was incredibly expensive, when producing and reproducing, distributing music was time consuming and incredibly hard work, there was no way that an artist would be able to survive if they were responsible for all of that. Never mind the basic fact that very few artists even now are capable of managing themselves; for every Madonna or Prince, there are hundreds of smaller, talented acts which simply don’t have the firepower to run their own show. What labels provided was safe harbour, sanctuary from all of the business side of the music business, freedom to play, to experiment and to create music. That’s all that most musicians want anyhow, at the end of the day, even now. There are always going to be artists that want that security.” (2<sup>nd</sup> December 2005)

Thus it was proposed that only artists with a ready-made profile and career – such as Hanson above – could afford to turn their back on the traditional artist-label relationship (Bemis, 2004). Record label executives were generally positive about their contribution to artist development and promotion. Frequently their comments revealed that whilst they personally resented the fact that they were cast in the role of ‘evil big business’, from a corporate perspective it meant very little to them. Even in 2004, very early in the introduction of the internet to the music industry, there were enough quotations and comments from major and mini-major label executives to convince this author that they really did not see any value in adapting to accommodate technological advances. Many of these comments were couched in unfortunately arrogant and high-handed language, which only served to turn more individual artists against them. As an example, when asked about how he proved the value of a label to an unsigned artist, mini major owner Tony Wilson said

“unsigned artists? Why should I be interested in unsigned artists? All those unsigned artists are unsigned because they are crap. If they weren’t crap, they wouldn’t be unsigned. They’d be signed up by someone like me” (7<sup>th</sup> July 2007)

As A has said above, there will always be some artists who wish for the security of a traditional record label arrangement, and this point is recognised and reflected in the new framework of value under interrogation here. However an increasing number of new and less well-known artists are also using the power of internet technologies to sidestep the traditional artist-label relationships partially or in some cases, completely. The cases which follow prove the value of the direct relationship between artists and their fans, and between fans themselves and other potential consumers, in helping artists create successful careers. As well as the artist-consumer linkage, a number of mediating companies offered support to artists through technology plays created specifically for the artist, which help artists to implement and automate a variety of tasks which were traditionally the job of the label – building websites, building up and managing their fan base, selling not only records but tickets to their fans, providing tour information, supporting the organisation of fans into local activists on behalf of their band, digital distribution. Companies such as Reverb Nation (<http://www.reverbnation.com>) and Topspin (<http://www.topspinmedia.com>) provide their users, for a fee, access to a rate-card of such activities.

One of the key issues was the speed with which new technologies responded to requirements, developing new iterations and even sometimes completely new applications for more established technologies. MySpace rapidly grew from an idea (2004) to being a popular social network (bought in July 2005 for \$580m by Rupert Murdoch's News Corporation) to being a record label in its own right in August 2006 (<http://www.myspace.com/myspacerecords>) as well as a fundamental element of many artists' communication with current and new fans. In 2008, the site itself claimed to host over 8m artists on MySpace Music Acts (Florida et al., 2010a) including global successes such as Lily Allen. All of this and much more besides was achieved over little more than 20 months. Executives at the larger major and mini-major labels were at a loss as to how best to monetise this rapidly changing marketplace:

“I am sick of people asking me what it's **going** to do to my business, to my artists, to my bottom line. I wish I knew – then perhaps I could plan and do something about it! There's no point in planning for the past.”

‘A’ - Major label senior executive

Mini-major manager C was quite clear in his perspective

“I would say that certainly we (the labels) aren’t essential any more. Important but not essential. But although, yeah, there have always been people who would avoid the traditional label route – dance, for example, and some folk stuff - there are now real opportunities that didn’t exist before for an individual artist. It’s the economics of their business, the technology that opens up doors”

O, a musician and manager, said

“the whole dynamic is changing – first slowly, now quickly and you have to be fast to make anything out of it...the usual core business for record labels was to react to what was happening, to manage not to create, to wait for something good, something cool to spring up and simply buy it. It’s been like that for longer than I can remember. It meant that they were usually waiting for some other sucker to bring the action to their attention so that they could bid for it. Bring it in-house, market it, do all that stuff. Not any more – as an artist, or a manager, once you have got people interested (and I have said this before) what on earth is your motivation to keep giving yourself away? It’s very – you can’t ever really compete with the majors but it’s like you can go around them, they can’t stop you”

Even indie label owners like K and L agreed that their position as intermediary between artist and consumer was increasingly tenuous. K said;

“I have artists who are tied to us, they trust what we can do for them and to be honest they aren’t interested in beating about the bushes when they don’t know how to market and promote themselves. But I do wonder how many there are out there that we never get to see 'cause they are realising that they don’t need us, that they can if they are the right sort of person do it all for themselves, or get their brother, mate, mother to pitch in and do what used to cost us fortunes to step up to”

This was reinforced by L, who also designed and ran live events:

“there are increasingly times when I just can’t guess the zeitgeist. I used to be able to tell – from airplay on the right radio stations, from keeping my ear to the ground, from being at the live gigs, what would work, and what would push the buttons when I was booking for events in, for 6 months in advance. But unless I was plugged in to the Internet 24 hours a day, I couldn’t do that now – yes I rely on the usual suspects, the big draw, but its fluke if I happen to book the next big thing because they are so specific to particular audiences.”

Music industry journalist F commented

“its early days but give it another generation of kids who are used to having their own way, doing their own thing, and there will be some labels around who will not have a reason to ‘be’. Those that do will have to be working with this new relationship and helping the conversations along not defending against them”

A relatively recent phenomenon should be mentioned at this point – the increasing use of virtual worlds such as Second Life (<http://secondlife.com/>) through which artists, labels and consumers could interact in an entirely virtual world: the author has published on this subject (Berry and Papagiannidis, 2007a). Second Life was an online society within a virtual world, accessed through the Internet. A rapidly growing consumer base (at the time of writing, 518,524 registered users) imagined, owned and created Second Life using avatars to represent themselves online. Second Life was similar to a Massively Multiplayer Online Role Playing game (MMORPG) except for the fact that land was owned by the residents, and they were also free to create whatever they wanted to on it. As well as real life clothing companies (O'Malley, 2006) and hotel chains (Donohue, 2006), artists and record labels were rapidly realised the possibilities for promotion and distribution of their music in this virtual mirror of the real world

Virtual 'live' concerts were held by artists – and not just the thousands of unsigned and own label artists who used Second Life as a supporting mechanism for the promotion of their music through social networking websites, although there was a Second Life record label for these people, called Multiverse Records (Peter, 2006). Multiverse Records was based on an island owned by new media entertainment studio Slackstreet (<http://www.slackstreet.com/>) and owned by Eric Rice, who bought it as a virtual entity when its originator in Second Life put it up for sale. Contributors to the original label could sit at home behind a microphone or stream content to the Second Life servers, and people in Second Life could listen to it. Multiverse also promoted these artists, providing virtual CDs that people could play in the Second Life homes, selling MP3 downloads and spreading the word about popular artists. After it was bought by Rice it offered design services for artists who wanted help with their avatar, environment, or other in world visual. There was a roster of artists actively promoted by the label but it also provided Second Life citizens with 'SListen', a virtual listening kiosk that any artist could use to showcase their music. Rice also created a number of broadcasts on KSSX, a network of original and syndicated podcast programming which promoted Multiverse and other artists through its presence in Second Life (Rice, 2006).



Internationally known names such as Duran Duran were also to be found in Second Life. Well known for being ahead of the technology curve, the band was the first to use live video cameras and videoscreens at their concerts (in 1984); their 1997 single 'Electric Barbarella' was the first digital download, and they were the first to use Macromedia Flash software to produce an entire pop video (Whitehead, 2006). It was therefore not entirely unexpected that they should appear in live concerts in Second Life, which they hosted on their own luxuriously appointed virtual island. Suzanne Vega was another artist who appeared both on broadcast radio and simultaneously in Second Life, with someone else controlling her avatar as she sang. Fans of U2 created avatars of each band member and re-enacted a show from the band's 'Vertigo' tour. The BBC's Radio One held annual live events called 'One Big Weekend', and in 2006 this event was also staged in Second Life as well as in Dundee, Scotland (Andrews, 2006). The BBC also rented a 'tropical island' for a year, on which have so far been held live concerts from international chart artists Muse, Razorlight and Gnarls Berkeley. Universal Records' labels Motown Records and Republic Records set up dedicated virtual music environment called 'Soundscape' which included a store, a music venue and a place where artists and fans could chat directly with each other.

In contrast to other MMORPGs, which are generally populated by young male users, the average age of Second Life users was 33, 50% of them were female and many of them had never played online games before. It is also asserted that in contrast to the emergent "1% rule" (that in user-created online environments such as Wikipedia only 1% of users actually create their own content, rather than simply browsing content already created by others - Arthur, 2006) 60% of users create their own content (Keegan, 2006).

Second Life was free to access, although to purchase land the monthly subscription was \$9.95, going down to \$6 a month for annual subscription. The currency used in Second Life was the Linden Dollar, which could be bought and exchanged at the Lindex Currency Exchange or a number of other 'in world' third party exchanges. Land was available from US\$5 (for 512 square m) to US\$195 (for 65,636 square m) and islands could be bought from US\$1,250 (for 65,536 square m) to \$5,000 (for 262,144 square m) and also required monthly maintenance fees.

Whilst looking at the effect of internet based technologies on the music industry the phenomenon of MMORPGs cannot be ignored. Although peripheral to the focal points of

this thesis – the newly reconfigured value frameworks and relationships between stakeholder in the music industry – it is important to note that internet based environments such as this bring artists, consumers and labels closer together in a mirror of their relationships in the real world. In Second Life the creation, manufacture, reproduction and distribution of music are similar to processes in the modern real world. Artists, labels both have to market and promote their music to their audience using virtual CDs, virtual flyers, virtual advertising, spreading the word through online connections in the same way that word of mouth works in the real world.

However the consumer is able to interact directly with the artist in a far more personal way than is possible in the real world. This dissertation has already detailed many ways in which the Internet has made it possible for artist and consumers to communicate directly - through IM email, blogs, wikis and other digital methods of communication. Second Life added a new and for the music fan, far more exhilarating prospect, enabling both artist and audience to ‘see’ each other face to face, interacting in a direct and intimate fashion that could only be replicated in the real world by a face to face meeting. For many artists this was not always practical – geography or time created irreversible obstacles between them that only the Internet could overcome. For popular artists, face to face meetings with fans were surrounded with additional, more complex problems – security, safety and privacy were high priority to artists as they become more successful and their fans became more numerous and vocal. Using the internet as a communications mechanism, and the particular nature of virtual environments such as Second Life, solved some of these problems.

The following section will illustrate some of the more complex interactions and combinations of these new linkages and future sections will highlight individual cases of each specific linkage being used to underpin the newly immediate and interactive relationships between artist and consumer.

### ***5.2.2 The ‘artist/consumer – creation’ linkage on the new value framework***

Artists had historically been very restricted as to the content that they created and the timing of completion and release dates; not all of them enjoyed this control (as has been discussed in Chapter 4) and the more high profile artists were able to be very vocal about

their complaints. Globally successful artist Prince found himself controlled by what he felt was a very restrictive contractual obligation to his label Warner Bros in 1993, despite wanting to either renegotiate his contract terms, or simply leave the label because of creative differences. During problematic negotiations over his album “The Gold Experience” a legal case arose between Warner and Prince over control of his music and the profits coming from it. In a highly public move he spent the remainder of his contract with the word ‘SLAVE’ written down the side of his cheek in protest at his inability to escape its terms. Shortly afterwards he changed his name to an unpronounceable symbol which became known as the ‘Love Symbol’. Prince explained his name change as follows:

“The first step I have taken towards the ultimate goal of emancipation from the chains that bind me to Warner Bros. was to change my name from Prince to the Love Symbol. Prince is the name that my mother gave me at birth. Warner Bros. took the name, trademarked it, and used it as the main marketing tool to promote all of the music that I wrote. The company owns the name Prince and all related music marketed under Prince. I became merely a pawn used to produce more money for Warner Bros...” (Heatley, 2008 p.191)

It was very rare that artists actually encouraged their audiences to get involved in the creative process directly, hence the dotted line joining the consumer and artist through the creative linkage in figure 1.1. More usually artists used fans to help distribute and redistribute their music digitally. In talking to a dance DJ, DN, who took samples of other people’s music and remixed them, she welcomed the opportunities that Internet technologies provided her with but she considered herself to be part of the creative process and a creator herself, *not* a consumer of music.

“There was a time when what I have access to now simply didn’t exist – so I couldn’t do what I do. My job, well, my hobby really, is something that was created by the Internet. But it’s on the back of stuff that other people have already made, a new creation out of samples and loops that I can grab whenever I want to. I can get them for free or I can buy them – depends on the website I use. There’s a real pride in taking what others have made and what they make available, paid for or for free, and turning it into something I think people might like even more.”

In talking to artists registered to MVine interviewed over November 2006 about this, there was a consistent refutation that getting individuals involved in the creation of their music process was necessary, desirable or even possible, summarised well in DN’s quote:

“I don’t mind them telling me what they think of my music and I might even take notice of their comments if enough people say the same thing, as long as it’s not about the core stuff, what I think is the heart of my music. But why would I want someone with no training, no experience, no talent to have any direct effect on what I do – it represents me. If they want to create tell them go create their own thing!”

Occasionally, and with increasing frequency as the research progressed, examples arose of artist who actually involved their audience in the creative process. Imogen Heap is well known for showing a distinctive and creative approach to the creation of her music, using technology to find and communicate with her fans in a variety of ways and to involve them in the creative process as much as possible (Bryant, 2009). Historically, issues like the album name and artwork to be used were kept confidential, not only because they changed frequently up to the date of release but also because of the very high risk of leaks of leaks of content pre-release, which might encourage piracy. However Heap showed no sign of concern over these issues and involved her fans directly in that part of the creative process. In Spring 2009, she asked her fan base on Twitter – over 750,000 followers – to help her to create sleeve artwork for her new album, “Ellipse”. She provided lyrics to the content of this new album to help fans come up with images that resonated with the meaning of her songs, and entries were hosted on Flickr, the photo-sharing website, for all to see. Heap offered both a cash reward and a credit on the album sleeve to the successful finalists: 11 out of over 1,000 entries.

Heap not only shared clips of music in progress, images of her recording studio, and the day’s triumphs, she also shared her frustrations, her insecurities, and often sought advice from fans. In response to the many replies that she received on Twitter, she thanked her fans repeatedly. She provided consistent feedback to her fans on what decisions she ended up making based on their input, showing them the results online through blogs, video, pictures or other digital transmissions.

The internet offered artists the opportunity to request that their fans help them to create their music by funding the creative process; one of the first bands to take real advantage of the potential of the internet to plug them into their fan base in this fashion was Marillion. Unlike Heap, prog-rock group Marillion had initially been signed (to major label EMI). The band formed in the early 1980s, and developed a global fan base which bought more than 14million albums before the band separated from EMI in 1995 (Reuters, 2004). Their 1997

album was launched with little promotion from their then-label, Castle Records, so they separated from the label and asked their fans directly through their website to help them finance the creation of their next album (Reuters, 2004). Lead singer Steve Hogarth said

“We'd come to the end of our record deal and there were various indie labels interested in us. But we didn't feel comfortable with any of them. We're a band with a big fanbase, but the problem is that, as a result, no-one has an incentive to market us. Record labels know they could spend a fiver on promoting our album and our fans would still go and buy it if they had to find it under a stone. And we knew what would happen if we signed to an indie label. They'd do nothing, sell the album to the fanbase and put the money in the bank.”(Leadbeater, 2000)

Marillion were successful in fan-financing their first ex-label album, “Anoraknophobia”, and so put their next album up for ‘pre-paid pre-order’ a year in advance, to help raise money so that they could actually create it. Through their website, as well as band and fan blogs and word of mouth the fans again responded overwhelmingly and 13,000 copies were pre-sold. This gave the band enough money to pay for not only the creation of the album but also marketing, advertising and PR for their new singles as well as paying for promoters to ensure maximum airplay on the radio and music television – exactly as a traditional record company could have done. ‘*Marbles*’ was released in 2004 with a 2-CD version, only available at Marillion's website. As a thank-you gesture to the 17,000 fans who pre-ordered “Marbles” their names were credited in the sleeve notes.

The band released the singles ‘*You're Gone*’ and ‘*Don't Hurt Yourself*’, promoting them to their fan base through the website and emailing their online database. Both tracks reached the UK Chart in the Top 10 and Top 20 respectively. In 2005, following this, they released a download-only single, ‘*The Damage (live)*’, recorded at the band's sell-out gig at the London Astoria. It was the highest new entry in the new UK download chart at number 2 (Reuters, 2006; Collins, 2004; Reuters, 2004).

Without the connectivity of the Internet, their continued success would have been impossible, leaving the band with no financial support for the creation of their work and no alternative than trying to find a label which would fund – but then also control - this part of the artistic process. Reinforcing this fact, B Hogarth, lead singer of the band, said "If you can enable a dialogue with your fans, you're in a position to move mountains" (Collins, 2004).

There were other artists who appealed successfully to their fans to help them create music by funding the process. Jill Sobule had one hit song but was then dropped from two record labels. With a carefully nurtured Facebook fan base where she held daily contests and online chat sessions, she turned there in mid-January 2008 to launch her website, "*Jill's Next Record*", offering fans a variety of ways and prices through which they could help her raise enough money (\$75,000) to record and distribute her next album.

“They could pay \$200 and get free access to any shows for a year. They could get their name mentioned on a "thank you" song. At \$5,000, she would do a home concert at your house. She even noted you could charge for that one, and maybe even make some money. She ended up doing five or six such concerts. At \$10,000 (described as the "weapons grade plutonium" level) you could sing on the album. This was meant to be a joke, but a woman in the UK purchased it, and Jill had her flown out to LA where she did, in fact, appear singing backing vocals on the album.” (Masnick, 2010)

Sobule's target was \$75,000; she raised over \$80,000 in just 53 days from the US, Canada and eleven foreign countries. The subsequent album, "California Years", was released on April 14, 2009 on Sobule's own label, Pinko Records.

Scott Henderson, an extremely well known fusion and blues guitarist, commented in a conversation piece on music form [www.thegearpage.net](http://www.thegearpage.net);

“The one thing I've noticed is that even though many artists have not been able to capitalize selling their music to listeners as a general group with the consistency as before "file sharing", many have succeeded in catering to those individuals who have the desire and means to support their favorite artist at a greater level. As you probably read in a link above, the female singer with a hit several years ago has had takers at \$10,000 to participate in her next recording. This is almost universal in "new business models" whether it be corporate sponsors or select fans with the means to sustain the artist's career. At the same time the average fan without these kind of financial advantages is offered music and perks at various levels depending on their desire and commitment...and if that still isn't fitting for some it is there to be had for "free"... which is inevitable anyway. Looking back 30 years if the "Scott Hendersons" of my day offered a personal experience (and I had the means) I would have jumped at the chance. What I've realized from what is happening with "new models" is many people in this society are willing to spend accordingly with their financial means. Rather than an artist depending on thousands of fans supporting their music with a small but equal payment, most are concentrated on offering new music with pay-scaled personalized services available to the few that can afford it and letting the music by itself go "for free" to the fans in general. As bizarre and unlike anything I've known in my nearly four decades as a musician, in

this era of divided privileged (sic) classes of society, it is beginning to work in a big way. Every body seems to be winning.”(Henderson, 2010)

Kickstarter, Sellaband and Slicethepie are three examples of companies which provide fans with the opportunity to get directly involved in supporting their favourite artists in the creative process through intermediating models involving financial pledges. Both Sellaband and Slicethepie allowed users to pay money to contribute to the potential for success of an artist that they liked. Sellaband asked users to contribute from \$10 per ‘part’ and once 5,000 parts were sold, the band was provided with the wherewithal to record and produce an album. Although the bankruptcy of Sellaband was reported in February 2010, at the time of writing, the company is still trading and claims that over \$3m has been invested in artists, with 42 artists or acts fully paid to undertake recording sessions.

Slicethepie paid users to rate and vote upon artists, and users were also encouraged to invest in their favourite artists from as little as £1, until £15,000 had been raised, at which point the money was released to the artist as required in order to finance an album, for which they were given 6 months. For anything over £5 that they invested fans received a free digital copy of the album, with a credit on the album sleeve and contracts (tradable on the Slicethepie exchange) for a return of various levels dependent upon their investment. Whilst this can be seen to have very similar origins to MVine (upload music, listeners rate and comment, popular artists get signed - even the logo has a very similar look and feel to the MVine logo) the inclusion of a list of genres from which to choose, and the immediate reward of financial recompense for listeners both immediately distinguish this more successful website from MVine. The opportunity for the users of the site to actively finance potential new artists was also unique, although it had been done before on an individual basis. SliceThePie.com was different in that it was built around new artists who did not have a ready-made fan base.

Whilst the site made use of innovative technology throughout, a particularly powerful factor was the ability to track a listener’s activities with such precision that they could be recompensed through micropayments for individual elements of their activity, thus adding individuality and personalisation to the listeners experience in a tangible way. Key characteristics of the Slicethepie model are therefore the filter mechanism provided by the categorisation of the music, the intelligence system which enabled precise tracking of each

individual user's activities and the very concrete nature of the reward that both artist and user were provided with – money.

Kickstarter is the most recent entrant to this so called 'crowdfunding' model (Scott, 1997), since April 2009 offering to users (in the US only at this time) the opportunity to fund artists that they like. Unlike Slicethepie and Sellaband, Kickstarter does not have any involvement with the artist, or their music, claiming 5% of the funds raised in order to finance the website. Kickstarter is also different in that it will help source funding for a variety of projects not just music, saying that it is "for artists, filmmakers, musicians, designers, writers, illustrators, explorers, curators, performers, and others to bring their projects, events, and dreams to life." <http://www.kickstarter.com/help/faq>. The artist sets the level of investment required, and the deadline by which they wish to acquire the funding; if the target is not reached the funding effort ends and the pledges are returned by the Amazon payments system which is used to centralise the process.

### ***5.2.3 The 'artist/consumer – manufacture' linkage on the new value framework***

Traditional manufacture of records as vinyl, tape or CD was one of the most costly and capital intensive elements of the music industry value chain, requiring huge up-front expenditure in materials, factories and pressing plants. The MP3 is the most common form of digital music and is now simply and easily created through freeware distributed from the Fraunhofer Institute as described in Chapter 4. Artists also had the opportunity to burn a number of their own CDs cheaply and easily through technology readily available through their home computers, and even larger scale manufacture of CDs was not out of the reach of many, with a manual DVD-CD pressing machine available for between \$200 - \$1200 (Stolarick et al., 2010).

Independent artist Sophie Agapios reflected this wider ability that artists now had to make their own music without having to be beholden to a record label to fund the equipment and people previously required. She felt this to be critical, in light of the difficulties that she had personally experienced in finding a record label that would sign her, despite having both high critical acclaim and a well respected manager. She said:



"Because the major labels want it all on a plate these days, new artists have been forced to go elsewhere and make their own arrangements. And they have found, because of the new technology, that it is actually relatively cheap to make an album. If you've got Pro-Tools and Logic software you can pretty much make an album in your bedroom. David Gray's breakthrough album, *White Ladder*, was made in a bedroom." (Sinclair, 2006)

It was home based copying technology which enabled the Sheffield-based, unknown (and unsigned) band 'The Arctic Monkeys' to manufacture home-made demonstration discs of their self-produced debut track '*I Bet You Look Good on the Dancefloor*' for distribution (at demo-quality) as CDs at their concerts. Whilst this proves the linkage of artists manufacturing their own discs, the story of the Arctic Monkeys carries on for some while, demonstrating that in fact they took advantage of every linkage in the new value framework in reaching out to their fans and also demonstrates the continuing value of the more traditional music industry value chain, as it results in the band signing to a more traditional label, as will be seen.

The Arctic Monkeys actively encouraged fans to share these tracks through P2P and other networks, thus achieving more profile and more sales of tickets to live gigs, a rapidly increasing spread of interest through online and real time word of mouth and ultimately the number one spot in the charts for both their debut and follow up singles. The Arctic Monkeys' album "*Whatever People Say I Am That's What I'm Not*", released only a few weeks after their second number one single, became the fastest selling in the UK for over five years, selling 360,000 copies in its first week. They also maintained a very direct contact with their fans through their website using blogs, emails and (often daily) updates on their progress and activities, and the demo singles were also available for free download from there. This approach generated a significant 'buzz' throughout social networks such as MySpace and Friendster. The demo was played by BBC Radio One in March 2005, a high quality version of the single was self-released in May that year, and they signed to Domino Records in June 2005.

The ease with which any individual could commit music to a CD or memory stick was taken advantage of by those who wanted to share music with friends and colleagues. Even for those users not personally technologically able enough to access P2P networks online, most of their home PCs had the capacity to be used to burn their favourite singles and/or albums onto a CD. This 'rip and burn' process was temporarily inhibited by Digital Rights

Management software, and the threat of legal action also served as a deterrent for some (as described in earlier chapters of this dissertation). Before the advent of the iPod and other MP3 players an individual had the capacity to manufacture their own selection of music to listen to themselves or to share amongst others. However these new technologies allowed even the most technologically-challenged consumers and artists into a new realm; that of music distribution.

#### **5.2.4 The ‘artist/consumer – distribute’ linkage on the new value framework**

“I just didn't include (a CD) because I wanted people to know that music is essentially in the ether, where it always belonged, before the advent of the business itself” (Hersh, quoted in Shepherd, 2010a)

Whilst some artists retained traditional distribution mechanisms through digital and hard copy distribution agencies, others decided that it was not necessary that their music was distributed at all, only that it was accessible. Kristin Hersh, quoted above, has given away her music for many years under a Creative Commons license, and has attracted a number of what she calls her ‘Strange Angels’ (a play on the more commonly understood phrase ‘business angels’ or private investors) who pay her recording costs in advance, allowing her creative freedom. Crooked, her most recent album, has been released as a book, within which are links to her website where the CD can be burned for free if the consumer wishes.

“Having spent years struggling with major labels, it became clear to Hersh that a change was needed. "The only equation I had to solve was getting the work done without that money." How would she do it? Listener-supported music.”(Lanphier, 2010)

A ‘direct to fan’ distribution route has been taken by an increasingly wide variety of artists, including artists such as Aimee Mann, one of the first high profile artists to offer her album directly to her fans via her website (Behrens, 2006). Singer-songwriter Aimee Mann’s debut solo album, ‘*Whatever*’, was released in 1993, and received rave reviews but modest sales. Her follow-up, ‘*I’m With Stupid*’, was completed just as her label went bankrupt and spent nearly two years untouched during litigation between Mann and the bankrupt company’s representatives. Her next label demanded that she return to the studio and record a more ‘radio-friendly’ single, but Mann refused to change the album. Following a corporate merger, Mann was moved to Geffen Records, which also declined to release her third album unless she added what the label felt would be more commercial material, despite her

disagreement. That label eventually freed Mann from her contract, but retained the tapes of that recording, '*Bachelor No. 2*'.

Mann bought back the rights to this work and offered *Bachelor No. 2* directly to fans at concerts and via her Web site, still a novel practice in 2001. "There really wasn't much happening there; there was no iTunes and we felt like, 'Well, at least people can buy the record over the Internet.' That's as much as we were really hoping for" (Behrens, 2006). The model proved successful, and Mann has to date independently released two more studio albums as well as a live CD/DVD package. In a move which was copied more and more frequently over the next three years, Mann previewed the whole of her 2002 album '*Lost in Space*' for free online. This was, she said, in rebellion against the major labels' priority shift toward highly-disposable radio hits, resulting in the production of albums with only one or two popular tracks on them at the expense of cohesive albums: "You'd hear one single on the radio—maybe—and then you'd buy the record and it's like 'What? This is not what I expected.' That sort of bait-and-switch mentality was just really prevalent." (Behrens, 2006)

Trent Reznor, the only 'official' member of American industrial rock act, Nine Inch Nails (gathering a different set of musicians around him for each album and tour) released *Ghosts I-IV* in February 2008 independently after leaving label Interscope, distributing it first, at no cost, as a digital download through his website. Reznor later made the more traditional physical release and offered the album up in a variety of different formats to fans, saying "...it gives me great pleasure to be able to finally have a direct relationship with the audience as I see fit and appropriate" Reznor, 2007. A free download of the first volume was available, together with a higher quality \$5 digital download. A \$10 double CD set was available, and as well as a high-end \$75 deluxe edition, a \$300 Ultra-Deluxe limited edition package including signed merchandise, vinyl and bonus CDs was made available. This last version sold out all 2500 copies in three days.

