

THE FUTURE OF DIGITAL MUSIC SERVICES IN THREE STEREOTYPES; HOW FOCUS GROUPS OF END USERS SEE THE NEW BUSINESS MODELS

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Abstract

“I am just a stereotype” sang Terry Hall in 1980. Ariola records took them in and made the band The Specials a world success. How will that process go in 2014? Will they put it on You Tube for free? Do they need a record company? Will they have less or more fans, earn less or more money?

Focus group interviews with 90 people between the ages of 15 and 25 were successfully employed to create 20 new business models for the digital music industry. Analysis with grounded theory revealed that a new business model is necessary and three types for future music services to create and capture value from digital music were found: Social focus; Artist focus and Extra Value focus. More than 50% of the research subjects put the emphasis on social functionalities of the music services, while the value network was underestimated. For artists we see opportunities and threats in the business models: on one hand they can use the worldwide niches to earn money, on the other hand the new business models do not seem to reimburse them enough. Finally, value capture is an overall problem that is best solved in the extra value focus business models. A combination of the three types using the best of each of them guides the way to a successful business model of the future.

Keywords: Digital music, digital music service, value capture, value creation, business model, music industry, digital music distribution.

1 INTRODUCTION

As Shafer, Smith, & Linder (2005) put it: “for-profit companies must make money to survive; thus, their viability is tied both to the value they create and to the way they capture value and resultantly generate profit”. When this fact is kept in mind and one considers the developments of the music industry since the introduction of digital music, one thing becomes clear: the way value is created and captured is inadequate. Consequently, new initiatives are welcome, but which?

Over the last few years the revenues achieved from the sale of digital music content have increased dramatically. The value of the digital music industry has in fact increased with a staggering 1000% between 2004 and 2010 (IFPI, 2011) . Despite this growth, the proportion of digital music revenue is still only 32% of the total revenue in the music industry (IFPI, 2012).

And even worse, making money in the online music business is still far from reality. Spotify for example, grew revenues by 140 percent to \$236 million from 2010 to 2011 with a paid-subscription base of 4 million users and a total of 33 million registered users (most of whom use the free ad-supported version). In 2010, Spotify lost \$57 million, which was an increase from 2009's \$42 million in losses. Similarly, Pandora, paid \$60.5 million in the second quarter this year for content acquisition (royalties to the music industry), a number up from \$33.7 million in the same period last year. But we see a trend in which these relative newcomers head on for their second chance to get into the market and compete with the big three players (UMG, Warner and Sony). It is expected that services like Pandora and Spotify in the USA and Europe will get a larger user base especially by bundling offers with Telco's and furthermore because there is an increase in governments easing out on royalties and copyright laws.

At the same time the value of the total music industry has declined by 31% in the same period. What this means is that digital revenue is increasing at the cost of other revenue sources (such as CDs), but the total industry revenue is still declining. According to the industry itself, these missed sales lead to the loss of up to \$4.2 billion a year worldwide (Choi & Perez, 2007). Parts of these losses might be explained by a shift in revenue streams towards unregistered parties, but nonetheless it is evident that new means to capture value from digital music are required.

Choi & Perez (2007) indicate that initially the music industry attempted to compensate for these losses by means of litigation, however this was considered not to be the appropriate course of action for the future. Jurišić & Kermek (2011) determined that by now the industry is investigating different business models, which embrace formerly illicitly employed technologies to create interesting value propositions with digital music. Most of these new initiatives can be described as digital music services.

According to Katsma & Spil (2010) a digital music service is “an Internet enabled service that principally offers music in an audible format to its consumers”.

We extend the work of Bourreau, Moreau, & Gensollen (2008), in which 5 business models for the online music industry have been derived by a survey amongst French record companies. This study is a worthwhile contribution, because it is more recent (the survey of Bourreau et al. was held in 2006) and secondly we take the opposite direction and do not investigate the sourcing part of the music supply chain, but the consumer part.

The main research question of this paper is as follows: How to create and capture value in the future from digital music according to digital music consumers?

As Magretta (2002) states, a formal technique to describe a value proposition and the means of value capture is a business model. Such a model describes every aspect of an organisation that is employed to create and capture value and to achieve its goals (Magretta, 2002). Therefore this paper will study business models of digital music services, which incorporate relevant value aspects for the future of digital music.

In section 2 literature concerning business models and digital music will be discussed. Section 3 will introduce the methodology which was applied to answer the research question. The results and analysis of this research are discussed in section 4 and discussed in section 5. Finally section 6 presents the conclusion and