An interesting comment on this approach was made by senior major label executive A who noted "I like the different formats thing but think it's going to end up with the free and the really expensive. If you will pay \$75 you will pay \$300, if you are a real fan". This principle was echoed by musician Scott Henderson (already quoted above with reference to Jill Sobule) although with some obvious surprise:

“Who would have thought in this day and age anyone could put out a \$300 set of recordings and immediately sell out a limited edition of 2500 copies merely by offereng (sic) a simple one on one personalized service?... AND still offer the basic music itself absolutely free to the masses????” (Henderson, 2010)

In March 2006, renowned rock band Radiohead had ended their recording contract with major label EMI. In the process of putting together their own UK and European live events, they announced that they were going to release tracks as and when they were ready, rather than waiting for an album's-worth of material to be created. In a statement, the band suggested that they would release future singles in digital format only, in order to create what they called a 'document of the time':

“For the first time, we have no contract or release deadline to fulfil - it's both liberating and terrifying. To keep things more fun and spontaneous, we will be playing new songs that are work in progress. We will also be releasing music to download when we are excited about it, rather than wait months for a full-blown album release. Music's not just about all-time greats - it's also a document of its time, and we want to be able to put out a song when it feels right” (Mead, 2006)

Thom Yorke, lead singer of the band, indicated in June 2006 that he would only look for single album release deals rather than going the traditional route of contracting to a record company for two or three albums' worth of material (CMUDaily, 2006). True to his word, he released 'The Eraser' in July 2006 through a single album deal with XL, (a subsidiary of independent label Beggars Group) and it became the number two record on the Billboard 200, something normally expected from artists with major label support and global marketing/promotional strength. It should also be noted that despite the band's previous opposition to the unbundling of albums (Huhn, 2006) Yorke's solo album was available track by track on iTunes.

CYHSY provide an example of the increased power over distribution mechanisms enjoyed by unsigned artists: following the successful release of their first album it was reported in industry trade publication '*Billboard*' that control of the US release of their second album, due later in 2006, was still under consideration. Whilst they had ultimately signed to V2/Wichita in the UK, the band were not signed to a label in the US. They had, however, negotiated a direct deal with an American distribution company (ADA) to handle the

distribution of their first album, very much on their own terms. In discussing whether the band would handle the release themselves, band member Lee Sargent said:

"We're holding on to this record for a bunch of reasons. It's not a matter of creative control. It's become pretty clear that we'll always have that. We would just like to maintain our release schedule and decide what we want put out there or not." (Hasty, 2006).

In similar vein, Mick Hucknall, formerly lead singer of successful 1980's band, Simply Red, said "Major labels - what are they good for these days?...Distribution and dosh. I'm afraid that's all they were ever good for anyway." (Sinclair, 2006). Despite these sentiments, Hucknall took the risk of releasing his music himself, and so retained not only a far higher percentage of the royalties but also ownership of the master copies (rather than them being owned by a label keen to exploit back catalogue rights). The first album released through Hucknall's "simplyred.com" – "*Home*" - had worldwide sales greater than the band's final album released through Warner Bros. (Sinclair, 2006)

As the quote from Reznor above implies, he had experienced significant problems in his relationship with the record label. In fact he was so incensed by what he saw as his label's greed, charging more for his CDs simply because his fans would pay it, that he encouraged his fans not just to illegally download but also to share his music, requesting their help to ensure that it was distributed as widely as possible without any profits going back to the record label (Masnick, 2010).

It was not only the high profile, well known artists who did this – other less well known artists encouraged their fans to burn CDs: Matt Stevens was one of these:

"I make all my music free/pay what you want – I encourage people to copy and share my music. Torrent and share burn copies ... People still want music more than ever and it's the method of delivery that's changed." (C, 2010).

Interestingly the internet and related technologies also provided mechanisms through which consumers and artists could *prevent* their music from being distributed in the short term as the following example from the previously-mentioned Imogen Heap shows. Her interaction with fans and the many different technologies that she employed in order to engage with current and new fans became critical at a time just before the release of her new album, *Ellipse*, when it became apparent that one of the advance copies sent out for

review by music critics was up for auction on eBay. A fan noticed it and sent a Tweet to alert her and she was outraged, not because she didn't want her music to be released but because "some opportunistic person who had nothing to do with the album stood to make a lot of money from its pre-release sale on eBay"(Bryant, 2009). She challenged her fans on Twitter to make Ellipse "the most bidden-on item ever on eBay" and in response they put in bids enough to take it up to \$10m, before eBay realised what was happening and pulled the auction down from their website.

#### ***5.2.5 The 'artist/consumer – promote' linkage on the new value framework***

Promotion of music by an artist had historically been very label driven: album signings, appearances at relevant high profile industry exhibitions and events, tours and merchandise sales all require a significant amount of co-ordination in order to be effective in raising the profile of the artist, but were aimed at increasing sales of their music. Now that their music is far more easily accessible and frequently available for free, and they are able to move away from the label's traditional activities,, artists have to be more creative in the ways that they promote themselves, and exactly what it is that they are promoting.

Radiohead's now well known 'experiment', releasing their album 'In Rainbows' for free, or for a contribution decided upon by the purchaser, provides one of the highest profile examples of a band using the internet to promote themselves (Tyrangiel, 2007). Radiohead already had a highly loyal and large fan base at the time and it is important to note that, whilst it was an excellent promotional exercise, generating enormous coverage from mainstream, popular and trade media, without this significant support and ready-made demand, the mechanism may well not have worked. It had been proposed that only artists with a ready-made profile and career could afford to turn their back on the traditional artist-label relationship (Bemis, 2004). As Tom Silverman of Tommy Boy Records has said,

"You have to spread the word to get exposure, but I think the problem is context. When you're in a glutted environment, you need to differentiate yourself more than ever, so you need a great story. Story is context; it's not content." (Buskirk, 2010).

As it stands, the financial outcomes of the Radiohead experiment are still vague, and the album is now on sale in iTunes for £7.99. In an interesting footnote to this and, perhaps, demonstrating that the give-it-away model was far more about profile than profits, the album was later released in a more traditional manner through well known and highly commercially successful independent label, XL Recordings. And despite the origins of the album, several music blogs were ordered to take down links to a website where it could still be acquired for free in August 2010. Trent Reznor, outspoken front man for Nine Inch Nails, has commented

“I don't see that as a big revolution [that] they're kind of getting credit for...to me that feels insincere. It relies upon the fact that it was quote-unquote 'first,' and it takes the headlines with it.” (Sandoval, 2008).

It is important to note that Radiohead were certainly not the first artists to ‘give away’ their music, or make it available for free, as this dissertation illustrates. An increasing number of less well-known artists using the power of internet technologies to sidestep the traditional artist-label relationships completely, as illustrated in this chapter, prove the potential value of the direct relationship between artists and their fans, and between fans themselves and other potential consumers, in helping artists create successful careers. The Arctic Monkeys case has already been described, as has Marillion and Kristen Hersh, who had been giving their music away consistently and for far longer than Radiohead, building a base not just of fans but also of investors.

It was purely the ‘buzz’ about CYHSY and their music through the Internet – blogs, social networking, and peer to peer file sharing of tracks downloaded from their website - that catapulted them to the spotlight in the UK before they had a record contract (Leeds, 2005), using the direct connection to the consumer that the network of selection allowed. It had been suggested by a major label representative that a website was simply a good way of communicating with the audience between record releases and tours (Keating, 2006) but CYHSY showed that their website was an active promotional tool rather than simply a support marketing mechanism. A traditional record company would have had to pay significant amounts of money to replicate this effect using street teams, pluggers, advertising and promotion (Holub, 2006; Mead, 2006)

Taking the ‘free’ model one step further, some might say bringing the music industry full circle, in August 2010, band ‘The Reclusive Barclay Brothers’ offered to pay consumers £2,700 to download their new single, ‘We could be lonely together’. Those who registered

at their website, the ironically-titled <http://www.newlowformusic.com/>, were put into a random draw to be one of 100 who were paid £27 each to download the single. Again, the unusual nature of this offer, resonant of the days of payola and corruption in the industry, created significant coverage in online and offline media and resulted in a significant and effective raising of the band's profile, whilst also helping to add to their database of email contact addresses for future promotional activity. It remains to be seen whether the paid-to-download mechanism generated sufficient additional interest for paid downloads to subsidise the activity.

Whilst there was a growing market for renting your favourite rock star to play for private parties (Boucher, 2007; Ferren, 2007) a more individual and personalised approach began to build upon that concept for smaller and less globally famous artists. Josh Freese offered a long, varied, amusing and enticing list of personal and individualised gifts to his fans in return for their purchase of his music, including a personal five minute thank you phone call to dinner, a drum lesson, a personalised song and Freese's own Volvo estate car, all at different prices; the exhausting but ultimately successful results of these offers can be read here: <http://www.joshfreese.com/>

Other examples of technologically-enabled promotional activity abound. Sandi Thom was a female singer-songwriter who was rapidly signed to SonyBMG's RCA label after she received a reported 180,000 viewers to a live webcast of a musical performance that she broadcast from her basement flat in Tooting, and her first single entered the charts at 15 on download sales alone. Although there is dispute about whether the number of viewers is accurate (many commenting that the standard personal home broadband connection could certainly not support that number of concurrent users) the case illustrates clearly that Internet technologies can act as cheap, effective promotional tools for artists' live performances.

Ex teacher Corey Smith gave his music away on his website to encourage attendance at his live shows (Lefsetz, 2008). Swedish singer/songwriter Moto Boy (<http://motoboy.se/>) purposely put all of his songs on file sharing networks, and put the best of his fans home-made videos of his concerts on YouTube. Singer Amanda Palmer used Twitter to publicise "flash gigs" and in the same way, came up with a jokey t-shirt suggestion which through Twitter sold \$11,000 worth of t-shirts in days. She also started a live video stream from her



apartment hosting an impromptu online auction for various items associated with a recent tour, making \$6,000 in three hours (Masnick, 2010). Boston based singer Matthew Ebel started regularly performing in Second Life and set up a \$5, \$10 or \$15/month "subscription" backstage pass offer providing fans with various benefits depending on the level of support (access to special shows, gift bags or other opportunities for unique offers not available to others). Subscription revenues represent nearly 40% of his income, which is about equal to live gigs and sales of CDs and digital songs combined. He also made good use of his website to call directly to his fan base for help, for example to help him get invites to music conventions:

“I don’t have a “my people” to contact “their people”, you are my people. You are the only people that matter. If you’ve got a favorite convention you go to every year and they need live music, then I need you to take action and get me out there. I’m counting on you, just as I always do. Thank you.” (Ebel, 2010)

Both well known and new/lower profile artists have all been shown able to utilise the internet in order to promote themselves in creative and attention-grabbing ways. There were also a number of companies which hoped to profit from this phenomenon. In Australia, a company called Chartfixer would source one thousand individuals, each of which bought a copy of the artist’s track from iTunes. Chartfixer charged \$6000 to the artist for this service. The purchaser would then be given a full rebate and paid \$1 extra. For the Australian artist, where five thousand sales could mean a top 20 hit, this may have seemed a worthwhile investment. However in the UK, where significantly greater sales are required to get into the top 20, this would – even if allowed as legitimate by the IFPI, BPI and AIM - be a far less favourable arrangement.

It has even been proposed that record labels, with their greater resources and deeper pockets, are also involved in buying support for their artists in a similar way. Tom Silverman, founder of Tommy Boy Records, which has sold millions of hip-hop records, has been quoted saying:

“the majors have teams of people who actually buy singles on iTunes to try to drive it up the charts — buying their own songs. For \$15,000 in a week, they can buy 50,000 more song downloads, which could drive the record up three or four positions on the chart. And they (sic) hype of it all would make people believe it, and then the next week it would be real.”(Buskirk, 2010)

As artist and consumer became more closely related a variety of creative and effective relationships sprang up through which consumers promote those artists that they favoured. As well as more mundane word of mouth exercises such as Twitter, email and IM, more intimate and real life situations became possible. An article on music website Pitchfork describes how Julian Koster and his band 'The Music Tapes' would not only (in season) go to the houses of fans who requested it and sing them Christmas Carols. He also went and sang them lullabies and should fans wish, they could tell their friends about the event and create their own at-home live concert with the band (2010).

In January 2006, Island Def Jam, label to the punk rock band '*Fall Out Boy*' constructed an interactive map through GoogleMaps, which displayed the dates and locations for FOB's forthcoming tour of the US. Fans could get more involved by clicking on their city. This brought up links which enabled them to interact through MyLocalBands.com (a 'music-focused MySpace') with other fans of the band (Anonymous, 2006). Fans could generate points by posting pictures from the concerts, sending emails to friends with information about the tour and buying tickets online. To motivate as much interaction – and therefore free promotion – as possible, the city which aggregated the most points through such activity would host a free concert by the band. This method of tour promotion resulted in pre-sale tickets being sold out within 2 weeks, and produced an unexpectedly enthusiastic generation of emails - over 50,000 emails about the interactive tour map in its own right as a promotional tool were sent.

Fall Out Boy used communities to reach directly to their fans, and use them to spread the word about their tour, venues, tickets and availability. This would have historically required the use of a costly and complex nationwide radio, poster or television campaign. However through the Internet it was simple, cost effective and impactful, generating interest in the method that the artists used as well as in the music and tour information that they were promoting.

Imogen Heap, already noted a number of times in the preceding cases, has been shown to involve her fans at almost every stage of the value-creation process. This even came down to requesting that her fans help her with the creation of her promotional tour press biography: the final result (which can be found here - <http://www.imogenheap.com/biog/>)

was the product of collaboration between her and 81 of the 1500 of her followers who responded to the request on Twitter (Bryant, 2009).

Artists showed an increasing tendency to reach out and collaborate directly with their fans on promotional activity through the Internet – and not only on pre-recorded products, but also increasingly in live performances. Artists also started to reach out to their fan base to help them create videos of their live shows. The Beastie Boys were first, in 2005, when they handed out 50 handheld video cameras to fans at their Madison Square Gardens concert, taking the footage afterwards and editing it into a full length video of the concert complete with music direct from the show's soundboard (Aversion, 2005).

Coldplay did the same thing but integrated digital technologies, requiring fans to enter a competition on their website. Only the winners were given the chance to help them shoot a video for the concert DVD of their album, "X&Y". In a logical progression of the concept, another illustration of this phenomenon is Billy Campion, lead singer of "The Bogmen", a highly regarded New York band which broke up in September 1999. However Campion retained a very loyal following of fans. They were encouraged to bring their own mobile camera phones and video cameras to one of his live performances in Brooklyn in June 2006, and the YouTube footage produced of his performance of "Hi on Wade" had been viewed over 130,000 times at the time of writing.

Marillion, already noted above as one of the earliest bands to make use of digital technologies to get closer involvement and interaction with their fans, also made use of their fan's input to live performances. In an email sent to fan club members in July 2006, the band said:

"We're going to release a single from the new album in early 2007. Now while we can't give you specific details (where we are releasing it, what's it called, etc.) for a while, we are going to need a video and - in the spirit of keeping it in the family - we have a little favour to ask of you... We'd like YOU to shoot the video. We'd like to make an abstract video, a creative experiment which involves as many of our fans as possible." (Marillion, 2006).

It has already been noted that the reconfigured value chain, although it allowed a direct link between artist and consumer, rarely included the consumer's participation in the act of creating music. However through mechanisms such as this, artists were able not only to reduce the cost of producing promotional materials, but also include their fans integrally in

the production of promotional and support materials. This, whilst saving money also brought the consumer and artist closer together in a mutually beneficial relationship.

### **5.3 Summary**

Both consumer and artist have been shown to take up a more integral place within music industry value chains; the artist is empowered to not only create, but also to produce, promote, reproduce and distribute their music and the consumer is also able to contribute to the promotion and reproduction of music. Both artist and consumer have therefore found new sources of value, which are being leveraged by a variety of music industry actors as the cases discussed above have shown. The new value framework seen in figure 1.1 (p.4) represents a new set of linkages which have been shown through the primary case study and secondary cases, and underlined by the expert informants throughout this chapter where relevant.

As well as the well-documented primary linkage between artist and consumer – both popular artists and the unsigned, own label and independent artist – subsidiary linkages have been revealed which loosen previously rigid and linear music industry value chains. Whilst the direct link between artist and consumer facilitated through new technologies is a primary element of this thesis, underpinning MVine's business model and informing many of the secondary cases presented herein, subsidiary linkages have also been created and the value inherent in filtering, and facilitating interaction are also reflected throughout these subsidiary links.

Artists can of course compose, record and produce their own music, activities which have been fundamental to the music industry since its inception. New technologies give them the capacity to undertake the mechanical elements involved far more cheaply and effectively by themselves than has previously been possible, whilst retaining ownership of the copyright in their music and therefore benefitting financially more - per sale - than would be the case if they were contracted to a traditional record label. Manufacture of music for the artist and consumer is as simple as conversion into compressed formats such as MP3 and uploading to the preferred website. The Internet facilitates greatly increased reach and scope – at a greatly decreased cost if charged for at all - for marketing and promotional activities that the artist can use to reach a greater number of potential

consumers than previously possible. Equally the consumer of music can promote their favourite artists through the Internet using social networking or online music websites, thus assisting in spreading the word on behalf of those artists; these promotional activities can include distribution as well as pure promotional information simply by sending on compressed files.

The new value created through these linkages is difficult to capture commercially as it resides in the control of the (individual or collective) artist and consumer groups which themselves create it. Mechanisms intended to provide access to these new sources of value therefore have to place far more emphasis on understanding their audience than had been the case with the previously linear music industry models. Traditionally the artist signed to a more traditional music industry contract was locked down through copyright and contract, producing content which largely fell outside their control either during or after its creation and the consumer of music was a mostly passive recipient of whatever the major and independent labels manufactured, produced and distributed. Contrast this with newly empowered artists and consumers shown in this chapter to be emerging from the creative destruction of the music industry, who are using new technologies to create, contribute and deriving value across the entire value chain. Chapter 6 will identify how the linkages along the newly reconfigured value framework presented in this dissertation are not only relevant to an understanding of the changing nature of value in the music industry but also to the construction of new business models built upon this understanding.

## **Chapter 6. Proving the new music industry value framework through MVine and other music industry business models**

*“...what we are proposing to do could in principle lay the foundation for an evolution in the way corporates (sic) and global brands communicate and interact with their consumers; the MVine model highlights the difference between corporates (sic) dictating and consumers creating.”*

(J, in conversation, 29<sup>th</sup> April, 2004)

*“Mvine (sic) was probably the first UK based model – and the first global one outside of MySpace - to try to engage consumers at this level, so we were trying to educate, engage AND make money out of them – too much, too soon and with too little understanding on our part.”*

(HP, by email, 15<sup>th</sup> April, 2010)

### **6.1 Introduction**

This substantial chapter uses materials gathered from the central study of MVine. It analyses both the intended and the ultimate construction of the company's business model through application of Osterwalder's 4-pillar framework, identified in Chapter 2 as being most suitable for this purpose. It draws from the results of this analysis and that from the previous chapter to identify key characteristics of successful music industry business models. MVine's business model is described alongside, and contrasted with, other new music industry business models, together with commentary from expert informants where relevant. This analysis assists in evaluating the efficacy of the MVine business model and, in the process, the deeply embedded concepts of value and customer focus in the Osterwalder ontology allow for reflection upon the effects of the repositioning of the consumer and artist within the new value framework contributed herein.

The chapter illustrates how this repositioning either supports or militates against the success of MVine and other music industry business models employed over the period of the research. Thus the chapter provides substantial materials which, together with those from Chapter 5, allow for analysis of how best to create successful new business models in

the music industry, through the identification and application of key characteristics of successful music industry business models. The chapter prioritises the record label and key characteristics relevant to successful business models for them, but also accommodates the newly empowered independent or own-label artist, identified in Chapter 2 as being perfectly capable of constructing their own business model, despite their less ‘corporate’ and more entrepreneurial nature. The chapter therefore also highlights, where different from the commercial imperatives of a more traditional label, the relevant key characteristics upon which these artists are recommended to build their business models. This chapter therefore illustrates how the new music industry value framework contributes to a greater understanding of the key characteristics of successful individual and corporate music industry business models.

## **6.2 MVine and the application of Osterwalder’s business model framework**

This chapter will analyse the reasons that MVine’s intended business model was not successful through the lens of Osterwalder’s ontology, presenting contemporaneous cases which illustrate more successful propositions under each heading. The new value framework evidenced in Chapter 5 is shown to be central to the key characteristics of successful music industry business models, which are derived from the analysis which follows.

MVine’s business model was eventually unsuccessful, for a variety of reasons described in brief below, as they are decomposed through Osterwalder’s ontological approach, and subsequently illustrated in greater detail. In essence, whilst outwardly offering support for own label and independent artists, and a source of new and high quality music for the audience, MVine did not timeously understand or support the central importance of the direct relationship between the newly empowered artist and consumer in the new music industry value framework that is contributed herein. At the same time, MVine was challenged by a rapidly increasing number of alternative artist and customer offerings, many of these providing not only a more effective alternative to MVine’s initial value proposition, but also far more to both the artist and the consumer, reflecting value added activity at more, if not every one of the linkages along the new value framework which were examined in detail in Chapter 5.

<b>Key Characteristics of Product Innovation</b>	
Value proposition	The new value framework allows many different understandings of 'value'; it is important first to understand those things that customers truly value rather than constructing a business model around assumptions. For a label to have any value for an artist it is critical to integrate the new, direct relationship between the artist and consumer of music into as many of the label's value creating processes as possible in order to benefit from the artist's newly acquired potential to create value themselves.
Target customer	The target customer in the new value framework is increasingly powerful: accommodate this by involving them. In order to exploit the newly empowered consumer's value adding activities, artists and record labels must integrate into their business model the requirements of the consumer for interaction, conversation, information gathering and redistribution of information and content.
Capabilities	Facilitate interaction between artist and consumer at all points along the new value framework.
<b>Key Characteristics of Infrastructure Management</b>	
Activity configuration	The repositioning of the artist and consumer within, rather than outside, the music industry value framework has resulted in the creation of completely new sources of 'value' (some of which value can be expressed in non-monetary terms) emanating directly from the artist, the consumer, and the increasingly direct relationship between them. For a profit to be realised, a company must offer something its target audience will pay for.
Partner network	Control of value adding processes is increasingly passing to the creator and consumer of music, so any 'partnership' activity intending to mediate this relationship and any mechanism intended to provide access to these new sources of value has to place far more emphasis on understanding and accommodating potential partners than had been the case with previously controlled and linear music industry models.
Resources and assets	The new value framework provides opportunities at every stage for consumers and artists to create their own 'resources' and generate their own 'assets'. Those offered must therefore be greater than those that the users can access themselves.
<b>Key Characteristics of Customer Relationship</b>	
Information strategy	Once the infrastructure is in place, the use of interrogative technology to find out as much information about the activity of users online activity is critical to informing successful and profitable relationships with them.
Feel and Serve (distribution)	The infrastructure through which the company's business model delivers its value proposition must be simple and easy to access, and provide a route to the right market for the artist, and to relevant content or a required commercial offering to the consumer, which they could not easily access elsewhere.
Trust and Loyalty	The new value framework is an open and transparent construction, similar openness and transparency is required of businesses building their models around it in order to generate trust and loyalty. 'the brand' is important, but no longer sufficient in itself. Because every company has the capacity to compete for individual consumers across such a huge scope of activity, the concepts of trust and loyalty become even more critical to competitive advantage.
<b>Key Characteristics of Financial Aspects; cross cutting factors, affected by all other key characteristics</b>	
Revenue model	No combination of key characteristics is sufficient if the company does not base its business model on the new value framework and thus reach a critical mass of content, interaction and usage. Without this there will be insufficient revenues to support the continued existence of the company. Offering artists the opportunity to benefit financially is of great value to them, and possibly one of the few remaining functions of a record label that can not be performed by the artist themselves. Combining this conclusion with the potential that technology provides, highlighted in this research, to aggregate smaller payments from consumers who value that artist's music, results in the conclusion that a modern day model of patronage is technologically sustainable.
Cost structure	Shifting control and power back to users through value framework can reduce company costs.
Profit model	Companies and artists can generate greater profit per sale from smaller sales and still create a sustainable business model.

**Table 6.1 MVine's intended and ultimate business model based on analysis through Osterwalder's framework**



### 6.3 Product Innovation

Product innovation is delivered through the value proposition, understanding of the target customer, and the firm's capabilities

“The main elements are the value proposition a firm wants to offer to specific target customer segments and the capabilities a firm has to be able to assure in order to deliver this value” (Osterwalder and Pigneur, 2002 p.3)

#### 6.3.1 Value Proposition

The value proposition refers to “the value the firm offers a specific target customer segment”. Osterwalder refers both to the *new* value, and to the *more efficient* value creation that ICT enables a company to offer to its target audiences. MVine believed that the value they offered came from offering a completely un-categorised selection of new music to an audience which had, to date, minimal effective, alternative listening mechanisms. MVine wished to offer new artists a cost effective and easy to use platform on which they could showcase their talents to a wide and disparate audience of potential fans and purchasers of their music. MVine wanted to offer more/more efficient access to new music to the listener, and access to an audience for new music to the artist, providing the audience and artists with opportunities to communicate in a direct and meaningful way. They believed that this differentiated them from competitor offerings, certainly in the very early stages of planning, through presenting to their audience a new and innovative mechanism for getting their music heard and bought, providing their audience with a chance to hear new music for free, creating an interactive environment within which artist and audience could communicate, and where consumers could buy high quality downloads more cheaply than would otherwise be possible if the artist had to pay for distribution themselves.

The fact that MVine did not filter its offering by genre or category was initially held up to be a benefit: M was quoted in a press release of December 2005 as saying:

“Everyone whose taste I have ever admired has a very eclectic mix in their music collections. MVine is the same – the only ‘genre’ we’re after are classy artists with a real depth to their music. We trust our audience to spot them first.”

This was different to other emerging websites which allowed users to select from a predetermined list of genres or categories. MVine encountered two fundamental problems in this regard – the site did not attract the number of users that would be necessary for it to host either a large enough community of listeners, or a large enough body of new music, to

live up to its marketing promises; this will be discussed in the section below on target customers. Secondly there was no genre selection nor categorisation available to users. In interviews users of the website expressed their wish for a more structured, pre-filtered experience, in comments such as

“Why can’t I tell you what sort of music I want to listen to? I don’t have the patience to wait for something that’s good, that I think is good, I can go to loads of other places and just tell them I like pop, rock, whatever and there’s at least an initial understanding of the sort of thing I am going to get. I sit and listen on MVine for 10 minutes and I haven’t heard anything that I like, really its all zero rated. I just got bored so I didn’t go back.”

“But how do I find more of the stuff that I like? I can’t just sit and listen for hours and hope, that’s just not going to happen!! Surely you don’t expect that, nobody has the time?”

Internet based technologies provided many new, cheap, customer-friendly ways that consumers could acquire, listen to and store their music. However, the sheer volume of available music generated through these technologies, meant that music consumers were also potentially surrounded by ‘unfiltered creative noise’. Businesses built upon the traditional music industry value chain had not had to take notice of this fact, as they controlled the output to the consumer from first to last. In the early 21<sup>st</sup> Century however, business models had to be constructed to provide artists and audiences with more than they could easily do for themselves through the new value framework presented here. MVine’s lack of genre was one factor which made it *more* difficult for artists and consumers to get what they wanted, and so resulted in low usage of the website from both.

A successful example of this filter process is online record store CDBaby (<http://cdbaby.com/>) which promoted itself as the earliest independent online record store to sell music by independent musicians. CDBaby was a very popular destination; at the time of writing, over 360,000 albums were being sold through the website, and over \$157m had been paid directly to artists through sales (<http://cdbaby.com/about>). Reinforcing the concept that it was important to embed genre and filtering mechanisms within the online music environment, the success of CDBaby can in part be seen to rely upon their provision of a wide variety of mechanisms by which users could find exactly what they wanted. CDBaby not only supplied a predetermined set of genres for users to choose from but also supplied a number of other filters to help users access the music that they wanted – whether

they were only interested in top sellers, or music from a particular geographic area, music for particular occasions or moods, even music that sounded like already successful or high profile artists.

**In summary:**

**MVine's value proposition:** providing wide variety of un-categorised new music and artists to a large audience, time and cost effectively, providing audience with opportunity to get involved with artist in a meaningful way. MVine considered that offering a wide variety of uncategorised new music represented value to the listener, who because of the lack of any categorisation had the opportunity to discover music that they would never otherwise hear or appreciate. MVine also believed that artists would value environments within which their music can be heard by the widest possible variety of listeners, regardless of the listeners' preferences.

**Challenges:** minimal website use by artists or consumers, lack of genres found to be off-putting, no community generated

**Key Characteristics:** The new value framework allows many different understandings of 'value'; it is important first to understand those things that customers truly value rather than constructing a business model around assumptions. For a label to have any value for an artist it is critical to integrate the new, direct relationship between the artist and consumer of music into as many of the label's value creating processes as possible in order to benefit from the artist's newly acquired potential to create value themselves.

1. Offer new, cheaper, or more customer responsive offerings than provided elsewhere: a baseline requirement. Competitive advantage lies in offerings that provide users with a clear benefit above that made possible elsewhere.
2. Artists require an environment which ensures that their music is easily heard by as many individuals as possible; offer ways of distributing that music more efficiently. 'Free' has a value of its own to the artist, with 'try before you buy' and variations on that concept encouraging uptake of and interest in artists and their music which the consumer may not otherwise discover.
3. Use technologies to provide a variety of mechanisms and filters through which the tastes, activities and habits of music consumers can be tracked to facilitate the

provision to them of music that they are likely to appreciate, and therefore spend money on.

4. **For the artist**, consumers will value direct contact very highly, so timely, meaningful and personalised responses to user interaction are important.

### **6.3.2 Target Customer**

MVine had two initial target customers: “artists”, those with new music to play, and “audience”, consumers who wanted to listen to that new music. There were initially plans to allow/encourage other record labels to register and thus access the potentially successful new and unsigned artists that the company intended to attract. It was intended that different routes and offerings would be available to each of these categories, from the initial registration process onwards. However as the site drew closer to launch the MVine team decided that there was no need to divide the user base into artist and audience, as the presumption was that artists would also be audience for other artists. The provision of two separate registrations was felt to be unnecessarily onerous and thus potentially prohibitive of those who might want to do both.

Whilst the concepts of time and distance identified by Osterwalder as important in this respect were certainly issues for MVine to accommodate in reaching their target audience, it is also important to note that they were also critical to the artists using the website, for whom saving time and increasing the reach and scope of distribution of their music were both key characteristics of the websites that they chose to use in order to reach *their* target audiences – potential fans and purchasers of their music. The lack of clarity on which audience MVine was targeting was one of the company’s earliest challenges, and resolving the best way to identify, and then effectively reach the audience they wanted to attract took many months of work.

Getting to a critical mass of users – both artists and listeners – as rapidly as possible was a key factor in order for the company to succeed, and this delay was problematic for them. The MVine team took too long to realise that that the newly empowered consumer and artist were no longer easily distinguishable, identifiable or approachable. They failed to recognise that their potential audiences were already able to do much for themselves that had previously been done by music companies, and that getting them to notice MVine

meant MVine had to offer far more than they could already achieve. Interviews with 72 users showed that all except for one were artists who uploaded their music for others to hear. The interviews also highlighted the fact that artists using the website were most frequently doing so as one of a range of different websites that they were using to reach out to the widest possible online audience; only rarely were they actively listening to any of the online music available to them through MVine.

The only non-artist user who was uncovered at interview was not only of note because of his unique non-artist status, but also had issues with the lack of genre which was noted in the value proposition section above as being problematic:

“I bought the Christie (Hennessey) CD through MVine, and had no problems with the shop but didn’t really know where to go to use the site properly, like, is there any more of Christie, or stuff like him up there?”

Those who were artists were also sensitive to the environment within which their music was heard and the various alternatives increasingly available to them: they commented:

“I logged on and listened to a fair number of tracks but really didn’t like anything that I heard so didn’t put our music up.”

“Though I love the concept of MVine, I decided NOT to upload any music....because we wanted the single to be released free”

MVine were attempting to relate to their audience in a very personal way, and to provide the users with value added content and experiences that would keep their attention in an increasingly fragmented online environment. To do this it was critical that the company really understood their target market, their motivations and what really counted as ‘value’ for them, as well as looking outside the MVine model and clearly assessing what the competitive offerings were that their potential users used instead. Their lack of understanding of the true constitution and motivations of their target market – possibly blinded somewhat by having high profile and successful musician M as part of the team – made this difficult.

Interaction with and understanding of their fan base was something which Marillion, already mentioned in Chapter 6, were well known for. Whilst they had a ready-made fan base, and so had an advantage over MVine in creating sufficient activity to result in meaningful relationships with their audience, they continually tested and adapted their

plans to account for what their audience wanted. Having used the Internet since 1997, the band tried an experiment in 2008 to find out whether their fan base, long term supporters of their internet based sales and marketing strategies, would buy their new album (“Happiness is the Road”) online if there was no other alternative. However only about 1/3 of fans did so: the band acknowledged in the newsletter that

“we received 100% of the profit available from this project (many more times the profit we earn from retail shop-sales) and this will keep the band alive-and-well going forward and will finance us through the creative period ahead”.

In acknowledgement that 2/3 of their fans wanted to buy a hard copy of the album through more traditional retail outlets, they also struck a deal with EMI in order to ensure that retail sales of the album were available for those fans that would rather purchase it that way. Recognising that they had to ensure that their target customers got what they want and when they wanted it, they said:

“if we have learned anything from the last 15 years of using the Internet, it's to listen to our fans when they communicate with us - and loads of you are telling us that you simply want to go into your local shop and buy our new CD. Not a download, not from iTunes, and not from Amazon.”

### **In Summary:**

**MVine’s proposed target customer:** own label and independent artists, consumers looking for new music.

**Challenges:** actual customers were own label artists, not consumers; both artists and consumers could get what MVine offered – and more - better, faster, easily elsewhere.

**Key Characteristics:** the target customer in the new value framework is increasingly powerful; accommodate this by involving them. In order to exploit the newly empowered consumer’s value adding activities, artists and record labels must integrate into their business model the requirements of the consumer for interaction, conversation, information gathering and redistribution of information and content.

1. Involve broad selection of both consumers and artists in the construction of the business model to ensure that perceptions are not skewed by influential internal/external attributes and personalities.
2. Create mechanisms for listening to target customers and respond in a timely manner to commentary and feedback to ensure that what artist and audience value is truly understood.
3. Highlight the ability to save time for both consumers and artists and the ability to provide them with technology which enables artists to increase the scope and reach of distribution of their music and consumers to acquire music from a wide range of sources.
4. Neither ease of use nor scope and reach will have any meaning if there are insufficient individuals using the site. Critical mass appears to be indiscriminate, a function of quantity – i.e. ‘enough people’ – rather than quality ‘enough of the right sort of people’.
5. **For the artist**, ensure that as many relevant interactive routes are used as possible, both to reach out your target customer and to get feedback from them. As well as at live events such as festivals and concerts, ensure that all relevant digital routes are involved. These may include Twitter, MySpace, Second Life, Facebook, as well as email newsletters, regular bulletins and correspondence with them through blogs and online fora. ‘Relevance’ will depend upon your understanding of your audience base; ‘relevance’ and ‘involvement’ will both require constant attention to these dialogues.

### **6.3.3 Capabilities**

The practical capabilities of a company to deliver the value it promises is the third element of Osterwalder’s Product Innovation pillar; he adopts Wallin’s (2005) definition of *capabilities* as “repeatable patterns of action in the use of assets to create, produce and/or offer products and services to a market”.

The capabilities required for MVine to successfully provide their value proposition to their users were an easy to use online environment for up/downloading, listening to, rating and commenting upon and discussing new music; in other words, a live representation of the interactivity and communication linkages on the new value framework, giving artists and consumers the opportunity to interact, influence and support each other. The underlying

software upon which MVine was built was fundamental in this regard. It was a highly configured set of open source software, underpinned by a business intelligence system. As well being configured to allow musicians to upload their music onto the website for users to listen to, the software was also intended to enable users to buy/download music from the website simply and easily. The business intelligence software generated the algorithms which underlay the selection of music so that each user was served with a carefully constructed set of music as they listened and voted. The principle behind the website was that votes and comments would be captured and used to inform the MVine team about which artists were being rated most highly at any one time, as well as being used to provide feedback to the artists on whom each user commented. A chat function was also planned, which the target audience could make use of in order to exchange comments and recommendations between themselves.

It took some time to get to the stage at which most of these capabilities were in place, but even then, technology issues and the lack of critical mass were seen by users to be problematic. The artists using the site were very conscious of the value of additional reach provided through the internet and were carefully balancing the effort required to get their music heard against the distribution capacity of the websites they were using:

“The first one I went to, CD Baby, took me hours to get onto and then they made me pay and even then I don’t know how well I will do. But look at the number of people using that site, its throwing mud at a really really big wall and I just know that some will stick, though I don’t know if I would go through that faff again. MVine was far easier to get onto, but there isn’t enough activity to make even that worth my while. Nobody is seeing me there, I haven’t had any feedback or comments”

“We simply did not want to use the player. It’s counter-intuitive and the icons are irritating, really patronising. I don’t want to have to look so hard for band information; it should be more 'in your face'. It’s just too too hard to find the obvious information that anyone would want to see – on MySpace its right there under your nose, first thing you see. And, anyone looking at Media Players would compare yours to iTunes and see just how deficient yours is. The Player could have helped reinforce a really strong concept, but instead it put me off even using you”

Three main technological capabilities were of particular importance in this regard: those which were to support uploading, downloading and the creation of a community.



*i.       Uploading*

Press releases from 26<sup>th</sup> September 2004 noted:

“Uniquely, MVine delivers music in Ogg Vorbis, which streams higher quality files at lower bandwidth than MP3. Essentially this means that users can still listen and download songs even if they don’t have broadband”.

However a fundamental barrier to entry of the MVine system for many artists was their inability to reformat their music as Ogg Vorbis files: the ubiquitous music file format was the MP3 and so not all of them had the ability to reformat for the far less well-known Ogg Vorbis format. Whilst it was made clear to them that they could put their music in the post to MVine and it would be reformatted and uploaded for them, this extra action required of them was enough to put many off uploading at all.

“What you mean I have to pay for postage? That’s just mad – I mean, there are so many sites out there, bigger than yours, and I can just hit ‘send’ and my music is up there. This is way too complicated for me.”

In June 2005 it was decided that the website would be reconfigured to support the upload of MP3s as well, so that artists could upload this more usual format. However by this time many early users, who could have been expected to drive traffic to the site through word of mouth if they had found it useful to them, had been turned off by the complexity of the initial upload procedures. In conversation with ‘I’, he made the following comment:

“You know I loved what you were trying to do with MVine but to be honest the reason that I haven’t been back since I first logged on those few times – I just didn’t get what you wanted me to do. Was I going to reformat my entire album just for you, when nobody else wanted me to do that? I appreciate the quality of the sound you get but to be honest I’m more concerned with getting my music out there, quickly as possible, to as many people as possible and I really don’t think sad to say that most people in the general music listening public really care too much for quality. Christ if the Red Hot Chilli Peppers can release “Californication” with such astonishingly crap production values but still bought by millions, then why should I care about differences in format quality that most people won’t even register? “

*ii.       Downloading*

The MVine shop was intended to be an environment where artists could sell their own music as well as MVine promoting sales of artists that they signed to the label. It was some time until the shop was ‘open for business’; the first tracks did not show for sale until 6 months after the website launched. Before then, whilst music could be listened to it could

not be downloaded or saved to the listener's computer. Whilst the "artist information" link enabled anyone interested enough to visit the artists' website and request a track or album directly from them, this was another example of how MVine made it more complex than necessary for users of the website to get what they wanted quickly, simply and easily. Sales from the shop were therefore minimal; running at only one or two tracks per week even 5 months after the shop was opened.

Downloads were made available for free in June 2005. Both unsigned artists and MVine signed artists were able to post their songs, in MP3 format, to be legally downloaded by any listener who wished. However, as with the uploading of music, this delay in providing users with facilities that were increasingly freely available on other websites resulted in poor uptake of the opportunity. 'I' again captured the comments of many interviewed when he said:

"If I want people to have my music I just post it and let them take it. I don't want people to have to pay for one track up front... I want them to get into what I do so that they will buy the album, see the show, get the t-shirt. I can't do that on MVine – or at least I couldn't – now you tell me I can but I am doing OK with the stuff I have on every other bloody website out there. I'm sorry but I just can't be arsed."

Individual artists, even not particularly well known ones, were proving contemporaneously that providing free access to their music was an important and integral part of their promotional work, and easily done through the use of their newly empowered position within the value framework. In October 2005, Seattle-based band 'Harvey Danger' self-released their third album, *'Little By Little'*, for free over the Internet. The band also offered the album at independent retail outlets on its own label, 'Phonographic Records'. Although the band had previously had success signed to Slash/London Records, it had increasing problems in getting large retailers to stock its records. Citing "a long-held sense that the practice now being demonized by the music biz as 'illegal' file sharing can be a friend to the independent musician" (<http://www.harveydanger.com/press/why.php>) they therefore invited interested listeners to download the album, even to share it with friends, in the hope that they would eventually buy the CD. To increase the motivation for a physical purchase, the group offered a free bonus disc with the album. Overall, they hoped to sell more than they would without giving their music away for free in the first place:

“It’s important that people understand the free download concept isn’t a frivolous act, it’s a key part of our promotional campaign, along with radio and press promotion, live shows, and videos. If the worst thing that happens is a whole bunch of people hear Little By Little and no one buys it, we’ll know our experiment was costly. But that won’t make it a failure” (Evans, 2005)

### *iii. Community*

In January 2005, J and the researcher discussed the introduction of a weblog (or ‘blog’) facility for artists, using which they could diarise their achievements, drive users to their web pages, promote their music and interact with their fan base. It was decided that it was a good idea but as an important benefit, it should be restricted to partnered artists alone. HP noted that “F wants to host blogs for those artists who don’t have one of their own but that’s kind of phase two really”. However increasingly common characteristics that were proving highly popular and drawing traffic to similar and often competitive sites (in the sense that they were competing for attention in an increasingly crowded online environment, as much as for music-specific users) such as YouTube and Bebo, were the creation of many simple and accessible ways for users to interact with each other. These included the use of blogs as well as instant message facilities, ‘hugs’, ‘pokes’ and other quick, simple and free tools which allowed one individual to alert another to their presence and thus encourage interaction. In restricting usage of these accessories and not incorporating them into the website until later stages of the company’s existence MVine reduced the potential for users to interact with each other in opposition to the new value framework which was now underpinning the music industry. MVine users commented:

“If I like them, why can’t I just talk to the band direct? I don’t want to have to go from you to their website to find a link...if they are on MySpace I get to listen to more of their music and I can talk to them at the same time, all in one place? But now if I like these guys and I want to tell my mates, its like, I have to log onto my email and send a separate mail with a link in it to you then they have to register if they aren’t registered which they probably ain’t ‘cause hardly anyone knows about you...”

MySpace.com provides a useful example of a website which did generate a community of users rapidly and effectively – despite being technologically less sophisticated than MVine. Whilst Joshua Porter had reported the interface of MySpace.com as generally accepted to be difficult and clumsy to use and change (2006), it rapidly became a focal destination for musicians and fans, as well as major, independent and own label record companies. Whilst the number of users actively using MySpace was disputed at anywhere between 18m and

over 100m (Bercovici, 2010), MySpace illustrated their understanding that the target customer did not want to be restrained by onerous registration procedures but liberated to communicate as frequently and in as many different ways as possible around the linkages of the new value framework. The MySpace website provided an environment within which users from around the world could communicate instantly, regardless of distance or time, and could create their own home pages which contained video, artwork, blogs, and music that could be simply uploaded or downloaded as they wished and easily found by other users of the website.

**In Summary:**

**MVine's proposed capabilities:** easy to use online environment for up/downloading, listening to, rating and commenting upon and discussing new music:

**Challenges:** not easy to use, upload issues, few downloads, rating/voting mechanism criticised, not enough interaction

**Key Characteristics:** facilitate interaction between artist and consumer at all points along the new value framework.

1. Create interactive environments that facilitate rather than inhibit communication and interactivity between users; provide as many simple, easy to use and “joined-together” mechanisms as possible to enable the target audience to engage with, share, buy and even invest in online content.
2. Create ‘push’ as well as ‘pull’ technologies to ensure that the company reaches out to users as well as allowing users to interact with each other.
3. Ensure that the company is capable of providing the promised capabilities quickly and appropriately.
4. Ensure compatibility of technology across different browsers, operating systems etc, thus supporting scalability.
5. **For the artist;** ensure that you can deliver the value proposition above through website that you host or those that you use; check that they provide consumers with opportunities to listen for free, to download music away as taster/sample, even if at lower quality than usual. Give potential consumers opportunity to try before they buy.

Let them find out more about you through online communications (see target customer above) and use that opportunity to find out more about them

## **6.4 Infrastructure Management**

Osterwalder describes infrastructure management as the result of the value system configuration which allows the company to deliver the value proposition. The three strands of this element of his framework are the resources and assets that the company has internally, the network of external partners that is used to fulfil the delivery of value and the configuration of activities and processes which create and deliver that value.

### ***6.4.1 Activity Configuration***

Previously prohibitive costs of creation, production, reproduction and distribution of music had plummeted over the early years of the 21<sup>st</sup> Century and it was therefore important for music businesses to offer something more than the artist and consumer could do for themselves. For MVine, the intent was that they would use the new value framework emerging from the early days of internet technologies in order to identify and add to those things that artists were already capable of providing. In essence this was an all-inclusive ‘one stop shop’, the provision to the artist and consumer of a sophisticated platform onto which artists could upload their new music, which was then played directly to consumers. These would be facilitated in voting, commenting, and thus be able, as the company’s promotional materials said, to “*have a voice in the future of music*”, through the direct linkage MVine would provide them to artists and their music.

Consumers could promote artists through comments in chat room and forums, redistribute their music by downloading free tracks and sending these – and links to tracks that were not free to download - on to their friends. Artists would be able to read the feedback that they were given by their listeners, which was intended to help them develop their music and gave consumers an opportunity to get involved in the creation of the music at a very early stage. The label also intended to use this feedback to identify the most popular artists and signed them up to a short term contract to test whether they were in fact suitable for longer term signing.

In this sense, MVine's customers were not so much the artists, who at first used the MVine service for free, nor the audience, which was also able to listen to the music on MVine for free. The customer here was the artist who had been using the MVine platform for some while, enough to be identified by the MVine team (by use of the ratings and comments that they attracted from the audience) as being potentially worth signing to the MVine label. The most significant revenues would be generated through the 50%/50% recording contract which would support download/single/EP/album sales for those signed artists. Whilst he extends the concept of Porter's value chain through Stabell and Fjelstad's "value shop" and "value network" (1998), this dissertation has already shown that neither of these recognise the increasingly empowered position of both creator (in this case the artist) and consumer. So this author's presentation of this fundamental element of the ontology provides a far more useful perspective for those interested in the creation of successful music industry business models.

MVine initially intended to generate revenues from sales of recordings by signed artists; it would identify the best artists to sign by assessing the votes and comments of users of the website on their music. It is here that the newly configured value framework takes a fundamental place, as was evidenced in Chapter 5, it updates the concept of a value chain which Osterwalder embeds within this pillar of his business model ontology.

MVine's intended activity configuration would need to be inextricably supported and influenced by both the partner network in place and the resources and assets available to the company. Further analysis of these reveals a variety of reasons why the activity configuration was not successful in creating value – in this case, new music and signed artists – for which customers were willing to pay. One of the primary reasons, already noted in the earlier parts of this section above, was that there were an increasing number of alternative routes to market that were structured to take advantage of the new value framework, rather than working against it. These were more easily accessible and effective than the activity configuration on which MVine was based.

Senior executives from major labels argued that their massive infrastructure provided artists with mechanisms and reach of marketing and promotions activities which an individual could never replicate successfully.

“Given the choice between signing a contract with (my company) with a healthy advance and all the machinery in place to produce, promote, market and sell their music all over the world, or staying independent and having to add all of that to the job they have to produce a half decent track in their bedroom, I bet I know what most artists would do”.

“If I say ‘here’s a cheque for £25,000’ I think most unsigned artists would drop their precious integrity and independence and come running”

Certainly the major labels had sufficient momentum and visibility to continue to operate in a similar way to that they had been doing for the last century, and it is for this reason that the traditional value chain configuration remains at the base of the new music industry value framework contributed herein. As previously illustrated in Chapter 6 and as the following cases show, despite the predictions of the majors, an increasing number of artists *were* successfully using technologically mediated routes to market, although many more successfully than MVine for a variety of reasons. Individual artists were discovering that the internet provided them with direct access to their consumers which could significantly increase the value that they acquired on their route to success.

In September 2006 Reuters reported how Jamie Kristine Seerman (who performs as “JayMay”) had found that a powerful combination of MySpace and iTunes had propelled her to success in a way that would not have been possible before these technologies existed. Her MySpace page, where she uploaded tracks recorded and produced in her bedroom at home and released in May 2006 on insound.com (an online mail order indie music website) registered 75,000 hits before iTunes got in touch with her. Appearing on iTunes proceeded to make her music a top selling product and the revenues from that helped her to produce her first album, again completed by herself regardless of the many offers of label contracts she received:

““I’ve been offered conventional contracts from major record labels and very indie-friendly, unconventional contracts,” Seerman said during a break from recording.”They have offered me everything I could want”. But with the music industry in flux because of the Internet, iTunes and inexpensive recording, she said that for now she would rather maintain control of her work.” (Reuters, 2006)

Her stance was echoed by the Chief Executive of Nettwerk Music Group, Terry McBride, who in April 2006 was reported as advising those artists that they managed that they no longer needed to sign with a record label. Surprisingly, the Nettwerk Group comprised not only the artist management arm (which included well known artists Dido and Avril Lavigne amongst others) and a publishing company, but also a record label (Nettwerk Productions). McBride was of the opinion that the digital alternatives open to an artists meant that there were not enough benefits to being signed by a label, and that the artist was now better off keeping control over the music that they created. McBride echoes the central contribution of this dissertation in his comments that although physical sales of CDs would probably remain a significant business, major label strengths such as manufacturing and physical distribution were becoming less and less attractive in the face of increasingly time- and cost-effective digital alternatives (MediaWire, 2006).

Rather than the traditional music industry focus on per-unit sales, he proposed that artists should focus on the income to be created from downloads, streaming, TV and movie placements, and sales of live, acoustic, digital *and* physical versions of an artists music. The first test of McBride's approach had been in 2004 with their artist, the Barenaked Ladies release '*Barenaked for the Holidays*' on their own 'Desperation Records' label. According to industry monitor Nielsen SoundScan, the album sold over 350,000 units in North America alone and earned the band more than \$3m in royalties: under a traditional record label contract they would have had to sell over 1m units to reach that level of royalties.

Beck was an American singer/songwriter whose 2005 'album', "Guero" was in fact not an album at all but a fluid project, an 'infinite album' "heard, seen and reconstituted by artist and audience alike" (Steuer, 2006). It was available in a variety of formats and with a variety of content – an online version of the unfinished product in 2004, the 'official' version released a year later (which contained the same content as the online version with additional new songs), a deluxe CD/DVD version (which contained extra tracks, interactive video art for each song and surround sound version), as "*Guerolito*", a commercial companion product which contained mixes of the original songs by well known artists. There were also a number of unauthorised fan-created 'mashups' on the Internet.



Beck had an unusually flexible contract with his record label, Interscope, which allowed him to take such risks with his work. He was of the opinion that labels would have to change how they worked with their artists – possibly signing individual project deals rather than long term contracts – in order to retain them, as labels’ traditional function of marketing, promotion and financial support became less important and technology mediated a new and more direct relationship between artists and their fans:

“It's hard to say what will happen with all that. Record labels definitely aren't going to go away, but it'll be really interesting to see how their role changes. Some of the guys in my band recently started a side band just for fun. At their first show, kind of as a joke, they told everyone to check out their MySpace page – which they hadn't even set up yet. As soon as they got offstage they signed up for an account and put some live recordings online. A couple of days later, they checked back, and a bunch of people had visited and heard their music. Obviously, this was all without a label – without even an album out. It kind of blew my mind.” (Beck, quoted in Steuer, 2006)

#### **In Summary:**

**MVine’s proposed activity configuration:** based on new value framework that facilitates and enhances contact and communication between artist and consumer. MVine tried to find new ways to deliver value to their users through the creation of an online community of artists and consumers of music which would interact online, thus providing sufficient data for MVine to analyse and identify artists with a high potential for commercial success.

**Challenges:** tried to mediate between artist and consumer, initially with contracts, but also through unintended difficulties with interaction between them on website

**Key Characteristics:** the repositioning of the artist and consumer within, rather than outside, the music industry value framework has resulted in the creation of completely new sources of ‘value’ (some of which value can be expressed in non-monetary terms) emanating directly from the artist, the consumer, and the increasingly direct relationship between them. For a profit to be realised, a company must offer something its target audience will pay for.

1. Offer the artist and consumer more than they can already do themselves, whilst at the same time giving them far greater control over what happens in the process.
2. Provide a suitably engaging, functional and interactive site that individual artists and listeners want to be seen to be part of and to tell their friends about, thus helping to create a critical mass of activity which becomes self sustaining.
3. Increased critical mass can be supported through repeat visits, encouraged by engaging overtly and directly with users as participants, artists, investors, informants and scouts.
4. **For the artist:** Once your target audience is clarified and fully understood, it is important to understand what they value, what they will pay for. They are already fans but can probably get your music for free. What will they pay for? Come up with innovative and creative opportunities for them to spend their money on more than just your music. ‘special’, ‘insider’ stories and information (secret gigs, first 50 applicant tickets, etc) can also provide revenues.

#### ***6.4.2 Partner Network***

Osterwalder proposes that partner networks are increasingly common as transaction costs shrink and vertical integration becomes less important. This results in the creation of a network of partners who are more efficiently able to conduct elements of the business: partner networks therefore “outline which elements of the activity configuration are distributed amongst the partners of the firm” (2002, p5). A potentially very disparate structure can then arise, particularly in large, or in geographically or technologically linked/distributed companies. This contributes to the confusion surrounding definitions and descriptions of business models, as was illustrated in Chapter 2’s review of the many and very various literatures on the subject. It can be very complex to recognise a coherent business model in reality, when component parts of it are virtually or physically separate. This supports the discussion on issues surrounding the use of participant observation as a method of research in section 4.8 above, and highlights the importance of the researcher’s ability to be an integral participant in the business from its inception, of great value in ensuring that her understanding of the component parts of the business was as inclusive as was possible.

There were two different versions of partner network that MVine relied on, one more integral to the business model than the other. In the literal interpretation of this theme, MVine had very few external, inter-organisational partners as much of the activity required to create value was intended to happen within MVine.com. Suppliers included magazine publishers and other advertising companies to whom MVine paid money in order that advertising materials could be efficiently distributed to the target audience of potential users of the website and purchasers of signed artists' music. MVine also used [PIAS] Entertainment Group (<http://www.pias.com/uk/>, formerly known as "Vital"), a distribution company, to co-ordinate the sale and distribution of tracks, EPs and albums by signed artists. Vital did all MVine's physical and digital distribution, as well as providing some marketing input (putting albums and singles forward for special promotions in stores and on-line e.g. Sony Playstation free downloads, Coca-Cola promotions). As physical distributors, they represented MVine in the UK and Northern Ireland, and acted as a wholesaler by getting CDs into the shops. As digital distributors they acted as MVine's world-wide distributor and aggregator, coding and delivering all tracks to the majority of digital download stores and reporting sales monthly. Because most of the company's other activity was managed internally there were no other partners.

However a more important example of a "partner network" was that on which MVine was based - it was intended that the users of MVine would become a 'partner network' in the sense that they represented the 'A&R' functionality of a traditional record label. These users were not only intended to replace the A&R function but to deepen and enrich it, as trends taken from the opinions of a mass of people would indicate far more robust potential for success than the opinion of one individual; from a March 2005 press release:

"mVine play-lists original music from unsigned and own label artists for a worldwide on-line audience to evaluate. Audience members rate and comment on tracks ... and become part of an interactive and opinionated music community. Audience ratings directly influence which artists MVine will sign. We believe artists and audiences should influence each other. Everyone has a voice and every opinion counts"

MVine faced a problem in using the feedback from their partner network as there were simply too few users for significant, relevant A&R decisions to be made from the statistics which were generated. As has already been noted above, the principles of time and distance which are highlighted in Osterwalder's concept of product innovation are

rendered meaningless if there are insufficient people using the website as either consumer or artist. The fundamental principle upon which the success of the company was dependent was the relatively swift acquisition of sufficient users (both artists and listeners) in order to render the statistics generated by the business intelligence software meaningful in identifying the best artists to sign to the label. This would have created an internal momentum that would enable MVine to show success in signing artists with pre-determined potential, who would then sell records and generate sufficient funding and profile for MVine to attract more users.

Quotations from users of the website have already been noted in previous sections of this chapter illustrating how few comments (if any) they were receiving, the perceived lack of quality and quantity in the music that was posted and the problems that the technological configuration of the website presented them with, which contributed to the lack of activity at MVine.com. The author discussed MVine's failure to attract sufficient artists or users to its website with a senior executive at a major record label, W. His comments spoke directly to the nature of the partnership network that Osterwalder identified:

"You hit the marketplace at the same time as so many other people – you had Garageband, CDBaby, MySpace, YouTube – a glut of content being pushed at people with more leisure time than before and less incentive to spend time or money on things that were not free, easy to get at, simple to talk about and share. And since then its not got any easier – look at SliceThePie, SellABand, they are all out there hoovering up the content that swills about the internet and finding different ways of slicing it to make it palatable to the mass of indiscriminate consumers. "I like it so you will". Or "If you like this you're going to love that". Or "this sounds just like someone we both love". You name it, there is a mechanism for pushing it. But what makes the real difference is the backers, the distributors, how you get what you want to get out there to all these people. That's why Google jumped on YouTube when – 2006? For \$8.8bn? Madness! But look what they got for it – millions of engaged users, more all the time and ALL the information about what they watch, when, for how long, and what they do with that. Same with Fox and MySpace – July 2005, only \$580m. Yahoo and del.icio.us. Amazon and AmieStreet. And so on. Cheap in comparison but just the same results – you've bought hundreds of thousands of millions of users that they learn more about every day. Who really don't care where the content comes from as long as they aren't bored."

As W had identified, at the time that MVine launched an increasing number and variety of online music websites had recognised the potential value of tapping into what James Surowiecki had called “The Wisdom of Crowds” (2004). Whilst most websites – especially those whose income streams were based on advertising revenues – desired as many users as possible, those which based their business model upon the data that could be derived from their users’ interaction and usage patterns had an even stronger drive not only to acquire but also to retain as many individual users as possible.

Geoff Byrd, an unsigned singer-songwriter, was an artist rated consistently highly on [www.garageband.com](http://www.garageband.com), a website which used both ratings and recommendations of other musicians to find music likely to be popular. As a result Byrd attracted attention from a large Internet radio network, [www.Live365.com](http://www.Live365.com) as well as Microsoft's portal [www.MSN.com](http://www.MSN.com). On the basis of this exposure alone, and the subsequent spread of information about him through his digitally connected fans on the Internet, Byrd outdid established signed artists with record company funding and support, such as international rock stars U2 and popular newcomers Green Day, to become the most-played rock act on Internet radio in December 2004 (Borland, 2005). Although this attention brought him to the notice of record companies as well as the general public, he was not offered a recording contract. In April 2005, his managers set up a new label (through a Universal Music Group affiliate) so that he could make use of their access to national distribution and mainstream radio stations around the US.

Byrd provides an example of how unsigned artists can use the Internet as a way of getting noticed not only by their consumers but also eventually by a label that might sign them, the reverse of the more traditional pattern. Internet radio was a new partner network, a new promotional method joining more traditional platforms such as TV, radio and live performance. As Garageband CEO Ali Partovi said:

“It's amazing to me that the mainstream industry has not paid more attention to this kind of thing...Why not sign artists who have already made it on Internet radio? That makes it much more of a sure thing on traditional radio.” (Borland, 2005).

**In Summary:**

**MVine's proposed partner network:** not only digital distributor but also use of consumer as outsourced A&R functionality arising from new value framework

**Challenge:** not enough users to provide credible guidance as to which artists to sign, lack of network effect.

**Key Characteristics:** control of value adding processes is increasingly passing to the creator and consumer of music, so any 'partnership' activity intending to mediate this relationship and any mechanism intended to provide access to these new sources of value has to place far more emphasis on understanding and accommodating potential partners than had been the case with previously controlled and linear music industry models.

**6.4.3 Resources and assets**

Osterwalder follows Grant (1995) in categorising these into tangible, intangible and human assets, each of which is required in some degree for a firm to create value.

*i. Tangible assets*

Initially the company was set up using minimal tangible assets (which Osterwalder illustrates using equipment, plant, cash reserves) other than the investment made by shareholders in the company, and the use of some computer equipment belonging to one of the Directors. As it developed, the tendency was still to try and avoid any major capital outlay where possible, so rather than having a rented office the company used virtual offices, and continued to hold meetings in one or other of the houses belonging to shareholders. As the label developed a number of signings occurred and each of these provided assets in the form of CD and EP recordings, as well as digital downloads which had an asset value once sold.

*ii. Intangible assets*

According to Osterwalder, such assets include intellectual property, patents, and reputation. All of the software used to create the MVine platform, except the Player, was open source and therefore theoretically of no proprietary value to anyone. A major source

of brand reputation was based upon the high profile in the music industry of M (a founder partner of the firm together with his previous school friend J). It was upon him that a large part of the promotional activities planned for the marketing of MVine were based. Whilst this element will be discussed in more detail in the section on Human Resources below, there was great potential for value to be contributed to the company through M's reputation and profile. His family background and activities in the music industry were both outlined in the biography about him found on the MVine website.

"M, Director; Son of legendary folk musicians and songwriters, EM and PS, M has been involved in music all his life. As a writer, producer and guitarist, he has worked with artists as diverse as The Backstreet Boys, Ronan Keating, Eddi Reader, Cathy Dennis, Latin Quarter, Brian Kennedy and Sarah-Jane Morris."

### *iii. Human assets*

The management team of MVine represented a core group of human assets. As well as M, mentioned above in light of the very high profile and reputation that he brought to the company, It was important to the whole management team to be clear about the democratic structure behind the company in order to distinguish themselves from more traditional, 'corporate' major label attitudes, a fact reflected in the 'About us' section of the website which read:

"J and M went to school together. Life was never the same for J after M loaned him a Frank Zappa album. Years later they met up again through Friends Reunited and realised that, despite bizarre musical differences, they still quite liked each other. J and F speak the same computer language so bonded immediately. J and B once worked together and even though she's taller than him they usually see eye to eye. H worked with J too and is taller than both of them. M and HP were next-door neighbours and when HP moved house, M went too. They now have five children. M met C while recording an album and we like the fact that she can't decide whether she's an Australian, a Kiwi or a Brit. SJ and M met on stage, survived a pop-tastic world tour together and now figure they can cope with just about anything."

The additional credibility and profile that MVine hoped to accumulate through using M as a figurehead was diluted by the fact that, as a working producer, songwriter, and manager/musical director for a variety of well-known artists his time and availability was severely limited. It was not possible for him to dedicate the amount of time and effort

required to promote MVine from a personal perspective, and whilst marketing materials always reflected his very strong musical heritage, his name did not become intrinsically linked with the website. This reduced the potential benefits that his profile could have provided as a potential resource to the company. His schedule for the final three months of 2005 is indicative of this problem (see Appendix F). It should also be noted that each of the MVine team were also responsible for other family and/or employment and work activities, and running MVine was an unpaid, part time job for almost all of them. This necessitated many late nights and working weekends, not an optimal situation for any individual or for the team as a whole.

There are many examples of online music destinations fronted or represented by high profile music industry individuals and groups which provide illustrations of the real value that this aspect could provide in an increasingly competitive marketplace. Peter Gabriel, former lead singer of internationally popular group Genesis was one of the very first artists to get involved with the Internet through OD2 (On Demand Distribution) which was launched in 1999, and since then has been involved with a variety of innovative digital plays, most recently TheFilter.com (<http://thefilter.com/>) which promoted itself as “an online discovery experience that filters the world of online entertainment and information, personalising it for each individual user”. Gabriel is presented on the website and in press releases as an active partner in the venture, so lending it glamour, credibility and validity. In reality it is his company “Real World Records” which has part-funded the operation, together with other funding from a venture capital company. Thefilter.com is managed and run full time by two individuals with no international profile.

John Peel was an English radio DJ who, during his 37 years at BBC’s Radio One until his early death in 2004 discovered a huge variety of now-legendary globally successful artists such as Pink Floyd, David Bowie, Elton John and Fleetwood Mac. Unpredictable Porridge (<http://www.unpredictableporridge.com/default.aspx>) was a website set up by his son and Universal Records as a mechanism by which new and unsigned artists could continue to be ‘discovered’. The selection process was still carried out by the record label’s internal A&R processes, but the use of Peel as a figurehead for the website – his image is retained on every page – was quite deliberate. As his son’s statement on the website illustrates:



“You can see the fact that my dad, John Peel's, face heads the page as a statement of intent, an indication of our desire to continue some of his good work bringing unheard new music to a larger audience. He once called the majority of mainstream radio's output 'incredibly predictable porridge', so we, rather clumsily, have called ourselves Unpredictable Porridge, in the hope that we can fill part of the considerable gap left in his absence.”

Similarly, TuneTribes ([www.tunetribes.com](http://www.tunetribes.com)) used the profile of Tom Findlay, one half of well known dance act Groove Armada, to help them generate interest and credibility around the launch of what they called “the first truly independent music download service...record shop online”.

### **In Summary:**

**MVine's proposed resources and assets:** reputation of M the major initial asset

**Challenges:** M too busy to be full time representative of MVine; human assets not dedicated to MVine 100% of their time.

**Key Characteristics:** the new value framework provides opportunities at every stage for consumers and artists to create their own ‘resources’ and generate their own ‘assets’. Those offered must therefore be greater than those that the users can access themselves.

1. If the opportunity exists to use a high profile individual to act as an ambassador for the company this can support all other elements very effectively.
2. Understanding the nature of the target audience will be central in ensuring that such an individual, if not integral to the company at its inception, is correctly identified.
3. It is important for both company and individual to realise that the reputation of the individual will be tied to that of the company and vice versa.
4. **For the artist;** the most important intangible asset that you own is the copyright in your music. It is up to you to decide if you will give this away in return for greater engagement with your audience. Intangible assets such as reputation can be enhanced or worsened through the long or short term musical relationships that you forge through work with other artists.

## **6.5 Customer Relationship**

Osterwalder proposes that “through the use of ICT firms can redefine the notion of customer relationship” (2002, p5) with particular reference to the creation of an information strategy in order to find out more about their customers, covering new and various channels to market in order to ensure that the customer is satisfied, and so generating satisfaction, and therefore trust and loyalty, in their customer base.

### ***6.5.1 Information Strategy***

ICT can provide information about who customers are and where they are based, what they do online, when and for how long. This allows for better targeting of promotional and marketing activities but also allows each individual to be served with more relevant and personalised information within their experience of a website, which also tends to engender loyalty and trust. The MVine software had a very powerful business intelligence engine which was capable of supplying a vast amount of customer profile data about the users’ activities on the website. This data included their geographic location, the time of day they logged on, where they went within the website, where they did not and which pages they visited most frequently, what browsers they used, and where they stayed the longest. It also analysed their music consumption, through identification not only of the ranking and comments on each artist but also which artists were listened to most frequently, by whom – even down to the gender of those listening (although this was determined through user-input data and so, although indicative, was not completely reliable).

This information strategy was capable of providing very valuable data, representing a rich source of potential for the selection and marketing of potentially popular artists as well as the opportunity for MVine to identify, inform and communicate with users. The digital interrogation of on-site activity enabled each user to be served up with a very specific selection of music which, whilst apparently random, contained (in every 10 tracks served) a set number of high-ranking and new tracks as well as a broad range of tracks that didn’t fall into one or other of these extremes. This ensured that all artists got a fair hearing, but also helped to check on the veracity of comments and votes on high ranking tracks.

Osterwalder comments that the importance of this element of the customer relationship may depend upon a large user-base:

“A firm with a large base of users, and a way of rapidly extracting feedback and information from those users, may be able to improve its products and services faster than its competitors”(Osterwalder and Pigneur, 2002 p.6)

The issue of critical mass can be seen to come to the fore again at this point in the description of the MVine business model. Despite the wealth of potential information that MVine’s business intelligence software could provide, analysis of the activities, preferences and online journey of tens of users was not as valuable as analysis of hundreds or thousands of users would have been. The lack of any categorisation also meant that it was not possible to personalise the music to the tastes of each individual listener as there was no way to analyse common characteristics linking their preferred music.

Others were more successful in tapping into the interactivity facilitated by the new value framework in order to generate, maintain and grow the critical mass needed for useful analysis and sustained success. As well as individual artists, many of whose activities in this regard have been documented in Chapter 6, there were notable music services whose information strategies were particularly successful.

Pandora.com used a recommendation engine, based on data generated from the Music Genome Project, which took into consideration almost 400 different attributes for each of the thousands of tracks available through the site, including composition, melody, harmony, instrumentation, bass line, rhythm, vocals and lyrics. Whilst the website was based upon data that pre-existed any user activity, the data generated by users was fundamental to Pandora’s success. Once a user started to generate their own set of preferences through the creation of their own personalised ‘radio stations’ on the website, they were tied in and would come back over and over again, recommending the music that they found on Pandora to their friends through interactive capacities built into the website. These activities supported Pandora’s ability to provide excellent customer service and generated loyalty to the website. They also resulted in users providing Pandora with a collective set of data about what music they liked and didn’t, which informed future music offerings served up to them. This ensured that listeners would frequently find that they enjoyed the music that they heard on Pandora and so continued to come back for more.

In another example of the power of technologically generated information the BBC trialed its ‘Sound Index’ software (<http://www.bbc.co.uk/soundindex/>), which was in beta for 6 months as a proof of concept test only. This website took information from Bebo, MySpace, Google Groups, iTunes, Last.FM and YouTube about what tracks and artists were being blogged about and otherwise commented on, watched, listened to and downloaded. This data was refreshed every 6 hours and used to generate a top 1,000 list, what was described as “*a music buzz generated entirely by the public*”. There was, even at the beta stage, some concern about exactly what metrics were being used and how comments and other such activity was weighted, in particular because the BBC as a brand lends such power and credibility to information distributed in its name. As a non-commercial operation the BBC did not at the time of writing have any obvious business model behind the site, although the user could generate their own personalised chart tailored to suit their personal details – age, location, musical taste – and it is possible that this data could be used to inform subsequent BBC music provision through TV and radio outlets.

**In Summary:**

**MVine’s proposed information strategy:** Powerful business intelligence software providing detailed statistical information about activities of each user.

**Challenges:** lack of critical mass and lack of musical classification/genre on website reduced value of this information.

**Key Characteristics:** once the infrastructure is in place, the use of interrogative technology to find out as much information about the activity of users online activity is critical to informing successful and profitable relationships with them.

1. The use of non-invasive technology to identify what areas consumers and artist are using, contributing to and avoiding is essential in order to optimise the content of the online music environment.
2. It is important to acquire as many data sources as possible in order to inform marketing and promotional activities with real precision, in particular a facility through which listeners’ preferred musical tastes can be analysed.

3. The validity of any interrogation of user activity depends upon there being sufficient users to support quantitative analysis in the first place.

### ***6.5.2 Feel and Serve***

This element is also described as ‘distribution channels’ and Osterwalder uses Hamel’s 2000 definition, referring to the way that a company goes to market and ultimately reaches its customers; the choice of channels that the company is going to use to deliver its value proposition to customers. Osterwalder supports Porter’s assertion (2001) that ICT, in particular the internet, have the potential to complement rather than cannibalise a business’s distribution channels.

MVine’s channel strategy was almost exclusively digital. The bulk of activity and sales from MVine occurred through the website at [www.mvine.com](http://www.mvine.com). Singles were available as downloads. As has been mentioned, [PIAS] Entertainment Group was used as an online intermediary and partner for the delivery of digital music to consumers. Other album sales were made by signed artists themselves at live shows, and through an internal “pick-and-pack” operation run out of J’s garage when necessary. Osterwalder reinforced the importance of a clear understanding of the channel interactions throughout the customer buying cycle of ‘awareness, evaluation, transaction and after sales service’ which he adapted from Dolan (2000). Awareness was provided for MVine artists and MVine as a label through magazine advertising, flyers and posters at concerts and attendance at conferences and trade organisations events. Awareness of MVine was also intended to be achieved through the online chat and message boards, and evaluation acquired through users viewing the comments and votes registered against each track.

Lack of funds meant that the 2005 allocated advertising budget of £10,000 was reduced to £5,000 in order to free up money to be spent on refreshing the website. This in turn meant that what advertising there was could not be as widespread or impactful as was required to get the awareness of a large number of potential users. It was not possible to measure after sales service as the level of transactions online was small (although there were no complaints about those that were performed).

ICT offered increased opportunities to personalise each of the different phases of the customer buying cycle, by tailoring messages delivered to individuals dependent upon their activities online to date; again MVine suffered from a lack of sufficient usage to benefit from this key characteristic of their business model. There were plans to provide individuals with compilation discs once they got to fifteen favourite tracks, but this situation never arose with enough regularity to make it of value to set up the mechanisms which would have been required to make this happen.

Impeding the direct communication that the new music industry value framework uncovered was the fact that online communication mechanisms were not working well. In November 2005, HP said

“Repeat marketing, cheap marketing is absolutely critical. We need to encourage more talking and voting and that’s only possible by word of mouth. We have to get the message board working absolutely properly”

This comment was immediately followed by M who pointed out “I don’t mind following on from that – it’s incredibly important!! One of our own kids has a message board working better than that”. HP made the point that the message board was totally different to others in regular use online, saying

“I see no reason why ours can’t follow the same layout of every other message board in the world. With the same layout, people everywhere will understand it, and it will make them feel like they are involved and not the only person in the world. Without that we are relying on goodwill. It’s crucial if we are going to build a community. Building a community feeds into every other aspect of what we are doing. It may look like a small part of the website but I think it’s crucial to bringing people in to buy our records. I want us to be, in a year’s time, a vibrant community that people are communicating on and not necessarily about our artists – in the same way that MySpace tapped into the teen market – it’s a crap site and lots of discussions agree with this how hard it is to use...but it never ever advertises. It’s word of mouth. There’s no reason why those outside the teen market of MySpace couldn’t see MVine as that sort of destination for them”.

Groove Armada’s Andy Cato illustrates clearly the importance of speed, simplicity of access and the importance of immediacy and interaction with his audience. In July 2005 Cato confirmed an exclusive distribution deal with UK mobile service provider O2 (Baker, 2005). Under the terms of this Cato was to provide two tracks a week exclusively to O2, so that their subscribers could download the songs for £1 each. Cato and O2 shared the

earnings from this evenly. For Cato this was a particularly attractive method of promotion because it fit in with his production methods and the nature of his audience:

"What appeals in terms of dance music is the speed of the turnaround...Working on a new track on a Monday and releasing it on a Friday is an adrenaline-fuelled way of working." (Baker, 2005).

He was also interested in the opportunity to take advantage of a 'just-in-time distribution philosophy', releasing individual tracks as soon as they were completed, rather than waiting until there was enough material for a whole album. Cato also chose to release his work in the unprotected MP3 format contrary to O2's usual protected formats in order to encourage greater redistribution.

The Internet can connect individuals through social networks - communities of shared interests, such as Friendster and MySpace. As was described in Chapter 6, Fall Out Boy used these communities, and the technological power of software such as Google Maps, to reach directly to their fans and use them to spread the word about their tour, venues, tickets and availability. This would have historically required the use of a costly and complex nationwide radio, poster or TV campaign. However through the Internet it was simple, cost effective and impactful, generating very personal interest in the method that the artists used as well as in the music and tour information that they were promoting.

SecondLife – already identified in Chapter 6 as one technological platform which enabled fans to interact more directly, although virtually, with their favourite artists – was also responsible for providing new and innovative distribution routes for artists. The following two examples illustrate the increasing value of virtual worlds to real life artists and fans in providing distribution mechanisms and contact points that would previously be impossible.

Von John was a blues artist from Nashville, who had spent a large proportion of his career playing small clubs and independent venues across the United States. He also played in SecondLife every week in the Blue Note Club. It was in SecondLife, rather than in the real world that scouts from Reality Entertainment came across him and offered him a real life recording contract, to continue playing his free concerts in SecondLife whilst also supporting his busy touring schedule and replicating elements of that in SecondLife (Scott, 2010)

SecondLife artists have also found new ways to distribute their material and get paid for it. Keiko Takamura created an in-world approximation of an iPod (a 'myPod' as she called it). Other avatars could see her videos and listen to her music through this online device and buy her music in SecondLife's online currency, the Linden Dollar. Whilst the transaction occurred within the confines of the online virtual environment, the MP3 that the user had paid for was a product that they could transpose onto any MP3 player in the real world.



**Fig 6.1 Keiko Takamura's 'myPod'**

Buskirk also comments in the same article on an extension of this activity, a company set up 'in-world' called SecondTunes, which allowed individuals to sell either their own music, or even other people's music (although this required payment to whoever held the licenses for that music), effectively becoming a virtual distributor. Even live concert promoters were also keen to participate in the trend for cheaper and more direct-to-user digital distribution. Although online content distribution had been tried in the late 1990s the experiment (run by House of Blues Entertainment) foundered because of the lack of broadband enabled computers and the high cost - \$4.99 per show - which audiences unused to buying online content were unwilling to pay.



By 2006, however, broadband connectivity and consumers' increasing technological sophistication encouraged Live Nation, the world's largest concert promotion company, to wire 120 of its outlets to record concerts for Internet and other digital outlets. Chief Executive Michael Rapino, who intended to bundle sales of webcasts together with merchandise and ticket sales, said "There's an opportunity to say: 'Didn't make it to the show? That's O.K.,' ... (t)hat's something we haven't been able to say for the last 20 years." (quoted in Leeds, 2006)

### **In Summary:**

**MVine's proposed distribution channels:** purely digital distribution strategy, partially offline/online hybrid marketing strategy.

**Challenges:** minimal marketing budget, small audiences, difficulties in uploading initial high quality music files.

**Key Characteristics:** the infrastructure through which the company's business model delivers its value proposition must be simple and easy to access, and provide a route to the right market for the artist, and to relevant content or a required commercial offering to the consumer, which they could not easily access elsewhere.

1. Distribution must frequently be possible over a far greater distance and in more different ways, through more different channels, than traditionally expected.
2. Offer consumers more than they can easily acquire themselves.
3. Innovative uses of technology to deliver value to end users can be of value as promotional tools, in that users will promote the mechanism as much as value its relevance to them

### **6.5.3 Trust and Loyalty**

The positioning of the label as one that could be trusted was integral to its operation – in early briefing to the web development team the researcher used the following list of key words for them to keep in mind;

“innovative, original, new approach, win/win partnership, welcoming, honest, truthful, democratic, fair, transparent, participatory, focussed on objectives, goal oriented, aspirational, organic” (22<sup>nd</sup> April, 2004)

As Osterwalder points out (p7) in an increasingly virtual environment, issues of loyalty, trust and confidence become ever more important, as individual consumers are required to put faith in payment systems and people that they have never come across before. He notes that confidence, trust and loyalty are partially the result of efficiency in the processes which touch the customer and their resulting satisfaction, which relates directly back to the comments made about ease of use and accessibility in the ‘capabilities’ of the company, above. But also the value of the brand is equally important, a factor which links back to the ‘intangible assets’ also noted above. An important element in the generation of trust in and loyalty to MVine was its ability to provide listeners with an environment in which they felt involved and engaged. Communication with potential and current users was always painstakingly and carefully constructed to be sure that it was friendly, welcoming and accessible to anyone receiving it, whilst being clear and setting out clear expectations of what the label would and wouldn’t do...

“Our signings are driven by consumer choice, because we trust our audience to know what music they want to buy. We promise to be fair to the artist at all times, and we believe that it is critical to give them an opportunity to engage with the MVine audience on a personal level. Once signed, we set up a programme of controlled investment in each artist, working to realistic and sustainable sales projections. We will always make each artist an intrinsic part of the marketing team.”

It was equally important, however, to provide as wide a range of music as possible, of an acceptable quality for the audience to listen to, as initial promises were made that this would be the case:

“...come and visit MVine ([www.mvine.com/music](http://www.mvine.com/music)). It’s a truly interactive independent record label for active artists and opinionated audiences; chock full of new and inspiring music”

The capabilities required to provide the value proposition have already been shown to be lacking above. As well as the largely technical failures, there were no mechanisms in place to encourage significant customer loyalty, in particular there was nowhere for a community to converse for many months, and it has already been noted that blogging and other chat mechanisms were felt to be part of a ‘phase two’. The lack of sufficient artists to provide the promised variety and quantity of music, and the consistently low ratings given to the bulk of the music listened to, also made it difficult for MVine to deliver upon initial promises, thus threatening the trust and confidence that they had tried to build up

throughout their relationship with their users. In conversation with users of the website, comments made by artists on their own and others' music reflected this problem:

"I signed up presuming that I would be one of many and amongst other people who played good stuff. I know it's all different, and I get the non-genre thing but I did at least expect to be with peers, guys I respected or at least could see were trying. Some of the stuff on there, and there isn't that much from what I can see, is just crap! Can't you filter before it gets there? I mean, I know that almost defeats the purpose of letting us choose what we like but surely there has to be a pain threshold that even you guys can feel?"

As an example of successful creation, maintenance and strengthening of relationships with their fans, Marillion once again prove valuable. Building upon initial email communications from the late 1990s the band continued over the early 21<sup>st</sup> Century to integrate their fans into as many aspects of their work as possible. Starting with the pre-ordering of non-existing albums in order to fund their creation as already described in Chapter 6, the band continued to use ICT to deepen and broaden the extent of their relationship with fans in many ways already described. They offered a prize of £5,000 in June 2008 for the fan whose video of the band's new single "Whatever Is Wrong With You" got the most views on YouTube.com. Ensuring that every fan, regardless of ability, was encouraged to participate in some way using ICT easily available to them, they ran an online video presented by two of the band members on their website at <http://www.whateveriswrongwithyou.com/> explaining the rules of the competition, and commented:

"Not the video-making type? We're spreading the word around the internet but you can help too: check out as many videos as possible, rate them, comment on them, pass your favourites on to friends... Linking to the contest or our website from your blogs, Facebook and MySpace pages, and even personal websites is a great way to spread the word - or if you ARE uploading your own video, a great way to get views! (Of course, having a particularly funny or unusual video that will make people watch it more than once would work, too...) Keep watching, and keep 'em coming!"

Another less high profile example is that of Jane Siberry, a Canadian singer songwriter. In late November 2005, she opened her own digital music store at <https://www.sheeba.ca/store/> which illustrated how artists could reach out directly to their fans without the support of a record company, and in doing so not only distribute their music, but also make a profit doing so. Siberry did not use technology to prevent her music from being copied or exchanged; it was encoded on MP3 format and could therefore be played on any digital music player. Siberry actively encouraged her fans to re-distribute the

music and so spread the word. She also used a self-determined pricing model, so that the user could pay what they wanted to for the music. Options included:

- free ("gift from Jane")
- a standard price (CAN\$0.99)
- self-determined price - pay now; or
- self-determined price - pay later (to facilitate try-before-you-buy)

After acquiring the song, consumers could forward a link containing it to up to five other people, to encourage uptake by new listeners to her music. As well as this alternative pricing model, Siberry offered a radio station and a selection of videos both playing music and showing products featured on her website. On her website in March 2006, Siberry documented how she had sold her guitar, a harp, and many of the contents of her house to ensure that she could continue to create the music that her fans loved – and many loyal fans lined up to buy from her in support of her endeavours.

Siberry encouraged trust and confidence by allowing her audience to choose what they wanted to buy from her – or whether they wanted to try first and buy later. Statistics from her website show that only 9% bought at less than the suggested price and 12% paid more than that. Equally revealing was the fact that only 19% ‘took’ the music for free, with the remainder paying either on the spot or after they had sampled the music. The very personal and direct relationship that Siberry developed with her fans through both live concerts and the website, forums, feedback and other communications mechanisms in place online, ensured that her fans wanted to see her succeed and continue to produce her music and so they paid for what they could have taken for free.

Kevin Kelly posted his widely-quoted blog “1,000 True Fans” in March 2008. He proposed that an artist only needs 1,000 true fans – those he described as:

“someone who will purchase anything and everything you produce. They will drive 200 miles to see you sing. They will buy the super deluxe re-issued hi-res box set of your stuff even though they have the low-res version. They have a Google Alert set for your name. They bookmark the eBay page where your out-of-print editions show up. They come to your openings. They have you sign their copies. They buy the t-shirt, and the mug, and the hat. They can't wait till you issue your next work.” (Scott, 2006)

The loyalty and trust that these fans feel for their favoured artists will, Kelly argues, result in them spending at least \$100 a year on materials produced by that artist - a total of \$100,000 annual income direct to the artist. As Kelly says, “\$100,000 per year ...minus some modest expenses, is a living for most folks”. Kelly goes on to point out that the increased connectivity of artist and fan reflected in the value framework contributed herein lends itself to this concept of success very well:

“Blogs and RSS feeds trickle out news, and upcoming appearances or new works. Web sites host galleries of your past work, archives of biographical information, and catalogs of paraphernalia. Diskmakers, Blurb, rapid prototyping shops, Myspace, Facebook, and the entire digital domain all conspire to make duplication and dissemination in small quantities fast, cheap and easy. You don't need a million fans to justify producing something new. A mere one thousand is sufficient.”

The author would dispute the economics of Kelly's argument for a variety of reasons: an individual spending \$100 is not the same as \$100 profit to the artist. The production of \$100 of profit requires a significant investment of time, effort and even money dependent upon the nature of the artist's business, and the creation of product or service worth this much year on year may or may not be sustainable. However it does tend to prove that the principle of loyalty and trust between the artist and their fans is an indisputable factor in an individual's decision to spend money on that artist.

Amplifico provide an example of a band using the Internet as their first and main promotional tool, getting the loyalty and trust of an international audience despite having no label, manager or publicist. Amplifico's experiments in podcasting from their website ([www.amplifico.com](http://www.amplifico.com)) got their songs played, singer Donna Maciocia estimated, on around 100 radio stations worldwide (Eaton, 2006). Like the Arctic Monkeys, they gave MP3s away free, but they also sold them. They used social networking website [www.MySpace.com](http://www.MySpace.com) as well as their own web pages to promote their music, and Maciocia blogged on a regular basis (for example every passing hour of her week with popular singer/songwriter K.T. Tunstall is documented on their website). The site contains everything from tour diaries to video footage of Amplifico in the studio, playing a gig in Asda, and guitarist Ross Kilgour dancing in a car park, all intended to add a sense of individuality and personality to the band. Maciocia said:

"We had this one comment... it said, 'I love listening to your podcast, but I don't know if I like your music yet.' I thought that was fascinating. It's shortening the gap between audience and band".

**In Summary:**

**MVine's proposed approach to trust and loyalty:** capabilities important, also providing involving and engaging environment and adherence to promises for provision of wide range of new music and large audience of listeners.

**Challenges:** website and media player found to be off-putting, despite two renovations did not facilitate community involvement, no significant amount of high quality new music or audience as promised.

**Key Characteristics:** the new value framework is an open and transparent construction, similar openness and transparency is required of businesses building their models around it in order to generate trust and loyalty – 'the brand' is important, but no longer sufficient in itself. Because every company has the capacity to compete for individual consumers across such a huge scope of activity, the concepts of trust and loyalty become even more critical to competitive advantage

1. The brand becomes increasingly important, but only if built upon a credible and relevant business model.
2. The nature of the intangible asset of reputation, frequently held within the human resources involved in the company, can be very important. The reputation and therefore trustworthiness of the company will reflect the credibility of any names attached to it through such 'brand evangelists'.
3. Trust, loyalty and confidence are increasingly inspired by robust capabilities.

## **6.6 Financials**

Osterwalder notes that this element

"is transversal...because all other pillars influence it...composed of the revenue model of the firm and its cost structure (which) determine the firm's profit model and therefore its ability to survive in competition" (2002, p.7).

### ***6.6.1 Revenue model***

This is how the company translates the value it offers to its consumers into money, thus creating revenue streams (Osterwalder and Pigneur, 2002). MVine had originally intended to create a variety of different revenue streams – from investment, through signed artists’ album and single sales, to the more granular level of selling individual tracks by unsigned artists. Revenue streams initially considered included equity finance, 50% of signed artists’ revenues, sales of their CDs in shops, sale of consumers’ comments for artists to buy, subscriptions from industry bodies, record companies and record labels, sale of compilation discs and licensing of MVine business intelligence software to alternate (non competitive) users.

Apart from the equity financing that the company was successful in raising initially, the other revenue streams were not positioned so as to provide direct and immediate returns into the company. To get to the stage of re-licensing the software or signing an artist – the point at which it was hoped that significant revenues would arise – took a long time and a lot of man hours. Initial revenue streams were far smaller and less predictable or valuable, arising from sales of individual tracks and occasional album sales at live concerts from the initial signed artists. There was no obvious solution to the problem of how to avoid competitive record label executives simply registering as an individual rather than being made to pay a subscription.

Revenue streams were therefore adjusted to provide a wider range of more immediate revenues into the company from its launch. Voters could buy whatever music they wanted to, even from those artists not signed up to MVine, as downloads (79p for unsigned, 99p for signed artists, and £10 for albums). Personalised compilation CDs would be created and sold using each individual’s ‘favourites’ selection as a guide. Charges to artists for user-generated comments were implemented and MVine would also sell artists’ CDs for them for a small percentage, whilst artists took responsibility for their own post and packing. Classification of each track within a similar taxonomy to that used by image libraries or other such organisations would allow sales of tracks or partial tracks to advertising agencies, corporate video production companies and similar bodies. Ringtones were to be sold from the website. The more substantial but longer term revenues were still expected

from sales of signed artists' materials and licensing of MVine's business intelligence technologies.

In hindsight the application of charges for many of these functions was erroneous, and this became increasingly obvious as other websites sprang up which provided the same functions – and frequently more – for no charge at all. The concept of charging a subscription fee to other labels and industry trade bodies so that they could “listen in” to new unsigned artists rapidly became redundant as websites like MySpace gathered momentum and provided an enormous store of potential music acts for label executives to access and assess freely. Similarly the provision of chat functions on such websites allowed artists to interact directly with their audience and get their feedback on individual tracks, lyrics and music without having to pay any money for these. Artists themselves commented that they would rather give their music away than be made to pay for it, just to get exposure:

“Why do you charge for my tracks now? I thought they were going to be given away – I just want to get them out there, nobody needs to pay for them! They can just go to my MySpace page, and get them for free, you're just putting them off listening!”

A, senior major label executive, demonstrated clearly that to generate maximum revenues was an increasingly complex operation, as it was necessary to release a new album or single track across all possible formats.

“The number of mixes & versions which we now have to create around a release all increases our workload in a time when ... revenues in the industry are declining. High profile releases are now often accompanied by hundreds of digital formats and products including the album itself, digital singles and bundles, exclusive digital tracks, artwork, videos and a range of products for mobile like ringtones, wallpaper and all of that creates a much wider choice for the consumer. The number of tracks available in the largest digital stores doubled from 2 million in 2005 to 4 million in 2006, while the largest specialist music stores have a maximum of 150,000 CD titles physically available. Our consumers have rated the best attributes of digital music as being able to find the music they wanted and the variety of choice. In addition to the wider choice, the ability to buy individual tracks is also very important. For one album in one territory alone, we will release at least an album digital download and ringtone clip, at least one digital video, a promotional CD single, that single as a digital download, the radio edit of the single as CD and digital download, a 12” version probably if its good enough, and possibly a remix version on CD, vinyl, and digital download. Each has its own catalogue number, revenue stream and set of marketing and promotional activities



around it ...if we find it hard to keep up, not only with producing but tracking all of this activity for every single we release how does an individual or a small, independent label manage?"

MVine's proposed revenue streams were therefore many and various, but none were significant as the traditional music industry pipeline provided. Reflecting the new value framework underpinning the music industry, an increase in the number of formats and delivery mechanisms, combined with more direct access to their fan base, and a more active participation in the promotion of their music through that fan base meant that artists had a very different range of opportunities open to them both through their own engagement with their users. This was not just the case for individual artists such as Siberry (above), but also for a range of intermediary websites which provided simple, innovative ways of providing new music and funding the process.

SellABand and SliceThePie have already been discussed in Chapter 5, and Amie Street and Reverbnation are detailed below. Each of these cases shows an online music environment which has one or both of the following characteristics: a revenue model specifically crafted to ensure the fastest acquisition possible of as many users as possible, and the provision of as many ways as possible for those users to communicate with other users of the site and those they wished to encourage to come and use the site. This in turn helps to create a level of critical mass at which the revenues that could be generated from each one of an audience increasingly used to free music (through subscriptions, download purchases, advertising sales and other revenue sources) becomes, in the aggregate, enough to successfully underpin the business.

Amie Street ([www.amiestreet.com](http://www.amiestreet.com)) was an online destination where artists could upload their music for promotion and sale. Users formed social networks with friends, and could both listen to and purchase music. All songs were DRM-free MP3, and of perfectly acceptable quality (around 192kbps). All songs were initially free to purchase, however prices fluctuated over time based upon user demand – at the time of writing, the highest priced song of the 273 uploaded is \$0.36. Users could search, browse and listen to streamed music for free. Users who purchased a song could recommend it to their friends using a limited number of "rec's" that they received (one per dollar they add to their

account). Once recommended, users got account credit if the price of the song increased, giving them an incentive to find and recommend good music.

The mechanic was simple - if a user “rec’d” a song at 1 cent or above Amie Street paid half of the difference in the price. So, if users “rec” a song at 10 cents, and it ends up being bought at 90 cents, Amie Street paid 40 cents (half of the 80 cents difference). If a user “recs” a song while it was still free (0 cents), and it ended up at 98 cents, Amie Street deposited 98 cents into their Amie Account. Amie Street paid more for “rec’ing” a song while it is still free because they wanted everyone on Amie Street to keep on recommending undiscovered songs, thus engaging with the users that they had and acquiring as many more as possible. Artists kept 70% of proceeds after \$5 in sales and were not required to sell their music exclusively through Amie Street, in fact they could remove it at any time.

Amie Street (as well as previous examples of Sellaband and Slicethepie) illustrates how, with sufficient users, numerous small revenue streams can be aggregated in order to support online music industry intermediaries’ business models. Even sites such as Reverb Nation ([www.reverbnation.com](http://www.reverbnation.com)) which were purely advertiser-funded provided a wide and varied range of ways in which users could interact with, re-distribute and promote the music on site in order to attract a critical mass of artists and users, and retain them once they were linked into the ecosystem that the website provided. Artists were encouraged to use the site as a central repository of all of their communication and information streams: songs, pictures, videos, biography, recommendations, blog and news items were all posted and automatically updated if changed elsewhere. They were able to synchronise their content with that on other social networking sites that they used, and provided with traceable viral marketing tools to help with promotion of their music. They were encouraged to recruit other users to re-distribute and promote their music, and this activity was also measured; their communication with fans was supported through a bespoke, free email solution which could import contact lists and using age, gender, location or other data within these lists, send out unlimited free emails to them.

### **In Summary:**

**MVine’s proposed revenue model:** equity funding, plus 50% revenues from signed artists and income from paid for downloads and other spin off incomes in due course.

**Challenges:** revenue streams too back-loaded, not sufficient up front income to ensure sustainability, not enough users to provide evidence for artists to sign, or to buy enough downloads to create profitable revenue streams.

**Key Characteristics:** cross cutting factor, affected by all other key characteristics: no combination of key characteristics is sufficient if the company does not base its business model on the new value framework and thus reach a critical mass of content, interaction and usage. Without this there will be insufficient revenues to support the continued existence of the company. Offering artists the opportunity to benefit financially is of great value to them, and possibly one of the few remaining functions of a record label that can not be performed by the artist themselves. Combining this conclusion with the potential that technology provides, highlighted in this research, to aggregate smaller payments from consumers who value that artist's music, results in the conclusion that a modern day model of patronage is technologically sustainable.

#### ***6.6.2 Cost structure***

Osterwalder's concept of cost structure is how much the company spends on all the resources, assets, activities and relationships which it requires to stay in business. The profit model is the difference between the revenue model and the cost structure: product innovation and effective customer relationships will maximise revenues, and efficient infrastructure management will minimise outlay, both can therefore be seen to maximise the profit model of the company. As has been mentioned in the 'tangible assets' section above, the capital outlay on MVine was initially minimal. Only F was paid for his work, and all software was open source. Virtual rather than actual offices were used, which centralised phone calls from incoming business partners, suppliers and enquiries through one route in order to look more professional.

The problems in generating revenue streams impacted directly upon the MVine cost structure. Whilst the internal costs were relatively low, the company still needed capital in order to invest in current and potential signed artists. With less and less money to spend on both signed and potential artists regardless of how good they were, the company found itself in a position where, despite investment, it was not making enough to cover its costs, and so positive marketing activities were ceased in March 2006, when HP and M span out

Red Grape Records ([www.redgraperecords.com](http://www.redgraperecords.com)), a traditional small independent record label which provided a home for those artists which had been signed to MVine. MVine itself was taken over by J, and has since become a platform providing collaboration opportunities to a variety of commercial clients. In an email from Frank received on 25<sup>th</sup> April that same year on looking at the breakdown of the MVine business model presented through Osterwalder's framework as seen in this chapter, he commented:

“My only thoughts are, with the experience of the last x months (it) is understandable why artists only get say 10% royalty and I must say they are lucky to get that. Record companies take great financial gambles and incur ridiculous costs to get a record away.

“New technology has indeed opened up choice – but at the same time has made it so fragmented that the user switches off with so many peddling their wares. A version of the MVine model will probably succeed but with little financial benefit in the short term. The tail end is vast and does represent a fantastic amount of money, but there are many other barriers that need to be taken down before they become financially viable. The bar is dropping but is still to (sic) high.

“Legal, financial, technology, managers, agents, distributors, designers, mcps, prs, aim, etc etc all cost time and money to manage on a day to day basis. Not all are needed for a pure internet play, but there are millions chasing after the audience. Artists will have to find niche ways to promote themselves, perhaps by (providing) their content to a like minded company online.”

HP also commented, when shown the table for comment in April 2010,

“Cor blimey – put like that, it's quite brutal isn't it? True though. One thing that I think is slightly missed – and a possible mitigating circumstance – is that, at that time, consumers weren't nearly as sophisticated as they now are at engaging with artists (and vice versa of course). Things have moved on so swiftly it's difficult to remember that we pre-dated the mass use of MySpace and therefore the automatic engagement of artist/consumer. Mvine (sic) was probably the first UK based model – and the first global one outside of MySpace - to try to engage consumers at this level, so we were trying to educate, engage AND make money out of them – too much, too soon and with too little understanding on our part. We failed to anticipate that consumers would want to engage (seemingly) seamlessly with the artist, rather than through a medium that is perceived to be making money out of the relationship. In this case, the medium is NOT the message. Having said that, there are now so many models that use this premise at their core that the market is flooded with similar models and they're not working either because there are too many of them to provide consistency in the quality of music or the consumer engagement experience. We live, we learn, and still we fuck up sometimes .....”

London-based band Clientele (signed to independent Merge Records) made use of a wide variety of alternative distribution strategies offered by digital technologies in order to reduce their costs whilst increasing the number of revenue streams. In October 2005, they released their new album in the classic vinyl long-player ('LP') format. A pre-recorded CD

was also available for the same price as the vinyl version. However the vinyl version also came with a coupon so that consumers could download the album digitally. For those who only wanted the vinyl these extras were not needed. But for purchasers of the vinyl version, if they also wished – or preferred – to listen to a burned disc, the digital option was available at no extra cost.

Clientele allowed the audience to select which format (or formats) suited them best; this ensured the greatest possible uptake of their music, whilst limiting the cost of production. Once the consumer had paid for their vinyl album there was no reason to charge them for a download of what they already owned, when a digital version already existed as a by-product of the recording process and the cost of making it available online was minimal. As a PR exercise this was successful in generating coverage as a story in its own right (Anonymous, 2005b). However it also showed an awareness that the older vinyl format was not totally redundant (indeed there was an 80% rise in the sales of this format in the third quarter of 2005 in the UK, and in the US annual sales were more than 1.2m (ibid) see also (Hayes, 2006) and using digital technology to support this trend increased the likelihood that the music would be taken up by the widest possible audience.

Other ICT-facilitated mechanisms to reduce the costs inherent in managing and promoting an artist were also emerging. The Firm was an American management company, which in July 2006 started a new digital record label in conjunction with major label EMI, who handled distribution in North America and licensing on a global basis. Jeff Kwatinetz, CEO of the company, became aware of the effects that the Internet was having on the record industry, in particular the fact that the artists that he represented were more empowered than had previously been possible. The company proposed to pay artists a share of profits rather than a traditional royalty fee, thus creating, as Kwatinetz said, “a new music business model that shifts power back to the artists and the focus back to the music itself” (CMU Daily, 2006)

He set up a variety of new contractual arrangements between his artists and those companies they used for distribution, concert venues and other services, which reflected this greater empowerment. One example is that of The Firm’s client, Ice Cube. After a hiatus of six years since his last internationally best-selling album, Ice Cube had spent time working very successfully on films both as producer and actor. When his next album was

ready, The Firm took it to every major record company, looking for a distribution deal, which was eventually closed with EMI's (Charts) Virgin label. However, they were NOT offered ownership of the record in the traditional way – rather than the record company paying for production, promotion, marketing and distribution, Ice Cube paid for these himself. For example, Cornerstone Promotion was a PR agency hired by ice Cube to promote the album; they got a network of DJs to urge listeners to listen to the album on Ice Cube's MySpace page where the number of 'friends' rose from 2,000 to 150,000.

Ice Cube thereby retained all the profits from the sale of "Laugh Now, Pay Later" in the US: it entered the charts at number 4 and sold over half a million copies worldwide and although EMI got distribution fees and overseas licensing rights, Ice Cube kept all the US profits not only from sales of the album but also from ringtone sales and licensing of music to TV and films.

**In Summary:**

**MVine's proposed cost structure:** Minimised but included payment of F and equipment costs

**Challenges:** lack of revenues resulted in even these minimal costs being prohibitive

**Key Characteristics:** Cross cutting factor, affected by all other key characteristics: shifting control and power back to users through value framework can reduce company costs.

**6.6.3 Profit Model**

The revenue model and cost structures of the company determine its profit model (and therefore the company's competitive position)

**In Summary:**

**MVine's proposed profit model:** outcome of the difference between revenue model and cost structure

**Challenges:** this was insufficient to sustain the company

**Key Characteristics:** Cross cutting factor, affected by all other key characteristics: companies and artists can generate greater profit per sale from smaller sales and still create a sustainable business model.

## **6.7 Summary**

This chapter has opened up the MVine business model to analysis through the framework proposed by Osterwalder, supported by the new value framework which has been embedded within his ontological approach, in order to assist in identifying the strengths and weaknesses of MVine and other contemporary music industry business models. MVine's failings were thus put into sharp relief through comparison throughout with cases of companies, individuals and other organisations who were more successful in applying the various elements of Osterwalder's framework and in building their models of business upon the emergent but powerful new music industry value framework as identified in Chapter 5. This value framework/business model analysis shows how MVine's model fell short of what was required to create a successful music industry business model which provided consumers and artists with what they wanted and needed, whilst making a profit in doing so. Chapter 7 will conclude the dissertation, first identifying and collating the key characteristics of successful music industry business models from the results of analysis in Chapters 5 and 6 and thus provide evidence for the fundamental importance of the underpinning value framework presented in this dissertation, and going on to discuss the results and findings of the research in more general terms.

## Chapter 7. Conclusions

*“There’s never an end. This snapshot in time that you are taking is one that will look out of date in months, not years. That doesn’t mean that it is a picture that shouldn’t be taken; everybody likes to look back over memories and laugh at them. Sometimes, like a bad haircut, you can learn from them.”* (X, artist, 1<sup>st</sup> March 2010)

### 7.1 Introduction

This chapter provides a summary of the dissertation, identifying whether and with what success it fulfilled its objectives, and reviewing the research steps undertaken in order to do so. Problems and issues arising around the course of the research are identified and discussed, in order to provide an overview of how the process turned across the duration of the research period. The results of the research are reiterated and explained in brief, and the researcher not only clarifies the level of success that she achieved but is also able to reflect upon her findings and put them into a broader context in order to ensure that proof, rather than proposition, is offered to the reader. In relating her findings to the real world, the researcher is able to provide recommendations based on her learning, and identify ways in which that learning can be effectively disseminated to ensure that relevant people are not only aware of the research findings but also given practical guidance as to how they can benefit from an understanding of the impact of those findings upon their businesses and activities.

The chapter goes on to outline a possible view of the future research landscape in this area, elaborating on further research plans that are intended to enable a wider collective understanding of the research topic. The chapter presents observations about the research process, looking at those methodologies which were most and least fruitful, accurate and useful in order to identify areas of methodological importance which the researcher will adapt or amend in future research on this topic. This enables the presentation of an informative, if retrospective section, which uses these lessons to set out alternative approaches for researchers who might cover similar ground in future. The final section of this chapter summarises the research to date, explains how the project concluded and



relates the introduction of the new music industry value framework, and its place within the business model framework presented herein, to the greater environment of the world at large. This leaves the reader informed and able to draw their own conclusions from the dissertation presented.

## **7.2 Research review**

The research was inspired by an offer to the researcher to get involved with a new internet-based record label – one which, in its founder’s words – was going to “*change to face of the music scene forever*”. Whilst at that time in the very early stages of her PhD, the researcher felt that this would be an extremely interesting subject and so she undertook a 9 month pilot project before committing the remaining time of her PhD research to an investigation of the impact of internet technologies on the value chains, and thus the success of value-reliant business models, in the modern music industry. The research questions which were posed, after an extensive review highlighted gaps in the available literatures on the subject, were

*How have traditional music industry value chains changed as a result of technological developments?*

And

*What are the key characteristics of successful music industry business models arising from these changes?*

The goal of the research was therefore twofold: firstly, to establish what if any new or innovative linkages had been created along the traditional understanding of a value chain through the impact of internet technologies, and establishing a figurative representation of these linkages that would be of both theoretical validity and practical value. Secondly, to then identify how this new value framework could best be applied in order to support successful business models built upon it through the identification of key characteristics of new music industry business models.

The review of literatures from both before and after the introduction of the internet and related technologies in Chapter 2, failed to uncover any model representative of the increasingly empowered consumer and creator of music. This gap in the literature is met through this dissertation’s contribution of a new value framework, which incorporates the direct interactions of the consumer and the artist in the creation, manufacture, reproduction

and distribution of music. The literature reviewed included those literatures on business models, identifying Osterwalder's ontological approach to the understanding of a business model as not only fully defensible but also the most relevant for application within the dissertation. There followed an evocation of the music industry context in Chapter 3 in order to ensure a full understanding of the environment within which the response to this gap in the literatures was to be situated.

Following assessment of the various methodological approaches available to the researcher, her activities as observer participant were detailed in Chapter 4, along with attendant issues regarding various limitations and practical or ethical issues affecting how the research was conducted. Chapter 5 provided detailed and contemporary evidence for the new value framework presented as a central contribution of this dissertation in order to ensure the reader's acceptance of its use in Chapter 6, which takes this value framework and embeds it within Osterwalder's business model framework. This complex combination of the interactive and the linear reveals the key characteristics of successful 21<sup>st</sup> Century music industry business models.

### ***7.2.1 Issues arising***

The research took place from the beginning of 2004 until the dissertation was submitted towards the end of 2010, although intensive research occurred mainly across the first three years of the project, with follow up interviews, contemporary case accumulation and case study analysis continuing for a much longer period than had been anticipated. The research has succeeded in answering the questions posed at the start of the period and has been clearly shown to contribute a new understanding of value to the literatures to date, whilst also clarifying the key characteristics that music industry business models will require in order to support successful, sustainable businesses. However there were a number of problematic issues which affected the course of the research, as will now be identified.

One of the key issues affecting the course of the research was the *rapidity with which technologies developed and evolved*. They often moved from their intended uses to become, without prior indication, integrally involved in industry sectors for which they were not initially intended. This is a somewhat pleasing echo of the music industry's inception, from the invention of the phonograph as an aid to dictation rather than for the

transmission of musical recordings. However it also flags up the critical importance of timing and the fact that the progress of the research was subject to the vagaries of technological invention, innovation and adaptation. This made the research environment unpredictable and very difficult to control, and as Chapter 4 has explained in detail, made it harder to create replicable findings capable of being generalised. There may never again, at least for a long time, be another period of such creative destruction, or disruptive innovation, within the music industry. Or it may be that the last decade has seen only the early ripples heralding waves of innovative, disruptive and knowingly or unwittingly creative adaptations of technologies within an already creative industry sector.

As has already been noted, the research was undertaken in a very turbulent period and as a result a significant number of *new business models of interest and relevance emerged* across the process of writing up. It was very difficult not to stop and rework each relevant section in order to incorporate these cases to continually refine and improve the contributions of this dissertation. However in order to ensure the integrity of the dissertation and to ensure that her empirical research was supported by contemporaneous cases rather than retrospectively justified by subsequent cases, the researcher found it necessary to omit them from the dissertation. New cases outside the timeframe of the research were, however, noted as they arose. These emergent business models are integral to the researcher's continued research agenda, as will be seen in subsequent sections of this chapter.

*The author's access to MVine was unique.* The opportunity to gather such rich and detailed data across the inception, development and conclusion of a record label over a suitable period across which to conduct doctoral research was extremely valuable and, this researcher proposes, is unique in the access provided, the positive support offered throughout from the company's executives, and the fortuitous timing of commercial activities and outcomes. This unique opportunity results in a less directly replicable piece of research than would otherwise be the case in that future research investigating similar issues would find it difficult to reproduce the same environment and thus prove the findings herein. Whilst it was partly for that reason that the secondary cases and expert interviews were performed, to provide a broader platform for valid and verifiable research outcomes, it is accepted that the circumstances would be very difficult to reproduce.

*Anonymity, secrecy and the confidence of informants was an issue.* As has been demonstrated throughout the dissertation, the MVine team provided extremely open, public and unfiltered commentary to inform the research undertaken. However the music industry as a whole is notoriously competitive and secretive, in general reluctant to yield information about strategic or financial issues. The researcher was extremely fortunate to have access to some extremely well-respected artists, managers, label executives and others involved in the industry from a variety of perspectives. It was critical to that access that they were completely anonymous. Whilst the researcher has been meticulous in her efforts to ensure that this was the case, there is still the possibility that informants' responses to questions were coloured by their understanding that there was a possibility that they may be named in error or negligence. Whilst the researcher ensured that transcripts were checked and approved and also undertook careful screening and cross checking of responses before incorporating them into the work in order to ensure that this did not colour the rich detail provided by the interviews, it is a possible limitation of the research which must be taken into account.

In summation, despite these acknowledged limitations, the conclusion is that this research has successfully addressed the overall research aims, which were to establish what changes technological developments had made to traditional music industry value chains, and to identify the key characteristics of resulting 21<sup>st</sup> Century music industry business models. Thus it has made a valuable contribution to the literatures on both music industry value chains and business models.

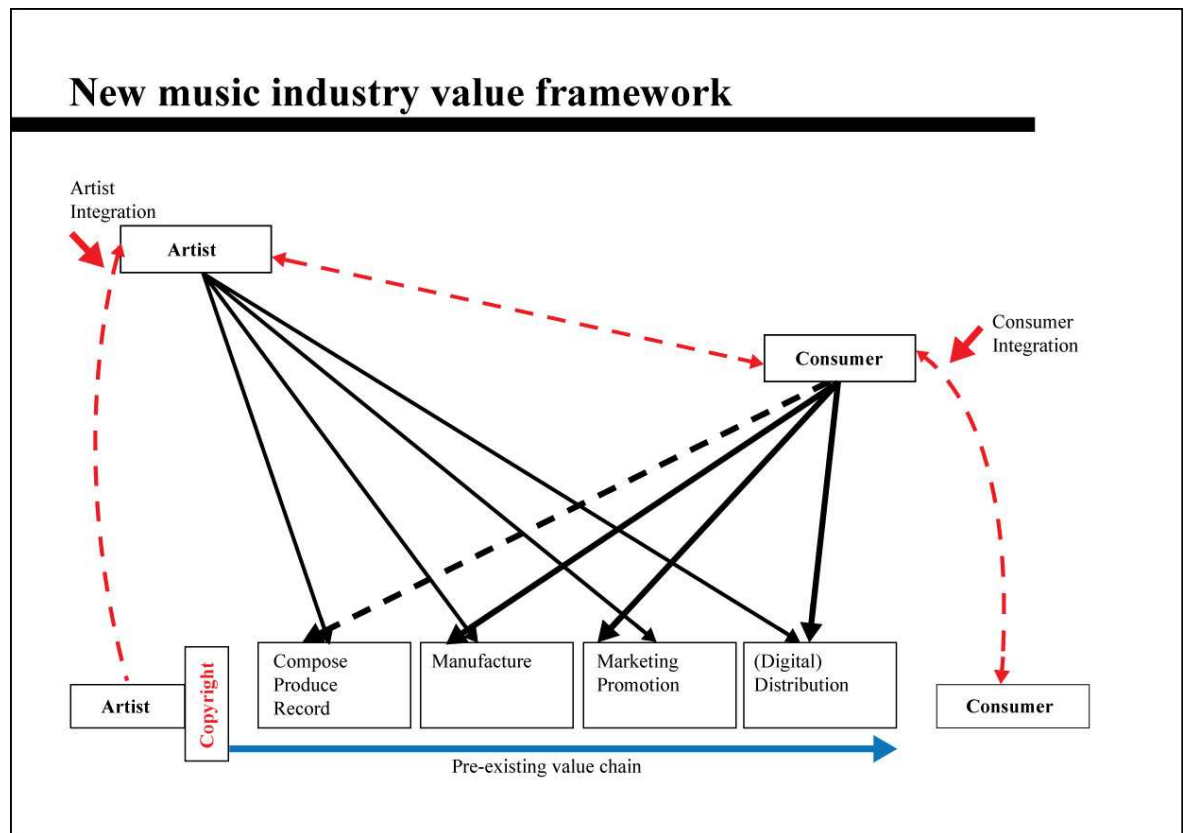
### ***7.2.2 Contribution***

The research required answers to the following two questions:

*Q1 – how have traditional music industry value chains changed as a result of technological developments?*

*Q2 – what are the key characteristics of successful music industry business models arising from these changes?*

**Research question 1** is answered through the contribution of the new music industry value framework, represented in figure 7.1 below, reproduced from figure 1.1 for the second and final time.



**Fig. 7.1 The new music industry value framework**

The research contributes a clear, well-documented and methodically illustrated extension of previous literatures on value chain structure and outputs. Previous literatures presented conceptual representations of ‘value’ which were linear and in the main rigid structures, none of which allowed for the relevance – and so excluded the integration – of any value-adding activities by the artist and consumer of music. The framework presented above, and rigorously proven in Chapter 5, illustrates clearly the new, technologically-mediated direct interaction between the artist and consumer. It also facilitates a better understanding of the secondary linkages which allow for the value-adding input of each of those actors into the creation, reproduction, marketing/promotion and distribution of music. In this way the dissertation contributes a framework which fully represents the consumer and artist as integral to a full understanding of the value-adding processes which are critical to the successful implementation of a modern music industry business model.

**Research question 2** is answered through the contribution of a systematic distillation of key characteristics of successful music industry business models, based on the extension of literatures on business models and predicated on the repositioned and newly empowered artist and consumer as illustrated in the value framework illustrated in figure 7.1 above. These key characteristics emerged from the empirical research undertaken across the course of the doctoral study and are analysed and described in detail in Chapter 6, reproduced in summary outline in table 7.1 below:

<b>Key Characteristics of Product Innovation</b>	
Value proposition	The new value framework allows many different understandings of 'value'; it is important first to understand those things that customers truly value rather than constructing a business model around assumptions. For a label to have any value for an artist it is critical to integrate the new, direct relationship between the artist and consumer of music into as many of the label's value creating processes as possible in order to benefit from the artist's newly acquired potential to create value themselves.
Target customer	The target customer in the new value framework is increasingly powerful; accommodate this by involving them. In order to exploit the newly empowered consumer's value adding activities, artists and record labels must integrate into their business model the requirements of the consumer for interaction, conversation, information gathering and redistribution of information and content.
Capabilities	Facilitate interaction between artist and consumer at all points along the new value framework.
<b>Key Characteristics of Infrastructure Management</b>	
Activity configuration	The repositioning of the artist and consumer within, rather than outside, the music industry value framework has resulted in the creation of completely new sources of 'value' (some of which value can be expressed in non-monetary terms) emanating directly from the artist, the consumer, and the increasingly direct relationship between them. For a profit to be realised, a company must offer something its target audience will pay for.
Partner network	Control of value adding processes is increasingly passing to the creator and consumer of music, so any 'partnership' activity intending to mediate this relationship and any mechanism intended to provide access to these new sources of value has to place far more emphasis on understanding and accommodating potential partners than had been the case with previously controlled and linear music industry models.
Resources and assets	The new value framework provides opportunities at every stage for consumers and artists to create their own 'resources' and generate their own 'assets'. Those offered must therefore be greater than those that the users can access themselves.
<b>Key Characteristics of Customer Relationship</b>	
Information strategy	Once the infrastructure is in place, the use of interrogative technology to find out as much information about the activity of users online activity is critical to informing successful and profitable relationships with them.
Feel and Serve (distribution)	The infrastructure through which the company's business model delivers its value proposition must be simple and easy to access, and provide a route to the right market for the artist, and to relevant content or a required commercial offering to the consumer, which they could not easily access elsewhere.
Trust and Loyalty	The new value framework is an open and transparent construction, similar openness and transparency is required of businesses building their models around it in order to generate trust and loyalty – 'the brand' is important, but no longer sufficient in itself. Because every company has the capacity to compete for individual consumers across such a huge scope of activity, the concepts of trust and loyalty become even more critical to competitive advantage.
<b>Key Characteristics of Financial Aspects; cross cutting factors, affected by all other key characteristics</b>	
Revenue model	No combination of key characteristics is sufficient if the company does not base its business model on the new value framework and thus reach a critical mass of content, interaction and usage. Without this there will be insufficient revenues to support the continued existence of the company. Offering artists the opportunity to benefit financially is of great value to them, and possibly one of the few remaining functions of a record label that can not be performed by the artist themselves. Combining this conclusion with the potential that technology provides, highlighted in this research, to aggregate smaller payments from consumers who value that artist's music, results in the conclusion that a modern day model of patronage is technologically sustainable.
Cost structure	Shifting control and power back to users through value framework can reduce company costs.
Profit model	Companies and artists can generate greater profit per sale from smaller sales and still create a sustainable business model.

**Table 7.1 Key characteristics of successful music industry business models**

## **Implications**

The answers to the research questions inform not only potential and existing labels, but also individual artists and other potential music industry actors intending to take advantage of the possibilities opened up through technological developments. It would have been most satisfactory had both these constructs mapped neatly onto each other allowing the creation of one framework encompassing the entire pattern of research results. In a reflection of the real world, however, this is not the case. But by analysing the strength of their position on the linkages displayed within the new value framework seen in figure 7.1 and linking this analysis to a clear understanding of the key characteristics of successful music industry business models as itemised in table 7.1 above, all of these actors can ensure that they take the best possible advantage of the potential that current technological developments offer them.

Reflecting on the central case of MVine is illuminating. Provided with the results of this research it would have been possible to analyse the abilities of the company to create value using the value framework provided. Table 6.1 has already identified in detail the reasons why the MVine business model failed as seen through the lens of the Osterwalder framework. MVine's lack of genres, complex software, the company's clumsy intermediation between newly connected artists and their audience, the lack of critical mass of users, and a fatally back-loaded revenue model all combined to result in the failure of the company in its original format. Acknowledgement of the new value framework and a subsequently better understanding of the importance of the direct relationships between artist and consumer, and of the importance of simplicity in facilitating those relationships, may have allowed MVine to get to critical mass far more quickly. The company may have been able to overcome the financial problems that confronted it, as well as creating a virtuous cycle of activity which could have pulled in more and better quality artists thus overcoming the issues around critical mass that also undermined the company's chance of success.

The implications for the future of the music industry are clear. Cognisance of this new relationship between artist and consumer, as proven in section 5.2.1 above, is critical to the success of music industry business models. This has been shown through the collateral cases described across the course of Chapter 5, many of which illustrate own label artists and record labels encouraging and supporting a direct conversation between artists and



their audience. Whilst this could be seen as possibly resulting in a short term loss of revenues (through free access to artists in Second Life, rather than paid for access at concerts, or through the distribution of free music, for example) it can also result in a loyal, informed and evangelistic fan base with both corporate and personal digital infrastructures over which they can spread the word about their favourite artists. It is equally important to have a clear understanding of the other linkages along the value chain which flow from this new relationship – evidenced in sections 5.2.2 to 5.2.5 – and to build them into the value proposition (see 6.3.1) and infrastructure (see 6.4) of the company. This becomes particularly relevant when considering the customer relationship strategy that is implemented (see 6.5), as the customer has been shown to be more integral to the new value framework than they have ever been in previous theoretical configurations of value.

The integration of the consumer into the music industry business model at all stages of the value chain - creation, manufacture, distribution and promotion – was shown in the cases described in Chapter 5. The willing artist's ability to supplement if not supplant the traditional activities of the record label was also clearly described in this chapter and the resulting key characteristics of business models arising from this new value framework were clearly illustrated in the many cases presented in Chapter 6, encapsulated in table 7.1 above.

### **7.3 Research relevance**

These results have emerged from a detailed, thorough analysis of a live study of MVine Ltd. and contemporaneous studies of emergent phenomena as well as concurrent interviews with industry experts. Thus they provide a clear reflection of 'real world' activities, through the lens of a rigorously conducted theoretical framework. The results allow individuals and businesses in the music industry to assess their current model in a systematic and logical fashion, and thus analyse which (if any) elements could be added, improved or amended to ensure that they make the best possible use of the changing nature of the music industry value frameworks.

Having arisen from the changes imposed upon Porter's fixed and linear value chain by an increasingly turbulent and fast-moving environment, the value framework underpinning Osterwalder's business model ontology will by definition need to evolve over time. It is

therefore imperative, if the research is to have continued relevance to the ‘real world’ that the researcher continues to develop her materials and keeps up to date with current and possible future developments within this and related industries. There is a tendency, already noted, for events management companies to become involved in the record label process, and that of individual artists to construct their own successful independent businesses outside the label’s previous sanctuary. These are only early indicators of an increasingly fractured marketplace. Over the next few years, if not months, a variety of technological, political and practical issues are imminent which would again require revision of the value framework. In the UK alone, the increasing convergence of communication mechanisms (Gonsalves, 2010), proposed changes to copyright law (Anonymous, 2010) and political moves toward an insistence that ISPs are made responsible for illegal music downloading (MarkJ, 2010) are but single examples of a landscape that becomes more complex by the day.

#### **7.4 Recommendations**

The research provides a range of key characteristics of new music industry business models. It is recommended that artists and labels recognise these and adopt or adapt their products, distribution mechanisms, and relationships with customers to incorporate them in order that they generate sufficient revenues in order to profit from their activities. These recommendations have been detailed in the previous chapter, broken out into those that are specific to labels and those that might be more suited to the own label artist. For reference, the simple outline of recommendations is illustrated in Table 7.2 below.

This research, undertaken across a time of rapid change (a time which continues to reveal new technologies and communication methods even after the research is complete) can only generate recommendations directly relevant to the time in which they are made. Continuing developments in technology and the surrounding legal, social, economic and political environment will doubtless continue to affect the music industry in a variety of ways that are difficult, if not impossible to predict. It is, however, worth noting that within the generic recommendations provided in Table 7.2 below, there will be different elements that require more emphasis and attention dependent upon the different actors, their maturity and models.

Pillar/Element	Recommendation
Pillar 1 – Product Innovation	
Value proposition	Offer new, cheaper, or more customer responsive offerings than provided elsewhere: a baseline requirement for competitive advantage. Artists require an environment which ensures that their music is easily heard by as many individuals as possible; offer ways of distributing that music more efficiently. ‘Free’ has a value of its own to the artist, with ‘try before you buy’ and variations on that concept encouraging uptake of and interest in artists and their music which the consumer may not otherwise discover. Use technologies to provide a variety of mechanisms and filters through which the tastes, activities and habits of music consumers can be tracked to facilitate the provision to them of music that they are likely to appreciate, and therefore spend money on. <b>For the artist</b> , consumers will value direct contact very highly, so timely, meaningful and personalised responses to user interaction are important.
Target customer	Involve broad selection of both consumers and artists in the construction of the business model to ensure that perceptions are not skewed by influential internal/external attributes and personalities. Create mechanisms for listening to target customers and respond in good time to commentary and feedback to ensure that what artist and audience value is truly understood. Highlight the ability to save time for both consumers and artists and the ability to provide them with technology which enables artists to increase the scope and reach of distribution of their music and consumers to acquire music from a wide range of sources. Neither ease of use nor scope and reach will have any meaning if there are insufficient individuals using the site. Critical mass appears to be indiscriminate, a function of quantity – i.e. ‘enough people’ – rather than quality ‘enough of the right sort of people’. <b>For the artist</b> , ensure that as many relevant interactive routes are used as possible, both to reach out your target customer and to get feedback from them. As well as at live events such as festivals and concerts, ensure that all relevant digital routes are involved. ‘Relevance’ will depend upon your understanding of your audience base; ‘relevance’ and ‘involvement’ will both require constant attention to these dialogues.
Capabilities	Create interactive environments that facilitate rather than inhibit communication and interactivity between users; provide as many simple, easy to use and “joined-together” mechanisms as possible to enable the target audience to engage with, share, buy and even invest in online content. Create ‘push’ as well as ‘pull’ technologies to ensure that the company reaches out to users as well as allowing users to interact with each other. Ensure that the company is capable of providing the promised capabilities quickly and appropriately. Ensure compatibility of technology across different browsers, operating systems etc, thus supporting scalability. <b>For the artist</b> ; ensure that you can deliver the value proposition above through your website and those that you use; check that they provide consumers with opportunities to listen for free, to download music away as taster/sample, even if at lower quality than usual. Give potential consumers opportunity to try before they buy. Let them find out more about you through online communications (see target customer above) and use that opportunity to find out more about them.
Pillar 2 – Infrastructure Management	
Activity configuration	Offer the artist and consumer more than they can already do themselves, whilst at the same time giving them far greater control over what happens in the process. Provide a suitably engaging, functional and interactive site that individual artists and listeners want to be seen to be part of and to tell their friends about, thus helping to create a critical mass of activity which becomes self sustaining. Increased critical mass can be supported through repeat visits, encouraged by engaging overtly and directly with users as participants, artists, investors, informants and scouts. <b>For the artist</b> : Once your target audience is clarified and fully understood, it is important to understand what they value, what they will pay for. They are already fans but can probably get your music for free. What will they pay for? Come up with innovative and creative

	opportunities for them to spend their money on more than just your music. ‘Special’, ‘insider’ stories and information (secret gigs, first 50 applicant tickets, etc) can also provide revenues.
Partner network	Labels which truly facilitate relationships between artist and consumer will find that they have devolved much promotional activity to their artists’ fan bases through their word of mouth and online activities promoting these transparent relationships. This leaves the company free to core competencies and activities. <b>For the artist</b> , as with the activity configuration recommendations above into which the partner network feeds, it is critical to engage with your audience, directly and as fully as possible in order to benefit from their increased empowerment.
Resources and assets	If the opportunity exists to use a high profile individual to act as an ambassador for the company this can support all other elements very effectively. Understanding the nature of the target audience will be central in ensuring that such an individual, if not integral to the company at its inception, is correctly identified. It is important for both company and individual to realise that the reputation of the individual will be tied to that of the company and vice versa. <b>For the artist</b> , the most important intangible asset that you own is the copyright in your music. It is up to you to decide if you will give this away in return for greater engagement with your audience. Intangible assets such as reputation can be enhanced or worsened through the long or short term musical relationships that you forge through work with other artists.
<b>Pillar 3 – Customer Relationship</b>	
Information strategy	The use of non-invasive technology to identify what areas consumers and artist are using, contributing to and avoiding is essential in order to optimise the content of the online music environment. It is important to acquire as many data sources as possible in order to inform marketing and promotional activities with real precision, in particular a facility through which listeners’ preferred musical tastes can be analysed. The validity of any interrogation of user activity depends upon there being sufficient users to support quantitative analysis in the first place.
Feel and serve (distribution)	Distribution must frequently be possible over a far greater distance and in more different ways, through more different channels, than traditionally expected. Offer consumers more than they can easily acquire themselves. Innovative uses of technology to deliver value to end users can be of value as promotional tools, in that users will promote the mechanism as much as value its relevance to them.
Trust and loyalty	The brand becomes increasingly important, but only if built upon a credible and relevant business model. The nature of the intangible asset of reputation, frequently held within the human resources involved in the company, can be very important. The reputation and therefore trustworthiness of the company will reflect the credibility of any names attached to it through such ‘brand evangelists’. Trust, loyalty and confidence are increasingly inspired by robust capabilities.
<b>Pillar 4 – Financial Aspects</b>	
Revenue model	Investigate the appropriateness of new streams of revenue to replace the rapidly-disappearing CD/single sale, such as creative uses of personal contact with fans, live events and special edition content.
Cost structure	Reduce costs of creation, reproduction and distribution through use of digital technologies but also leverage these activities through alternate formats such as vinyl. Allow artists greater freedom within their contracts to share in profits rather than royalties to encourage maximum artist input into promotional activities.
Profit model	Label profits will reduce, requiring internal reorganisation to focus on the core competencies of the company. Artist profits, signed or own label, are within their own control to a far greater degree and the profits of both will depend upon their configuration of the financial model.

**Table 7.2 Research recommendations**

The recommendations above are by their nature, generic, as has been noted above. But they provide a useful framework for the various actors within the early 21<sup>st</sup> Century music industry to assess those which are most relevant to them. There is an increasing divergence between the different music industry business models, from artist-led models which rely clearly on the new direct relationship between artist and fan such as Josh Freese and Jill Sobule, to consumer-facing models such as Kickstarter and Sellaband. Niche players living up to the “1000 True Fans” concept are working hard on the first model, whilst aggregators relying on the economies of scale based on information drawn from a large number of consumers have a very different approach. Each requires different competencies and specialisations, all of which are described in this research, and each of which can be found reflected in the value chain framework contributed herein. So, for example, a distillation of the key recommendations to a major label from this research would be

1. Allow, encourage and facilitate interactions between your artists and their fans and possible consumers.
2. In order to do this effectively you need to know your consumers (who will be different, and require different communications mechanisms for each artist). You can learn a lot about them from your artists, if you allow this freedom to interact.
3. This devolution of traditionally label-held power to the artist will result in your provision of a highly valued service to them, especially those who require help in setting up the correct communications networks to reach their fans.

These recommendations are capable of dissemination not only through further research to the academic community that may be interested in evolving business models in the creative industries, but also to the actors within those industries, through some of the further research, both proposed and underway, described below in section 7.5.

## **7.5 Further music industry research**

The study established fundamental issues in the area of music industry value chains and business models. It established the major contributions of a new value framework which integrates the repositioning of artist and consumer within value adding processes, and the uncovering of key characteristics of music industry business models. Despite these significant findings, the study also exposed questions which were outside the scope of the

current research agenda and generated enormous amounts of very rich and detailed data. This dissertation encompasses the information relevant to the aim of this piece of research and the related research objectives. More was omitted than included, much of which inspires consideration of further research.

The limitation of uniqueness identified above could be partially overcome by conducting similar research but through a multiple case study methodology, which would provide the researcher with the opportunity to refine the contribution to value chain literatures and, through application of the key characteristics uncovered here, continue to build this contribution in order to present a more in depth understanding of key business model characteristics. The contacts built up over the research period would provide significant and numerous access points within record labels at all stages of development and would assist in strengthening, deepening and refining the application of the contributions offered here.

The increasing utilisation of social networks to underpin commercial activities prompts a review of the increasingly blurred line between social and business networking, and the repositioned consumer and artist are increasingly linked through such networks, for example MySpace, Facebook, Bebo. Research is required on the applicability of these and other emergent networks as a marketplace within which the record labels can legitimately interact with consumers and artists. As an extension of this research it would be of interest to assess the emergent use of virtual worlds such as Second Life by labels, artists and consumers of music. This has been touched on in this dissertation, and further work would extend and deepen the researcher's already published work on this emergent marketplace (Berry and Papagiannidis, 2007a).

Intellectual property and copyright were fundamental elements in traditional music industry business models, and as this dissertation has shown the disruption to these previously integral principles has proven one of the most problematic issues for labels and policy makers. Whilst this dissertation has made largely practical and theoretical contributions within the context of the music industry, the opportunity exists to create more impact at a broader policy level, in particular through the researcher's growing network of contacts at that level. For 18 months of the research period the author was also Project Manager for a £100,000 ESRC-funded project entitled '*Sustainable business models in the*

*creative industries*'. This work, whilst informing her research to some degree, also resulted in a broadening of her contacts and a deeper understanding of creative industries outside the music industry. It also resulted in her involvement in a variety of wide ranging academic and industry networks. As an example, an email received only days before her dissertation was complete contained a personal invitation as follows:

“New approaches to intellectual property ownership and licensing, such as Creative Commons and open source, are facilitating the evolution of new business models with intellectual property at the very heart of the creative value proposition. It is essential the framework is up to date, relevant, easily usable and fair. The Creative Industries Knowledge Transfer Network would like to invite you to contribute to, and influence, our latest Beacon project on Intellectual Property and Open Source which examines these key themes. This is a chance to share your expertise with other industry practitioners and to formulate and validate a number of future scenarios, which will feed into future decisions on funding to be made by the Technology Strategy Board.” (Onwuegbuzie, 2010)

The researcher also took the opportunity to ask some of the most senior informants for their research ‘wish list’ - what subjects they would like to have in depth and detailed, robust research studies applied to over the next few years. Whilst some are methodologically challenging, the researcher currently has quite privileged access to a number of information sources through whom a significant amount of information can still be acquired which would be of significant value in undertaking some of the following potential research projects.

The fundamental contribution of this thesis was of great interest to informants, who were interested in issues arising from the fact that artists are able to go direct to fans with their sales and marketing, in particular the impact that this might have on the internal structure and external partnerships required of a sustainable record label. There was increasing doubt that labels would be able to convince artistic talent that their commercial expertise would help artists stand out from the increasingly large number of competitive voices. Tony Wadsworth, Chair of the BPI and CEO of EMI until 2008, wrote to the researcher only a few days before her dissertation was complete, to ask for her contribution on this topic to a major industry report he was writing:

“while I have got you ...I wanted to mention to you a report I am doing for Music Tank. Its the next in the series after Pete Jenner's (2006) and Terry McBride's

(2008) reports It is on the role of the record company, and it occurred to me that you had quite lot to say about this in your dissertation. Firstly, I can't find a completed finished copy of it on my computer. Can you point me to it? Secondly, do you mind me quoting from it - with credit obviously. Thirdly - do you have any observations in 2010 , as to the nature of the record company's role?" (Wadsworth, 2010)

## **7.6 Extending the contribution to other industry sectors**

These contributions go further than simply informing us about changes in the 21<sup>st</sup> century music industry. They are applicable to other industry sectors, in particular those which are equally challenged by technological transformation. Further research will review the new value framework contributed in this dissertation (seen in figure 7.1 above) and assessment of how it reflects the value chains of traditional and new configurations relevant to each sector. Three industry sectors are apparent when considering those which are similarly challenged through technological disruption and innovation: the *film industry*, *science* and *print and television news*. A brief overview of the impact of this research – and in particular the application of the new value framework - upon these three industry sectors follows in order to show the transferability of the research findings and contribution. Future research will assess the changes in sector-specific value chains and key characteristics for business models based on this changing environment for each.

### **7.6.1 Film**

Issues of P2P piracy are proposed by industry bodies to negatively affect the film industry in the same way that the music industry was challenged by Napster and subsequent P2P technologies. It should be noted that recent literature on this subject is tending toward the view, also found in the literatures on music discussed in Chapter 3, that “benefits are maximized by avoiding any control measures against unauthorized sampling over P2P networks” (Jacobides and Billinger, 2006 p.130) In the same way that previous analysis of the music industry shows, digital technologies and advances in software and hardware mean that the creation, manufacture, distribution and promotion of a film is now far less capital intensive and complex than had historically been the case. This liberates a new generation of potential film makers to create products that have not only possible ‘critical value’ (about which more shortly) but also potentially can reach some commercial success (Johnston, 2009). In an unusual example of this trend, internet bookseller Amazon has



recently publicised the launch of their new movie studio. In much the same way as MVine intended to operate within the music industry, Amazon Studios intends to assess user-generated content, scripts and film ideas before selecting those most likely to succeed, in the process hoping to identify otherwise un-noticed talent (McMillan, 2010).

In the same way as in the music industry, consumers are now able to contribute to the film making process in a more direct fashion than has ever been the case. Consumers are influencing plot lines, such as the notable case of ‘Snakes on a Plane’, the plot for which was altered during the filming process in order to accommodate the suggestions of a large and vocal fan base (King, 2006). They are also able to undertake a filtering process which is the traditional work of the film critic, and thus affecting marketing and promotion for films through instantaneous, technologically facilitated reviews: ‘critical value’ can now be more about the opinion of the regular movie goer rather than highly paid gatekeeper critics (Goldstein and Rainey, 2009; Chesbrough and Crowther, 2006).

### ***7.6.2 Science***

As well as the areas of film, and print/television news generation discussed above, the application of the new value framework to science is also of interest. The author spent two years from September 2008 to September 2010 bought out of her staff position at Newcastle University Business School in order to be COO (then CEO) of Inkspot Science Ltd, the commercial iteration of a research project based on cloud computing-facilitated scientific collaboration and data analysis. Similar business intelligence principles as those exhibited on the MVine platform are brought into play in order to establish the nature and activities of users of the Inkspot platform. These are, variously, individual researchers, collaborative groups of researchers, students, research team in universities, and interdisciplinary research groupings across a variety of industry/academic borders. The Inkspot business model is consciously built upon the newly reconfigured value chain that the author had uncovered through her empirical research, and further research will investigate its continued applicability, and the key characteristics of other scientific business models arising from it in order to establish the potential for extension of the contributions made through this research.

Whilst the two sectors of music and science may seem quite different on the surface, the capacity of technology to empower the individual musician is very close to its capacity to empower scientists. As was historically the case with music, many scientific models required the expenditure of large capital up-front costs, as well as organisational structures which demand hugely complex maintenance and support mechanisms and a 'back room' team of technicians to manage these. The use of new proprietary and open source software and community-based support mechanisms, as well as new technological developments such as cloud computing which increase an individual or small company's ability to collaborate, analyse data and process that data through powerful workflows has the potential to revolutionise the work of many scientific disciplines, in the academy or commercial markets. It will also be interesting to assess the value of the cloud computing model to music industry business models, investigating whether there is any adjustment in the value framework required through the application of 'pay as you go' storage and computing capacity not just for major and medium sized labels but also for the individual artist wanting to find a more cost effective mechanism to more effectively store and distribute their music.

### ***7.6.3 Print and television news***

Generating sufficient newsworthy material to attract an audience substantial enough to support the commercial newspaper and television industry (i.e. excluding those that are publicly funded such as the BBC) is becoming increasingly difficult. Free access to news is made available through a variety of technologies, including apps for smartphones and tablets, PC/Mac friendly RSS feeds, tag clouds and personalised home pages such as iGoogle. As the music industry is finding, free access to content means that the ability of either medium to charge for their content is increasingly under question. New technologies such as smart phones, wireless access and smaller, higher quality cameras allow news reporters to gather and transmit news from a wider variety of places and in a wider variety of formats. However these same technologies mean that the remit of the 'news reporter' is increasingly supplemented by "citizen journalists" (Piller and Walcher, 2006) creating 'user-generated content'.

Whilst Horrocks confuses the meaning of citizen journalism and user-generated content ('comments' not equating to 'journalism' under any definition) it is clear that this largely un-moderated 'news' commentary is hugely influential, if not always truthful, honest, or

well received. Technological developments have ensured that consumers are therefore now far more capable of ‘reporting’ on the news and some cases – even on a global, political scale – capable of making it. In a similar fashion to the “consumer-critics” described in the section on film above, recent events in Tunisia show social media usage by politically concerned audiences making a significant difference to the outcome of a highly sensitive political situation (Chesbrough and Appleyard, 2007).

It is of interest to note that one of the companies currently using the Inkspot platform, described briefly in the section above, is doing so in order to support a business which facilitates the creation of user-generated audio and visual news stories, which are then moderated, tagged and brokered on to broadcasters (with a micro payment back to the content supplier for each sale) globally for a price on a sliding scale dependent upon how quickly they require the content. There is also an optional translation service. This sort of user-generated news content is already seen in a free and less moderated format on major news websites such as CNN (see <http://ireport.cnn.com/>) and the BBC. The BBC’s user generated content team was set up in 2005 as an experiment. However it was made permanent after the huge public response in providing audio and video content of the 7 July 2005 London bombings and the Buncefield Depot fire, after which event the team received over 5000 images to supplement their own news broadcast content (Chesbrough, 2004).

## **7.7 Methodology – a commentary**

Looking back at the methodology, methods and research design employed, there are – as will undoubtedly always be the case – a number of different aspects worthy of reflection. Everything that was undertaken, whether in retrospect it now seems essential or superfluous, was of significance in informing the researcher about the rich and detailed environment within which her work was situated. Some methods produced far better and more accurate results than others. There are parts of the research that would be approached in a completely different way if it were possible to go back and do it all over again. In retrospect, some unpredicted activities, moments, meetings, conversations and events are clearly critical and more time and effort should have been spent upon them; other issues that appeared to be frustrating and problematic have proven to be very valuable. This

section is dedicated to a reflection on these issues, as a commentary for other researchers treading similar paths and as learning for this researcher in her future work.

### ***7.7.1 Time***

A major issue in designing the research was the increasing rapidity of technological change and development, and also (often as a result of the technological changes) similar turbulence in the music industry environment. In Chapter 4, the research design was proposed to be “robust but flexible”, however it was very hard to plan for such rapid and unpredictable change. It was also a very complex process to track not only those events occurring at the time, but also to track emergent activities, news, businesses and other similar information that might affect or be relevant to the research, without it appearing that the information-gathering activities undertaken were somewhat random, unfocussed and arbitrary. Whilst the central case of MVine was relatively simple to track, as the researcher was integrally involved in the daily processes of the company, keeping up to date with technological change and its impacts upon the music industry as well as relevant industry news, events and illustrative cases across the duration of the period became more and more difficult. It was also important to ensure that the bulk of the illustrative cases cited alongside the MVine case study were contemporaneous with the research. It would have been less meaningful to compare and contrast all of the events across up to 2006 with cases that were all from a later time period.

These issues were partly the reason that the PhD completion process took longer than had been planned for. Other issues were more ‘usual’. From August 2006, the researcher had full time and frequently overlapping commitments to her academic job, including being degree programme director for the EMBA programme, project-managing a one year ESRC research project and undertaking a two year buy out to run a spin out company whilst at the same time creating a new MA programmes in Arts Business and Creativity, and setting up and running the Cultural and Creative Economy Unit within Newcastle University Business School. She also – as most other researchers in her position - had family commitments. These meant that the time available for her to not only keep up with events but to embed them within the framework of her PhD was limited. Many frustrations have arisen as a result of these other commitments, and it was a surprise to the researcher, on

reflection, to come to the conclusion that the additional time taken has proven of immense benefit. Whilst it would have been personally less stressful, and professionally far preferable to view the events of the last three years from the perspective of a qualified PhD graduate, the ability to track events over that time period and map them onto her initial research assumptions and questions has enabled her to validate her research and, it is hoped, ultimately to provide a more robust and defensible thesis.

### ***7.7.2 Technology***

The Google Alerts system that was set up in order to assist with this element of the research is still in operation in order to inform the researcher about contemporary examples which are relevant to her research, for the purposes of her viva and also in order to inform further research, and daily, reveal stories, quotations and business models that are relevant to the story told herein. It proved the most productive method of information acquisition – however this was as much of a problem and a positive attribute, as it could if not carefully screened and filtered, result in information overload. A selection of examples is presented here, derived from a quick read through two of the 72 alerts provided over the last week of November 2010. There is immediately information that the author would be delighted – if there was time and room - to incorporate into the thesis as evidence support and validation of her contribution.

Links to a new business model, very similar to the MVine model, are provided by label Pledge Music (<http://www.pledgemusic.com/>). There is an update on the successful five year contract between rap artist Jay-Z and event management company, Live Nation Entertainment, which reflects directly upon the case of Ice Cube and his management company, The Firm, detailed in Chapter 7 (Weisenstein, 2010). And there is highly relevant and fascinating commentary following on from a blog by industry commentator, Peter Holmes, which mirrors cases such as those of Radiohead, Josh Freese, Jill Sobule and others detailed in Chapter 6 and provides further evidence for the substantiation of the value framework contributed herein:

“But I think that a "limited edition" or a "unique experience" will differ from artist to artist, and to do this in a way that provokes a sale, it takes some thoughtfulness and creativity. Take Gavin Castleton: I believe in his work and paid \$25 for his new album (he did the pre-order to raise funds on Kickstarter). As a thank you, I got a

lock of his dog's hair. That works for Castleton because his dog appears in many of his songs, and his fans know who Lumas is and would be delighted to receive a lock of his hair. (Yeah, I know it's really bizarre, but that's besides the point =)) For \$65, he would've called my ex and asked them to reconsider (his last album was about a horrible break up).”(Holmes, 2010).

These were only a very few of the pieces of relevant information and content that were found on a 2 minute skim through the information provided. If the research was to be undertaken again, therefore, there is learning that could be applied to assist in making the research better and in saving the researcher wasted time and effort; in particular, whilst making use of this alerts system, the researcher would subdivide alerts to be more representative of specific issues that she was tracking. The initial alerts were set up for ‘music business model’, digital music’ and ‘music industry’. Whilst these certainly captured the bulk of relevant information, they did so across a very broad range and with a significant amount of repetition and redundancy. It would be more efficient to use one broad ranging alert (“music business model” was found to be the most focussed) and then set up subsidiary alerts to follow relevant topics as they arose from this trawl for information.

### ***7.7.3 Triangulation***

The researcher would have spent far longer face to face with the MVine team, both at the group meetings she attended but also one to one with them especially in the early days of the company’s establishment. There were assumptions, expectation and misunderstandings that became apparent later in the research that would have been very interesting to track from the beginning. There was a presumption that because M was a musician, he represented all musicians. This could and should have been challenged at the beginning of the process. There was also a presumption that because J had successfully managed software projects before he could run the development of the website equally effectively, although it was in a completely different market environment. There was a very logical approach to development of the site and bug-reporting, but these were dealt with in order of discovery rather than order of importance, another flaw within the business infrastructure. Although of course the researcher would have had to be extremely careful not to advise upon these issues – a temptation because of her own business background – she could have interrogated the individuals concerned and come to a far clearer

understanding of their personal perceptions of not only the MVine business model, but also those that were emerging at the same time.

It would also have been preferable to conduct more semi-structured or structured interviews - face to face, or otherwise – with artists, whether users of the website or not. A slightly more structured approach would be hard to achieve as has already been explained in Chapter 5, because of the nature of artists in general and the environment within which they operate, as well as the fast moving nature of the music industry and technologies developing within it. However it would have been very valuable to be able to work with a large enough sample size to allow for valid quantitative results to be presented. Whilst these results would be only a snapshot, of mainly contemporary rather than historical value due to the shifting and ephemeral nature of the music industry marketplace, they would still have added another perspective from which the contributions made in this dissertation could have been viewed.

It would also be very interesting indeed to contrast interview responses from different generations of artists. There is now, as there was not at the time the research started, a generation schooled on laptops, organically connected to the internet and each other through their smart phones, as well as involved in each other's lives work and music through Facebook, MySpace, and iTunes. With a decade of technological developments behind them there are 'young' artists now far better equipped than the previous generations to understand, take advantage of and find new applications for new technologies and it would be fascinating to assess their input into the frameworks presented in this dissertation.

## **7.8 Summary**

The record label MVine separated into two different private limited companies in March 2006. Red Grape Records, run by M and HP, acquired the rights to the artists signed by MVine to that point, and continues today as a successful, traditional small independent record label. M is still the high profile musician and artist that he always was. HP has become significantly more involved in the music industry and high profile herself, acquiring a position on the board of the Association of Independent Musicians.

MVine.com, under the management of J and with the input of full time employee F, is now a platform from which a variety of successful business to business collaboration activities

is performed for large commercial companies. The researcher continues to be in contact with M, J and HP and watches the development of both communication platforms with interest.

The doctoral research into the impact of technology on music industry value chains, and subsequent changes to the key characteristics of music industry business models took six years, well over the planned research period. As has been explained in this chapter, the additional time has retrospectively proved to be of great value in increasing the robustness and validity of the research outcomes and underpinning the answers to the two research questions. This chapter presents the main conclusions of the overall findings of the current research and highlights both the theoretical and practical contributions of the study. It demonstrates that the overall findings of this research provide support for a number of subsequent academic and applied studies. It also extends the existing knowledge base. In addition, the limitations associated with the current study have been presented and the chapter advances suggestions for a future research agenda. In concluding, the following quote commenting on a 4 November 2010 podcast on Harvard Business Review's "HBRIdeacast", by Larry Kramer, (founder and former chairman and CEO of MarketWatch, Inc.) seemed appropriate:

**“The success of a company is not whether it is successful on Facebook or YouTube. It's whether or not they are able to communicate to their customer.”** This, combined with the quote earlier in the cast about shifting customer leverage is extremely powerful. It's all in the message and the media simply being the delivery mechanism. I am personally very excited that technology is actually allowing businesses and customers get closer. Which is counterintuitive to a large degree. It's exciting to see the possibilities, and reality, of a global "small" business. A customer or fan can literally connect and start a conversation with nearly any entity that exists. And be heard! Exciting and fun!! And for businesses, it's the message!”(nowthatsleadership, 2010)



## **Appendix A – Copyright, a brief history**

Following Gutenberg's invention of moveable type and the printing press in 1445 (Scott, 2001) the process of producing a book became far more efficient and the publishing industry was born. Through the UK's 1709 Statute of Anne, publishers were provided with a legal monopoly to print a book for 14 years after publication, after which the author could renew the term for another 14 years. This was intended to protect the rights of publishers against illegal copying, now that such a thing was possible: "clearly an anti-piracy measure...designed to regulate trade and protect property" (Frith, 1988).

But it also limited their monopoly, defining the length of protection as 14, at most 28 years, after which anybody could copy the work. By enshrining this protection within state-granted law, the Statute of Ann flew in the face of those who believed in a natural common-law right of the authors to benefit from their own work. The ultimate result of this approach is that rather than having a 'natural right' in their works by legal philosophy, authors had 'statutory rights', granted by law.

Copyright owners were given, in general, the exclusive right to do (and to authorise) the following acts:

- Copy the work
- Rent, lend or issue copies of the work to the public
- Perform, broadcast or show the work in public
- Adapt the work (or do any of the above in relation to adaptation)

In the UK the first amendment to the doctrine of copyright happened in 1814. The emphasis on copyright changed from a focus on the publisher to one on the author, as the new copyright bill of that year associated the term of protection with the lifespan of the author, plus seven years, unless the author should die within seven years of publication, in which case copyright was for 42 years. This was important. In making the author the basis of the term for which his creation was protected, it shifted him to the centre of copyright, taking the focus from encouraging the public to learn, to encouraging the author to produce and

publish literary work that would be of lasting benefit to the public (Dobie, 2001). This shifted the relationships between and expectations of the public, publisher and author of the work. Although in theory the author benefited the most from this shift, the publishers - whilst they were an essential part of the dissemination process - still stood to gain as much, if not more, as they continued to profit for years after the death of the author (Garofalo, 1999).

In 1838 the first International Copyright Act had been enacted and, to account for the fact that “*music, more than other arts, easily crosses national linguistic and cultural boundaries*” (Laing, 1991) it was extended to include musical works for the first time in the 1842 Copyright Act. Only a couple of decades later, Edison’s invention of the cylindrical phonograph in 1877 (Barfe, 2004; Katz, 2004) signaled the birth of the music industry as we know it today. Before 1877, the only way to hear music (that you did not play yourself) was to ‘listen with your feet’ at the concert hall, piano concerto, drawing room or other venue where live music was being performed (Eisenberg, 2005). The ‘song’ – its creation, discovery, protection, licensing, exploitation and resulting income – was the focus of the music publishing industry (Burnett, 1995) and publishing and selling the sheet music for such performances was their revenue source.

Critically, the phonograph represented the transformation of music from an intangible service to a tangible object (Katz, 2004) a product which could be commoditised, packaged and sold, allowing a commercial industry of record companies to crystallise around music which had traditionally been supported only through personal or religious patronage rather than commercial acumen (Eisenberg, 2005; Leyshon, 2001; Garofalo, 1999; Laing, 1991). Initially there were several competing systems of recording technology (Gronow, 1983). Each produced the devices which reproduced sound, each set up the industrial plant to reproduce these sound recordings, and each made both of these available to the end user (Negus, 1993b) so it was predictable that they would eventually become involved with the production of the music and the management of the artists whose music they were recording.

In 1909 the USA enacted the US Copyright Act which revised the law to include the concept of a royalty payment to the publisher for every cylinder, record or piano roll reproduced – so called ‘mechanical royalties’ (which became known as ‘mechanicals’). Just over a year later, in 1911, UK copyright law was amended to include ‘talking machine’ records for the first time (Frith, 1988; Aldridge, 1964) and included the US concept of ‘mechanicals’ as well as ‘performing rights’, collected by the Performing Rights Society (PRS). From this time on the music industry was dominated by the manufacturers or ‘record companies’ (Eisenberg, 2005; Kretschmer et al., 2001; Frith, 1998). For these, with 100% ownership of the rights in a sound recording (through their purchase of the copyright from the artist), and frequently with 50% ownership of rights in the composition (through their wholly owned subsidiaries the publishing houses) copyright generally established them, and not the author, as legal rights-holders of a work.

The development of radio in the 1920s together with the economic crash of 1929 helped to contribute to a dramatic decrease in the sales of records (Kasaras, 2001; Chapple and Garofalo, 1977). Radio made the reproduction of music available in the privacy of people’s homes for far less than the cost of a record player. With this in mind, the record companies started to look at the success of the PRS in collecting income from the public use of its songwriter/publisher member’s material. Under the clause of the 1911 Act treating records ‘*in like manner as if such contrivances were musical works*’, they decided to insist on the payment of such rights by restaurants, clubs and pubs for playing their records. The result of the Carwardine case (in 1934, in which the Gramophone Company took a restaurant to court for the unlicensed use of one of its products) upheld the Gramophone Company’s claim that the owner of the copyright in a record – its manufacturer – was ‘*the owner of the sole right to use that record for a performance in public*’. It was at this point that Phonographic Performance Ltd (PPL) was set up by manufacturers to administer these new rights.

The introduction of radio was followed shortly afterwards by the application of sound to what had been the ‘silent’ movies. This led to a wholesale reorganisation of the recording industry, which became an integral part of a wider ‘entertainment’ industry (Negus, 1993b; Gronow, 1983). Copyright law was, again, not slow in catching up with these new technologies and in 1928 the Rome amendment to the Berne treaty incorporated broadcasting.

The Disc Jockey/record convention arose because it was cheap (no sound effects, scriptwriters, special technicians, union fees and so on) and because it delivered a new market of listeners which could be delivered to the advertiser. Initially the DJ – or, behind the scenes, the programme director – had to please a lot of the people a lot of the time. So those records that were already popular and selling well, or those which were likely to become popular and eventually sell more copies were play listed. This helped advertisers to balance their investment in the medium against the audience it attracted (Eisenberg, 2005) and, as Jody Berland has noted, “(R)adio is inconceivable without music, which has become indispensable for its schedule, its income and its listeners” (1990 p. 180).

The radio networks of Berland’s native Canada, as well as in the US and Britain, were the most important promotional outlets for recorded music, setting programming agendas at radio stations and influencing the talent acquisition policies of record companies throughout the world (Negus, 1993a; Chapple and Garofalo, 1977). This was the first time that copyright holders’ - mostly record companies’ - sources of revenue shifted from sales to royalties (in essence, a percentage of the retail price) from the broadcast and performance of copyrighted works (Dobie, 2001).

Newly developed technologies assist in circumventing copyright restrictions and so it was that traditional limitations and exceptions to exclusive copyrights were updated to account for the impact of technological development. The Berne Convention for the Protection of Literary and Artistic Works of 1886 first established the recognition of copyrights between sovereign nations by application of the so-called Berne three-step test, a set of constraints on the limitations and exceptions to exclusive rights under national copyright laws. The most important version of these tests can be found in Article 13 of ‘TRIPs’, the World Trade Organization’s (WTO) 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights, an international treaty which sets down minimum standards for most forms of intellectual property regulation within all member countries of the WTO.

This reads:

“Members shall confine limitations and exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the rights holder” (each of the three tests underlined) .

The WIPO treaty provides authors of works with control over their rental and distribution which they may not have under the Berne Convention alone. These rules are enshrined in US law by the Digital Millennium Copyright Act of 1998 (see <http://www.copyright.gov/legislation/dmca.pdf>), which criminalises production and distribution of technology that can circumvent measures taken to protect copyright, not just breach of copyright itself: “No person shall circumvent a technological measure that effectively controls access to a work protected under this title”. (Section 1201 (a) (1) (A) <http://cryptome.org/eu-copyright.htm>)

Critics of the Act have argued that the DCMA changed the traditional laws of copyright mostly at the users’ expense – i.e. the expense of the doctrine of ‘fair use’ (Ross, 2005) described below. So although the author of a piece of work protected by copyright was centrally placed within the construction (and frequently the defence) of copyright, the original authors of a work frequently gained very little direct revenue from copyright while the publisher gained the majority of revenues. This was despite the fact that publishers frequently cited the author’s rights as the cause to lobby for longer protection (Albini, 2005; Hallberg, 2003; Love, 2000).

## **Appendix B – Phone call notes 26<sup>th</sup> July 2004**

JB-KHP

Finding copy very hard, esp. fitting ‘live with it’ in without it sounding aggressive. How about ‘everyone has a voice’? Need to encapsulate participation, equality, original music, (voice=voice *and* music).

Popkomm – to pass by FJ in case he thinks that it is too early to promote the company.

Artist and audience and technical FAQs required (technical issues such as player not working on I.E. on OSX because of a conflict with I.E. and Java. RF’s work around – use Safari not I.E.

Postpone Beta testing – need to give them a list of things to look for (and also ask them to keep eyes open for anything else that bugs them). CM is pushed for time to upload music. Email to all re uploading more beta tester names on the list on central space

Agenda for 17<sup>th</sup> should include mPoints (exactly what they are, how they are accumulated etc); strapline and everyone’s thoughts on it; brand image (i.e. we need – like karmadownloads – to have 3 or 4 fixed statements that encapsulate who we are and what we do. To go through FJ/SJ/CM emails for hints.

KHP asked CM to write one page for ‘about us’ – as a ‘message from our founders’. A personal not a corporate statement.

PR – need CM to be the face/voice for the industry.

## Appendix C – Notes from meeting 20<sup>th</sup> January 2005

3 tapes

Tape One

FJ/KHP/CM/MH

FJ - Phil has done us a favour already by mixing Colin's stuff at mates rates

Same with Sam who can help us in the future (NB100206 JB - rang KH - and reminded her about this and KH - will ring Sam re publicity for Slides on the back of this reminder) So why not give them a couple of hundred shares each. Small amount, bolsters us gives us credibility – they become ambassadors then with shares become even more tied in.

CM - manna from heaven – Phill Browne's CV is frightening – mixed 5 robert palmer lps 2 Bob Marley lps, written a book 30 anecdotes of real industry stuff. Get a cheap book out through the Hong Kong connection – put a couple of chapters on the website – it's the blog of blog. Right up Nick Hornby connection. Quite a nice attack on the press – the bok of the website – if he would do a couple of things for the MZine too (JB) yes (CM) he is the sort to update his information

JB - What about Sam Wright

KH- had lunch with her one day this week gave me some really useful pointers about what sparks peoples interest, getting TV etc. How more likely to get TV if press first etc.

Conversation about the Noise Next Door, having some points of their income for support rather than advance and recoup. (07.43)

FJ - objective for today is to review marketing plan. Number of strands – mVine as a concept getting that to marketplace. Then targeting voters, artists, how we will market Vand Christie. We are all starting to believe we will have a launch date of mid march – though caveat (will have warts). E.G. may not have online purchasing (KH - Tune Tribes don't have that) though we can still have purchasing on the web even if it is a manual process. Functionality is improving nicely. Graphically I suspect it wont appeal to all of us but if we can evolve from then that's the date we can stick to.

KH - we won't be naked when we launch

JB - AIM is re-launching

FJ - most peoples websites don't come of age until the third version, so we need to look at tasks and timelines and priorities. First can we spend 5 minutes on what our brand is. Brand values. MVine is 100% genre free – lots of debate on this – but as message to marketplace – first 5 words are what set the scene for people and this is not what should be those words.

KH - make it the 2<sup>nd</sup> or 3<sup>rd</sup> thing?

FJ - yes. IN that first sentence we have to say 'great music – doing things differently – asking the punters' THEN to describe in more detail. In case people don't read the second sentence.

JB - get involved in creating great original music

KH - I have started interactive digital independent record label

FJ - great line – then go on to say 'we engage the audience ' what does that mean ' its about getting our audience to participate

CM - other way round. As there is a proliferation of new launches now strikes me to avoid being apologetic, we have to say in first sentence underline what is different. Interactive is fine – we know what it means – in other peoples minds it might mean less than it does to us. Have to emphasise that it means they can determine where the site and label go and grow rather than just press a button and something happens.

JB - should we start with 'were not this were that' to stop comparison

FJ - I don't like referring to competition of negatives. Don't have to defend what we are but promote it. Also perhaps to get away from anything that conjures up images of the Internet – that mindset – oh internet – not interested. Over last 3 months had so many people saying to me 'oh yeas there's someone doing music on the internet just like you' well fuck off!!

JB - Had two phone calls when the Dragons Den was n TV the other night

FJ - Same thing!

JB - 'Someone doing JUST what you are doing!' and yet they couldn't have been more different if they had tried!!

FJ - yes so the message needs to change so they cannot make that mistake.



CM – I agree – what F says is right- if its we know what we are doing in terms of underlining the difference. What we are describing as interactive is actually determining where acts end up

JB - influence as opposed to interactive

CM - absolutely – and we are trying to work with acts that are big on visibility – our first two acts – the fact that they are out on tour makes it a lot more exciting. Its not like this remote site in America, this CD Baby which is a fucking warehouse miles away from anywhere with nameless people in bed sits all over the country – its about bringing it back to reality. I am not a wordsmith and I don't know how to say that but

JB - that's a lot to put in one sentence...

CM - but you know what I mean – its – its – FJ - said it – we want to say you can access it here but what it brings you is artists in reality. Bringing it back to the real which is very different.

FJ – I have tried this with lots of people – and said it a number of times in different ways. We are building a system where artists will be able to showcase their music and where people who buy music will be able to tell us whether its any good or not. And if it is then we will sign them up. Again words not perfect but sort of describes what we do without committing to a platform.

CM - nitpicking – not sign them up, but develop them, then offer what they have back to the people who have said 'I like this' so we are constantly developing sub brands that are re approved and re approved by users of the site and that, again, makes us very different to the pop idol thing.

KH - an interactive site for active artists and opinionated audiences.

All – like that –

JB - site or label?

KB - label –

JB - interactive says digital so we don't need site

CM - right to ditch – demote genre free. 100% Genre free is a bit misleading and might not make sense to all. Has to come allied with 'music' and a close second to the main statement

FJ - genre thing is applicable to people in the industry but not to general users

CM - it's a important side of it – I don't know much about art but I know what I like (and fuck you) – there is that element that we have to play to. Peoples' opinions being valued.

FJ - lets park this but come back to it – we need this key core critical first few messages.

Describing it in as few words as possible

KH - Nice tactic – strike out words til it makes no more senses.

FJ - SO (23.00) Middle of march. One of the things we have to do straight away is launch the brand. Get the feeling that attracting artists in the short term is not going to be that difficult if target to have 3-400 songs by mid march. That true?

CM - yes if we go to artists now

FJ - OK can we do that through contacts we already have as opposed to it being a specific marketing campaign? Tho MU and Michael might be able to help. That for me seems to be the easiest priority to tackle.

JB - 300 odd quality tracks?

KH - no any tracks – so 100 artists by launch

CM - shouldn't be impossible. so put email together which puts pressure on all of us to put lists together. I need to tweak that 'Approach to Artists'.

KH - T&Cs have to be in place before we can ask anyone to upload.

CM - we have got to have a meeting with Cto get a contract together because we already have FAs to put up there. I was on tour listening to CDs and its astonishing how ruthless you get and how fast. One CD is total 'heap of shit' but get them to post tracks on MVine.

FJ - part of long term strategy was for 'rather dull' and I am wondering if we may need to – there is something about the shite – we turn it into a virtue rather than a negative.

CM - Kenny Everetts worst records ever played – still sells!!

FJ - so maybe slider changes from +10 to -10...park it for now but lets revisit....Every ten tracks get a couple featured, 2,3 new to the system, (i.e. only 20 people heard it) and then mix of what's left. But to +ly say that within that 10 you are going to get something awful, cringing, toe curling, make feature of it!

JB - chimes with what I was saying to you about the chat function – moderation – perhaps we screen for average words, nice pleasant etc – had to have an opinion.

CM - because of popular culture – Simon Cowell influence – easy to knock something but constructively. Though can still say its shit. Apropos of nothing – Colin's record – has cask of whisky ready to be bottled. Cases of whisky – one case for prizes. Unusual promo tool. First 3,000 numbered records, 12 of them have a magic number and get a bottle of Old Big Nose

JB - with MVine logo on?

FJ - absolutely – a pre-requisite. Apart from those great ideas for the future – other thing about artists – we should target to an MU feature.

KH - in terms of timing its tight – 2-3 months lead-in for feature. But news bit at the start, should be only a couple of weeks.

FJ - Nigel McCeown said he would.

JB - turn contracts and T&Cs into plain English

KH - CD Baby have a really good example – really straight forward and clear.

FJ - now what in terms of marketing are we going to do ?

JB - online and offline easiest place to start. Online – simple – just a matter of writing the right press release.

KH - stick to 2-3 places initially? If we are doing this prior to launch

FJ - how far in advance to we need to contact online sources pre-launch to have them ready to know on the door?

JB - two weeks at tops if embargoed

KH - this is an email alert to digital music news, Music week, couple of other places

JB - have sent away from rate cards for PI, Q, NME, Nuts, Loaded, - a bit skewed because v male but not a bad place to state. Need initial list with highest coverage – then the obvious ones – MU, AIM, etc.

CM - Popbitch –

JB - no we don't want to be in there....iVillage, Salon, Handbag – but its TV news, soaps – more a magazine story approach and that's 2-3 month lead time.

Last thing we have to do is press release to online sites.

FJ - now what do we do?

JB - spend nothing until we have some free coverage do a budget for 500, 1000, 10000 and tell you what you could do

FJ - no just tell me how much and we will do it.

KH - I urgently need to collate all the stories that we have.

FJ - do we need extra resource to help with mechanics of what we need to do?

JB - don't think do?

KH - no and we need to build the relationships otherwise we lose control.

JB - this is another thing that we can do if I come done next week or next week – start to have journo meetings, lunches

KH - Danny Ecclestone to interview CM - about Guitarist feature – 2-3 month lead time. Need to start that now.

JB - what about Justine/

KH - we need to decide who we want her to talk to – Nick Hornby is an obvious one...

FJ - as long as she is primed with the story then it doesn't matter who she tells/speaks to

CM - seems to work at more of a Groucho Club level. We cant call them, they would have to call us.

(49.32)

KH - have 2 ways in to financial press – my sister in law, and also our Bank Manager mentioned that he was – before he was in banking – did a journalism degree and does financial journalism on the side if we want him to write about MVine....

General laughter – Oh OK then!

KH - so I sent him some stuff. And will talk to Vicks about FT. Talking about press, better going to online versions than print versions I think. Faster to print, more space to add if they like an idea, its easier to get picked up by online versions.

FJ - everything we discuss needs to happen week or two before roll out. What do we need to do now?

JB - PR wise, the Friends Reunited story, the family story – those are a conversation that need to happen now for publication in 2-3 months time.

FJ - seem to – can we have a list of what they are?

JB - yes – there is a list of ideas on central space.

FJ - we need to sequence them – a FR may be more interesting further down the line, rather than now

JB - yes and there is a CH one as well which will need to be dealt with now to allow for lead time

CM - its like – if we look at tunetribes and their sustained press campaign since November – there is still no sign of launch. The story – we have all these sub stories – but what it is and why it is the Groove Armada thing did them some good. With this we have to do the same – what we are is the main story. With my name, its difficult because there are so many strands to it – Peggy, Ewan, my Uncle mike in the new Bob Dylan book...Its like the succinct story that - In the same way in the press that Tune Tribes have got, pick up the points – new market model, new route for artists, name attached to it and that's about it...

JB - except since they appointed a proper PR company about 6 weeks ago, the whole Groove Armada thing has completely repositioned and they are now using Groove Armada to support the whole T thing as opposed to it being TT, which one member of Groove Armada is involved with.

CM - classic PR – taking the name and using that..

KH - we have the advantage that CM - is not a brand but a single person who, with FJ, is heading it up, and we look at what we can do promoting you – and the same with FJ - not a subbrand, you are the brand

CM - heritage, kudos, but that is all about MVine. My point is that its about rolling out a story is devastatingly simple new label empowering new artists, democratising ...what e need to do is nail down a few things in this that are different. For me 'charge what you want' is wrong.

FJ - completely wrong

CM - this is really big hot potato and getting bigger. Vasked me about licensing – possible licensor in SA (59.16). but this very peculiar problem coming up all over the Internet now. RRP is real issue – if there is an RRP but can get it in Cape Town for less because of the economy, then we are fucked, and it's a real issue because of the internet. Everyone agreeing that everyone trying to undersell each other really undercuts the artists and therefore the quality that can be handed back to the punter

JB – the decoupling of value creation from revenue

CM - and if we have a press release (60.00) which sums up what vine is in that much so there is a story for people to get their teeth into I think that might be one of the – one of the points that we take – this is all a red herring is a like any other market. If it is allowed to be free for all, anarchy, its not going to serve anybody. So our line is – its about quality, about a fair price, but a set fair price and fuck you. Fuck you with your 40p downloads because its just shit. That's- hang on – if we are learning from TT then what will excite their imagination – that will. The genre-isation of things, the liberation of peoples tastes is the second prong, and the third is true interactivity, which translates into the real world in to brick and mortar, its not a sham like Pop Idol where it was all decided in advance, or X Factor. (Tells anecdote about **B** Brookstein). If we can get this across, this third prong, not perceived interactivity, but real interactivity. All three things are really inflammatory.

Third one is calling everyone else a liar, but then a lot of them are

JB - quality and setting a fair price second one

CM - is flying in face of way TT, iTunes work and the second one, liberating peoples taste, is flying in the face of the way that records have always been sold. (63.02)

JB - and other stories come later. And if we get it right, they will come to us.

FT would be key – credibility.

KH - nothing recent at all

CM - the FT might be interested in 'where's the money' and the 'low expectation of sales – relative success'. Nobody dares to talk about relative success.

JB - no because they are all too used to Pop idol where when you will you get a Million Dollars ....!

CM - I am talking about its OK to sell a small amount and build slowly. It's all skirted over. The FT – even though it's erudite and well read, there is still this credibility gap in the industry that nobody questions. Nobody questioned that Ft TT thing the way that artists are developed and reputations built so if you were open about relative success – yes we have an artist that might be able to scratch a living with a part time job, over their first album – but that's reality pal!

FJ - what was odd about them was that they talk about signing so many different labels *whilst they were raising their funds*. I would be very surprised if those signings were genuine signings.

CM - It was an odd thing to admit to

FJ - yes because anyone admitting to that

JB - relative success – Jamie Cullum has sold 2.2m albums and is still a long way off recoup.

JB - that's scary

FJ - very

CM - backtracking a bit – financial institutions don't question this – because it's in the semantics and the language of the music industry and Tune Tribes has said 'oh we have signed this and we've signed that' – hang on a minute – nobody knows what that means! 'You've signed this' and 'you've signed that'. Technically if you like we have all signed each other two hours ago! But that means nothing – no money changes hands, there is no commerce, but because it's the language of the record industry signing someone is this big golden portal of success – though it means nothing.

FJ - and what's perfect about that, the people who are writing about this, even the FT, have no understanding of this particular business and that gives us an opportunity to make a friend and to educate somebody. Because of what you say, what's being written is complete drivel. And they are looking for stories – because music is such a hot topic. 4 years ago the Internet was the hot topic.

KH - perfect example yesterday, a piece of research that you sent through (JB) about downloads market being bigger than the singles market – hit all of the broadsheets in hours.

JB - DCMS paper on funding crisis in the UK music industry which nobody has really picked up on, which we could use. I will ship it on email,

CM - is there any way with a paper like that of distilling it, just a paragraph as a taster, so we are in a situation, we can fire back the guts of it with links to the main points etc. We should be maximising what YOU do (JB) there are so many camel hair coats in this industry – a smart journo WOULD ask those questions and to suddenly get this barrage of ‘right there’s this para, this one and this one here’ showing this depth of research I think might ....

KH - that is what we want for the press room – we are constantly linking to new bits of research and doing their work for them

JB - yes – so we are saying to them ‘this is what is says in outline – read the full deal here’ providing a service

FJ - going back to bang manager – can we empower him to do some stuff for us – he is looking for a Trojan horse.....

KH - we could – he is absolutely up for doing anything – wants to move into £ journalism and is happy to use us as a story. (69.33)

FJ - an interesting one to leverage

JB / KH - we need to reconvene – sorting out diaries for week of 31<sup>st</sup> jan 05. (71.19)

CM - just before I press on I am really busy – mainly on MVine things and Valbum etc...no time off between now and Feb 24<sup>th</sup> but contactable. Have list of things here and we will liaise with how things go on licensing things with Colin.

If we are heading towards April May thing have to talk to FC about CV support and CH so could put together showcase which would serve as album launch for both of them. Has to be done by 2<sup>nd</sup> week in February before I go off to Europe with Ronan. If Hong Kong deal (print and production) happens we will have to have parts going to Hong Kong by 2<sup>nd</sup> week in March. As soon as we know what is happening with any artists we need to know you and K get your heads round each individual one – local press, local radio, local contacts, KH - us being able to put together a cogent press pack on each artist so we have something to send out.

## Tape Two

002 – bangles conversation

003

JB - Schedule is week before launch will ship it out and see what happens – needs to go online first – not a wham bam launch date . See who picks it up. FT, MU, MW – worth finding just the right person.

Student radio 02.38

### *Borg conversation*

JB - AIM was interesting – Music Industry on the Analysts couch. Music Tank event on Tuesday night. Would have been good to go but they transcribe all events and put on AIM website then Musicindie.org.uk can get all transcriptions of all meetings – really useful to me particularly. Its like having one to one interview with someone. I am also triangulating this with interviews with other people in the industry which gives me a great source of useful names because I don't know that many really in the industry. Also looking at majors for who is the most useful – head of digital.

KH - is this a good time to put some soup on

JB - yes it is I will stop recording – please nobody say anything interesting, OK? I want bland, dull lunchtime conversation please.

004

JB - aiming to go live by March 15<sup>th</sup> and gently roll out so that there is not one particular date it's a gentle roll out. Update for MH - of what we have gone through.

FJ - describing who and what we are – can we include the word community?

JB - I am not sure

FJ - discuss! Or not!

KH - don't see why we cant use the phrase building an interactive community

FJ - an engaged community?

Urrrr

KH - like the community word, word of the moment,

FJ - remember moons ago we were talking about the kitchen table - described in a cuddly way some elements of what we are doing.

JB - OK will bring it in.



Moved on to update with MH - again and tune tribes activity with FT.

.....

JB - Raymond wants an hour when we are all online at once so that RF can beta test.

(12.00) chat chat

(14.40 004) – ongoing chat.....

KH - JB - lets see if we can get to MU and AIM

FJ - any others?

JB - I can find the list – Central space somewhere...

FJ - do we put the AIM and MU logos on our site? I think so. MH - you know of any/

KH - we must go into the Unsigned Guide – absolutely have to be.

JB - – worth a personal contact with Gerhard Leonhard – ask him to the Digiplay seminar I think!

FJ - ego ego but possibly could get him onside and he could be one of the first evangelists.

Could be good from a research point of view – your shout

JB - what have we got to use, he is going to have an opinion about us anyway, so I may as well. He put himself on our beta test list after all...

FJ - did he? Oh well go back to him then, definitely, stroke him and say listen you want to be one of the very first to break the news out there...

JB - OK will do that and get him on the beta test(18.43). And possibly seminar.

KH - looking for list of useful contacts of places we should join

FJ - out that on the list for now

KH - OK. At the risk of making ourselves write another document we need to work out which mags we are going to write to with which stories, and when.

JB - monthlies glossies not online

KH - yea. I think that saving those up for CH and CV stories and bring MVine in on the back of it. Apart from the obvious music papers...

FJ - is that a tactic – to avoid all the music press

KH - no that will piss them off

FJ - if we use the MU and nothing else they might

FJ - we are trying to get controversial

MH - perhaps not the IPC media, the smaller outfits

KH - yea the IPC media guys are so jaded.

.....

Chat about PR lists, documents where to put stories etc (26.02)

...

MH - Central Space: do we know how each individual needs to be contacted? I did have on the central space

JB - I am going to dedicate a day to refilling – I am sure I am wasting time duplicating effort here

MH - is it worth us having somewhere not live to the world but on the site, some space where we can put these documents and work on them together?

JB - yes we have the Central Space – heard of this?

MH - yes

KH - have all the databases on there, you have access to it

FJ - have to download some software first

JB - important that you do that cause everything that we have all been working on is up there – so we are all working on one document so we are not reinventing the wheel.

KH - update on contacts of Central Space

FJ – Fan Clubs – pinch points

JB - your pinch points like my iteration – word of the day (31.20)

Whole long conversation about fan and fan club spreading the word. Personal approach. (34.31)

FJ - split band names into sections for JB, KH, MH

MH - don't want S – more Ss than anything else

NB another personal exercise like personal calls to artists

JB - writing to administrator of smaller sites rather than blanket email – same thing on forums, rather than posting advertorial.

45.20

Conversation about message boards

FJ - Those where we start the thread, or those that the punter starts up.

Chat not same as discussion. Message board not live – posting and moderated (possibly)

KH - makes sense to have a Vsection, Christie section – about making sure message board is understandable by people who use message boards.

FJ - look and feel need to be changed but not priority.

46.39 FJ - we are covered promotion over the next two months

FJ - MVine voters audience and artists. Vand Christie update.

005

JB - Oh no I told you - Don't say anything interesting if I am NOT RECORDING it! You are talking about a very interesting Vand Christie thing and the tape stopped.

KH - update on Colin,.

Also Ella came in (03.53 005)

12.36 – a lot of criticism about McFly recruiting 'chairman' in each school – lots of cynical articles about using – exploiting kids to market product

FJ - at least there is some benefit – kids can post their music – but you are right there is something there

JB - something to clarify – minors - <14 years. can't anyone use it?

KH - why should there be a limit?

FJ - more about showing intent.

JB - get FC to clarify this.

KH - we all have to write FAQs

JB - cant leave it to beta testers. On to Marketing with Vand Christie (unless anything else that V said to you – what an interesting conversation!) (16.35)

JB - can we put that sort of conversation up on MVine – sounds really interesting!

KH - well it was very long and rambling, he was a bit stoned...

FJ - it might be something better for the micro site – if we do that

MH - I can do a standard HTML one

FJ - fantastic. Do it.

JB - FJ - conversation about Mason, piece of software – JB - remembered as was in case study that has just been accepted by IJCEC (congratulations btw from KH) thank you all for your help – couldn't have done it without you!

18.54 MH - happy to take over the microsite So can I do an interview that goes on musicoMH straight away and be duplicated on the microsite. Small little press page on micro site etc. Really up for it – separate lyrics book, up for doing things – book of lyrics

photos etc, CD mounted in the back like kids books – really up for relaunching. Another way of packaging him.

JB - yup – brand extension

KH - from notes I took yesterday I could transcribe them – more like him quoting Ibsen at me every 5 minutes.....

JB - you didn't inhale did you dear

KH - unfortunately I did! Will try to type it up in some recognisable form.

Then we go into press, get actual quotes we can use and do telly at the same time. Has particularly good relations with Jonathan Ross who has been very supportive – does radio 2 and TV . Andy Davis is J.Ross's radio producer and a v good friend of Colin's. Last year JR had Vin for a couple of sessions. Also given KH - list of those who were supportive of him at R2.

MH - how many copies of album?

KH - Have as many of albums as you want. Want to put a proper press pack together. He will be interviewed anywhere any time we want him. Need the whole press pack – highlighting specific tracks etc...

Go to 25.19 End of Tape

In terms of Christie I am still waiting to hear back from FC. Would love to get fly on the wall documentary done in Ireland, is v irish, has v strong following

Tape Three

Squeaky mini disc

003 Historically he has sold up to `00 albums a night – quick maths – we can probably flog 3-4000 on the tour alone.

KH - promotional discussion about what we are going to do with Christie.....list of journalists

Lots on CH that we can do, he has v loyal following. Lot of folk/Celtic Connection websites put their tentacles out a long way.

JB - send CDs to Ryan air and Aer Lingus

MH - – so site launched mid march – then another month to launch of album...?

FJ - something like that.

FJ - Can I ask you something – when you are writing this up can you pull out who needs to do what by person? Once there are lists for everyone then next thing is to put dates next to each of them and that's for each person to do.

JB - So put To Dos all at the end by person, then issue is to get them to individual people and ask them to put dates next to each – I will put tentative date there before sending out. Report will be by issue, then to dos at the end.

KH - – Sparkling elderflower wine to celebrate signing of signatures on contracts.

## **Appendix D - Transcript of IM conversation 8<sup>th</sup> February 2005**

AIM Chat with B <yusoshi@mac.com>, K.

11:51

B: test text message can you read this?

M: Do you need another 10?

B: ah ha

B: there you are

M: Sorry...I was in the other room..

B: so - all three of us can conference

B: yes?

M: OK...

K: yes

11:55

B: tech heaven!

M: Hi K

K: hi M!

B: K's going to be getting a Mac soon

M: Thank god for that!

K: next 10 days

B: so when Tiger comes out we will be able to video conference

B: very useful

K: heaven forbid

M: It'll be much easier than all of us speaking at once...

K: shut up at the back!

M:

M: where shall we begin chaps?

B: ok - where do we start?

B: ha ha

M: Do you want to give me 2 minutes to blah?

K: M, i want to outline the basic position as per my e-mail to C- are you familiar with that?

M: Yes, but maybe you should reiterate?

K: hold on while i cut and paste

K: ok - problems with cut and paste - i'll type instead

B: i can help

M: OK..

B: 1. The B\*\*\*\* album provisionally entitled 'Two Churches' to be licensed to mVine for 12 months;

12:00

B: 2. mVine to have worldwide internet rights only (on-line shop and downloads) with an option to

extend for a further year if sales

of 10,000 units or more have been achieved;

B: 3. We would consider a separate arrangement for Ireland in relation to putting the album into

shops,

(in light of their limited broadband capability);

B: 4. Nero Schwarz Ltd. (NSL) retains all other rights;

B: 5. mVine to advance £6,000.00 to NSL; (half of what was proposed)

B: 6. 50% royalty after recoupment of mVine's costs

B: there is no rule 7

M: OK...if this is negotiation, can we start from a position too and say what we'd like?

K: ok

M: 1. 'Two Churches' licensed for term expiring 18 months from release

M: 2. We're not happy with internet rights only, as we feel that this will compromise everyone's position and restricts marketing to internet only.

12:05

M: 2A (!). We'd like an extension based on 5,000 units.

B: shall we respond to each point as we go along?

M: Ok.... start with 1

K: 1. 18 months is a better option than 3 years, however, it still leaves us exposed to having a 'dead' album

B: if Mvine doesn't work - we don't have much left to work

B: we have to think about the 'what ifs'

B: 18 months is still very risky to us

B: on point 2

M: Of course, but as we said yesterday this is a leap of faith for BOTH parties. we need adequate time to make this album work.

B: your initial position was that you weren't going to put the record in the shops

B: so we had to have the rights to do this ourselves

12:10

B: and regarding time - you really should know if you can make a go of this record within 12 months

B: you'll have had to move on to another record after a few months anyway

B: leaving us a bit high and dry

B: with no rights to sell

M: Records in shops:- we want to approach bricks and mortar in all relevant territories and work with them.

B: well this is new

B: you don't have any relationships already?

B: we do

M: This may be where some of the confusion has been.

M: ....and we do too.

B: shops means distribution

B: and wholesale prices

B: and a lot less contribution to our bottom line

B: and moves our break even point even further away

M: Yes. 50% on our net receipts. What are you after from Bricks and Mortar?

B: we are already looking at options to license this record directly

12:15



M: Thought so.

M:

B: and get more promotion involved that's local

M: and....

B: frankly, Mivine are unlikely to be able to much outside the UK

B: at least at first

M: Why is that?

B: your marketing plan doesn't mention America at all

B: it's 50% of the d/l market

B: and we have to do something in that territory

B: Germany is traditionally a strong market for B\*\*\*\*

B: we may already be able to get a deal

M: Ignorance. What is d/l market?

B: download - sorry

M: 50%.....so far and changing rapidly.

B: yes but we can't ignore it

M: ....and not for breaking 'new' artists.

B: not true

B: my contacts are giving me lots of news about artists breaking via the net

B: and the 5,000 figure is not working for us

M: ...my contacts aren't, and we're every day at this. Music Week this week cites the lack of the ability of the net breaking artists.

B: 10,000 will not even break even on our recording costs

12:20

B: why exactly should we be with Mvine when we can do it ourselves?

B: even if we sold half as many - we'd make more money

K: having said that ... the big plus for me with mvine is the enthusiasm for the album and the marketing capabilities

K: ... and i would like to work M and Kerry

M: What else is there than marketing?

B: what's Mvine's policy about putting the record on Amazon?

B: or on iTunes?

M: What's your view on that?

B: sorry - don't understand your question

M: Ok.....in principle, fine, except we truly believe we can do it better. B\*\*\*\*\* lost in an ocean of product.

12:25

M: ...same with 'Tune tribes', 'CD Baby' et al.

B: are you going to put the album an Amazon and iTunes?

K: if you truly believe mvine can do it better, then i don't understand why a sales target of 10k units over 12 months is a sticking point. as you know, even after 10k units we still have not recouped our recording costs

K: why would we commit the album to anybody that didn't feel confident of selling in excess of 10kunits?

M: We're pressing 10,000 units to sell, not to stack. We're covering ourselves as B\*\*\*\*\* will need loads of input to increase profile from where he is right now. This process may take longer than 12months.

B: but you still can't answer our question

B: you're asking for exclusivity

B: we can't do anything else with it

12:30

M: ...and we wouldn't press that number if we didn't believe in this record. We feel you're tyingour hands with limited time frame and marketing possibilities. What else are you planning, if that's not a rude question ??

K: i think we need to cover ourselves as well - if we can't agree the sales target perhaps we shouldlook for the 'protection' of a decent advance

B: we haven't even got a finished record yet

M: Damn near finished....

B: we have an obligation to find out what our market value is

M: Understood.

B: also - Mvine is a new company

B: you are going to make mistakes

B: inevitably

B: do we want to be a test bed?

M: Alll labels make mistakes.

B: with our 'precious' record?

B: we only get one once every couple of years you know!

B: if we're lucky

M: With our precious company. And MY precious record.

B: or unlucky depending on your point of view!

B: yes - but you see our point?

B: it looks very dodgy

B: from a lawyer's point of view

B: and i haven't dared tell our lawyer what we're talking about yet

B: he'll think we're mad

B: no one does exclusive internet deals

B: there are too many options and new start ups happening every day

12:35

M: What exactly looks dodgy? Why will he think you're mad? We are not proposing exclusively marketing Vinternet only. It's in the marketing plan.

B: no - but you want exclusive rights

B: we can't sell it anywhere else

B: throughout the world

M: We're selling it. Together.

B: so can we do deals on it?

B: it's about rights

B: that's all we have to trade with

B: if we can already license it into a territory - why should we give it to you?

B: you have to understand that all these questions are natural ones

B: you would ask them yourself if it was your band

B: enthusiasm and belief is great

B: but it can only go so far

12:40

The AIM service could not send the message: A message or picture is too large to be transmitted.

M: This is based on way more than enthusiasm, **B**. We are all investing our time and money.

M: We can work it a damn sight more effectively with internet PLUS bricks and mortar and on the ground promo. I really think we can do better than Hypertension in Germany, for instance, as a powerful partner.

B: the marketing budget we were told was £10k

B: we put that figure in the spreadsheets and no one has challenged that figure since

K: i want to say that we really do want to go with mvine but it is a new venture and we have to be cautious. and let's be honest, none of us are in this simply for the pleasure ... everyone needs to see a return ...

B: that's not worth a worldwide exclusive license

M: So what is?

K: recouping our recording costs would be a start

12:45

B: you see i think your model doesn't work for us financially

B: you have to build a model where you can make a profit from low sales

B: but that doesn't pay our costs

M: Low sales pays nobody's costs.

B: 5,000 is no interest to us

B: none at all

B: we can do that ourselves

B: you know that

B: 10,00 is still a risk

B: sorry - missed zero

M: 5,000 is merely a guarantee of our extension.

B: but why would we extend?

B: we make no money at all?

B: V doesn't put one cent in his pocket

B: and you get another period

B: it just doesn't make sense

M: Because we aim to do a lot better than Townshends + others put together. It takes longer than 12 months to set up this album in multi territories. he can't be everywhere at once.

M: We want to build this album. It's not yer pop 3-month-life-span-album.

12:50

B: but can't you see our point?

B: if we can't get a better deal than the one you are offering, we'd be better off doing it ourselves?

M: I really don't think so. Do you want to discuss an advance, then?

K: would you cover our recording costs?

M: £6,000 to £40,000 plus in one fell swoop????

K: we suggested £6k being half of the mix and master budget - it was a token gesture given that we were going to pay for the mix in full.

12:55

M: What would you want for worldwide rights with an 18 month term?

B: there's no way you could afford it

B: we have to work out something else

B: you can't even prove you can handle worldwide rights yet

B: emphasise 'yet'

B: you may in time

B: and that would be great

B: we may sound like arseholes

B: but we are trying to figure out how to work this

13:00

M: We can't start to prove that from a grossly inferior position with both hands tied.

B: why tied?

B: what's your concern?

M: We can't have no control over bricks n M when all our marketing efforts stand to be completely undermined by other deals that you do.

B: undermined?

B: marketing would be enhanced

B: more effort in more territories

B: i don't even know if we can license a record to a local label when you have d/l rights

M: Exactly.

B: but i know some territories would want to buy stock from you

B: we've done this

13:05

B: if you have all the d/l rights - which is where we started - how does it hurt you to have someone else promoting it in 'say' Turkey?

M: We'd licence to the Turkeys in the usual way and endeavour to work with them/maximise d/l sales.

B: but why should you get half our income? we can do this already.

M: When was the last time you did a licencing deal with an indie that effectivley marketed Colin? Are you going to activley market instead?

B: but you can't market in these territories

B: we've had some good, some bad

B: just like you will have

13:10

B: there's no way you can monitor these people properly without a huge team

M: Internet marketing is global, and will be coordinated with on the ground efforts in other territories.

M: .....our team's bigger than yours. Ner ner ne ner ner.

B: bottom line is - this deal doesn't add up for us

B: we have to find a way of making this work

B: we want to work with you

B: but we can't give you worldwide exclusive as it stands

B: we can try some territories and terms and build it from there

B: if it works - we're all happy

B: if it doesn't we have the chance of doing something ourselves

B: we have to be more creative on the deal

B: don;t forget - as it stands - we don;t get paid

B: do you?

M: In what sense?

B: when do we make a dollar?

B: at what sales figure?

13:15

B: how much are you going to spend and recoup before we see anything?  
M: I think we all have to speak. This is going round and round and round. Is there any way we can all talk?  
B: you will be earning a long time before we do  
B: well we can maybe set up a conference call **B**  
Baker: maybe Thursday?  
B: I'm tied up tomorrow  
B: K?  
M: OK. Let's do it. Any chance right now?  
K: thursday's ok for me but i don't know if i have the technology?  
B: I'm bushed and my dinner's ready  
K: and my blood sugar's running out  
M: OK. Thursday. What time?  
K: i can fit in with whatever suits **B** - given the time difference  
B: let's confirm when we've investigated the technology  
K: ok  
B: unless you have a call-in conference thing?  
B: we did it once but BT dropped the service  
K: is that question to M?  
B: yup  
B: have you used one recently?  
M: Have to check it out.  
B: there was a BT thing - call in from outside  
M: Can you come down Thursday, K, and we'll video with **B** from here?

13:20

K: sorry M - i wouldn't feel comfortable with that  
M: Understand. If we can't conference, how else are we going to make this happen?  
B: we don't have to rush  
M: ....I'll check out the conference option.  
B: we don;t even have a finished record yet  
M: Yes we do.  
B: lets' review this conference and think about it

B: not according to V

K: who's he?

alum MacColl: It'll never be finished according to V

K: Vwho?

B: he's written this great new song - we should go back to SA and record it!

B: maybe do a gig!

B: get pissed

M: Sod off and have yer sushi.....

B: I'm hungry

K: could we get an advance?

B: will send rice

B: seeds

13:25

M: Byeeeeeeeeeeeeee!

B: byeeeeee

K: tara!



## **Appendix E – Triangulation interview, 23<sup>rd</sup> November 2005**

### **1. How do you know about MVine and what do you think of it?**

Got confused with MVine, not sure where he was or where he should go, so requested that where it says 'fill in your bio details' in body copy, perhaps a link directly to the page there (ie to fill in bio details 'click here', to upload tracks 'click here' - he said he knew it was only a small thing but he had been really put off by having to look around for the right place to be, when other sites make it easier. However MVine the friendliest site - had heard from me, MZine, and Kerry....Wanted a search function so I pointed him to the 'search for artist button, which may well not have been there last time he logged on. Will vote and comment when he has time. Suggested a specific page for uploading 'gigs' which I said I would suggest, but to put his info up on bio page for now and we would try to catch it all for the next issue of the MZine. Also just started wupadupa.com, if we want to link to them for reviews information - v small but happy to link it to us. Hasn't used Mvine much, simply uploaded tracks as part of an exercise in which he is getting tracks onto as many websites as possible - read out MP3, iTunes, CDBaby, CDWow, MySpace, garageband, DMusic, therecordindustry.com VItaminic, soundclick, randm....just the start of first of 6 pages.

### **2. What changes has technology made to your creation of or consumption of music?**

Its like I have control but also complete and utter responsibility. I would love to take all the time it took to work at this level but I would never get any music made! But I know lots of people who do. And even with my spare time, I can email and Facebook and get lots more notice than I would otherwise.

### **3. How is this different from your traditional activities in these respects?**

I made a linedancing track 3 years ago which has just about broken even, but its not about the money, is it? The label I was on at the time took anything that the record recouped. I

wouldn't go that way now, no way, I would be videoing my daughters dancing and slap it up on YouTube, wouldn't I!?

4. How has your relationship with the record label/consumer/artist changed as a result?

Well, its like I said, I wouldn't bother now, really. Why should I? They might stump up but they would be there with hands out if I made 30p. I would end up owing them £30. I can make more, and have a lot more fun, doing my own thing and building up my fan base by talking to them. Its so much more fun – and makes the effort worthwhile.

5. What in your opinion are the key characteristics of successful modern music businesses?

Connectivity. Talk to your fans one by one, like they really matter – because they do, and if you alienate them they can find something else, somewhere else, in a few seconds. Bugger the labels – what we need is dialogue not monopoly, and freedom, not control.

## Appendix F – TIM Report, 8<sup>th</sup> December 2004

TIM Report

08 December 2004

Note – italics are individuals own words, non-italics my comments, **red means action point**

**mVine is a 100% genre-free interactive digital record label for original artists and music.**

**Our vision is that by telling us what they think about new music that they listen to, our audience can become influential in its success**

**We get really excited about great new music**

**We'll never be anything but fair**

**Like our audience we're open minded, and realistic**

**We are looking for sustainable quality**

**We are about giving a voice to the audience as well as the artist**

**Registrations – 118**

**Latest:**

**None. Can all please make a point of rousing up a few more possible boys and girls for beta testing?**

**1. Frank Joshi**

**Summary of achievements**

- Dealing with Carrot and website.

**Critical issues:**

- Ensuring site in viable position to go to beta testing, including ongoing conversations with RF

**To do:**

- Reduce cost of E&Y input to shareholders' agreement.
- Working with FC on v3 of CV contract.
- Refining functionality of website with RF (including how shopping cart, 'tell a friend' and mPoints will work).
- In process of completing MCPS applications

**Projects owned:** Website development, legal/shareholding

**Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>:

W/c 13<sup>th</sup>:

W/c 20<sup>th</sup>:

January

W/c 3<sup>rd</sup>:

## 2. **Raymond Field**

**Summary of achievements**

- Has been waiting – is no more

**Critical issues:**

- None yet

**To do:**

- Setting up common elements and structure of website as handed over by Carrot
- Link back end to front end
- Adding functionality to back end where needed
  - Hoping but not promising to have some modular elements for us to see on 15<sup>th</sup>.

**Projects owned:**

- Delivery of functional website

**Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>:

W/c 13<sup>th</sup>:

W/c 20<sup>th</sup>:

January

W/c 3<sup>rd</sup>:

### 3. M

**Summary of achievements:**

- Met with Con Sunday, and gave her the roughs for Colin's album to listen to while she's negotiating with **B** and **K**, his managers
- She's also passed on a few more CDs of new artists for him to listen to.
- Had a good conversation with **B** (Jones) re: physical manufacturing of CDs in Hong Kong. **B** sourced the production of his own new album from HK and the cost per unit was extremely good, even given the low 2000 run. M thinks that we should be able to get physical costs down a long way if we go for 10,000 copies – he's going to talk to Frank about this. He's identified a chap in HK who can project manage the sourcing of this as it makes sense to have somebody 'on the ground'.

**Critical Issues:**

Bank Raid

**To Do:**

Bank Raid

**Projects owned:**

Bank Raid

**Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>:

W/c 13<sup>th</sup>:

W/c 20<sup>th</sup>:

January

W/c 3<sup>rd</sup>:

#### 4. Joanna Berry

##### Summary of Achievements:

- FYI docs as usual; all these will now come with header to let you know roughly what is in them; as Cpointed out and I subsequently calculated, there have been an AWFUL lot of FYIs and it's hard to find the one you want without more detail in the subject.
- *Meeting with Dr. Sarah Skerratt re: mVine project; wants to do a funded project on mVine and rural areas. Our idea is based on literatures that show yoof in rural areas are leaving at an alarming rate because they are disenfranchised/peripheralised/not 'connected' with the larger cities. What we are thinking of is a staged analysis of how mid band, broadband and wireless connectivity in these areas could help a revival of rural areas, crafts and populations by giving them a way to feel connected, empowered and of value using mVine as the indicator.*

*So we would assess what 17-21 year olds do between 6-12pm without i/net access as a control, and then assess how access (at varying speeds) and use of mVine would affect their time online, interaction, satisfaction etc etc etc. Or something like that.*

*She and I are still hammering out the detail but we want to use mVine because it allows for such a lot of engagement, interaction and community which is exactly what appears to be missing. Anyhow, it is all contributory to the Ph.D and would be funded (she would apply to the ESRC thus avoiding the issue of the Uni losing my studentship 'points') so its all good!*

- Kerrys response also interesting: “As I understand it, the rural areas that border the M4 corridor (relatively rural anyway) are more likely to be broadband connected, with the areas further from the spine (M’s explained it as a skeleton lying on its side, head in the south east, spine along the M4 and arms outstretched) decreasingly likely to be broadband. Would be interesting to have a demographic profile of current trends in drug abuse amongst the 17-24 group – I know that Workington in Cumbria has one of the worst records of youth drug addiction in the country. Might even be possible to get some commercial sponsorship from internet services suppliers or even poss gov. funding via Fergal Sharkey as the music “tzar” - “look how connectivity and on-line

music communities improve disaffection amongst the young” or something along those lines. We could certainly find a million ways to use the study for PR.”

**Critical Issues:**

- **Agenda items for meeting on 15th to me please**

**To Do:**

- Awaiting response from **B** Gordon.
- Outline marketing plan for Christie Hennessey; working on with KHP.
- Beta tester letter – working on with KHP

**Projects owned:**

- TIM
- Meeting agenda
- Marketing planning (with KHP)
- General information provision

**Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>: 9<sup>th</sup> ooa all day

W/c 13<sup>th</sup>: 16<sup>th</sup> 11-2 ooa

17<sup>th</sup> 2pm+ ooa

W/c 20<sup>th</sup>: 23<sup>rd</sup> 1pm+ ooa

January

W/c 3<sup>rd</sup>: back to school

**5 Kerry Harvey Piper**

**Summary of achievements:**

- *I have the stationery designs from Kit & Katie which we can look at during the meeting.*
- *Haven't managed to reach Michael yet, but have now emailed him. It's unlikely I'll get a chance to meet with him before next week now.*
- *Have been testing the site with Frank, picking up any problems with safari & firefox running with Mac OSX – think that everything is pretty hunky-dory now. Can't wait to get testing!*
- *Drafting letter for beta testers*

- *Been sending various documents through to all and printing them out this end so that M can read them when he's away.*
- *Input on website*

### **Critical Issues**

- *Still to do urgently – Christie's outline marketing plan* (Marketing plan (with JB) for Christie Hennessey (to involve possible interview, and background research). CM has had conversation with KHP and these thoughts will form basis of document to be worked on between JB and KHP)

### **To Do**

- Website copy – **please can everyone** look at the copy currently up on the latest iteration of the site and give their opinion directly back to Kerry? A good yardstick for the 'tone' is whether it's the way CM would talk to an artist/voter.
- Gathering list & contacting potential new input-ees on website
- Hassle CM about 'And another thing ...'
- Beta testing as soon as possible.

### **Projects owned**

- Website copy
- Input on website design & development
- Stationery

### **Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>:

W/c 13<sup>th</sup>:

W/c 20<sup>th</sup>:

January

W/c 3<sup>rd</sup>:

**8 CCotton**

### **Summary of achievements:**

- Met up with M – see above.

### **Critical issues:**

### **To Do**

- *Negotiating Colin's deal*



- *Finalising Letter of Engagement with Tax Advisers*

**Projects owned:**

- All legal

**Availability over Christmas**

December (ooa = out of action)

W/c 6<sup>th</sup>:

W/c 13<sup>th</sup>:

W/c 20<sup>th</sup>:

January

W/c 3<sup>rd</sup>:

## Appendix G – Sample itinerary for M

151004 – HP, by email:

*“M’s itinerary: Read it and weep ....*

### **Oct:**

14 - Norway

15 - Ireland

16 - home by lunchtime

17 - Acoustic recording

18 - Holland

19 - Holland

20 - Barcelona

21 - Barcelona

22 - Cologne

23 - home by lunchtime

24 - home

25 - mVine meeting

26 - 29 - recording with VVerncombe

30 - Switzerland

31 - Switzerland

### **November:**

1 - home (working with Peggy)

2 - home (working with Peggy)

3 - home (working with Atomic Kitten?)

4 - home (working with Atomic Kitten?)

5 - Basle

6 -home

7 - home

8 - home

9 - Recording with BBC  
10 - Recording with BBC  
11 - home (working with Tim)  
12 - home (working with Tim)  
13 - home  
14 - Portugal  
15 - Portugal  
16 - home  
17 - UK TV recording  
18 - Edinburgh  
19 - Ireland  
20 - Italy  
21 - Italy  
22 - UK TV recording  
23 - 26 home  
27 - Germany  
28 - Germany  
29/30/1 - home

#### December

2/3/4 rehearsals for tour  
5 - Europe  
6 - Europe  
7 - Tour starts ..... Home on December 23rd

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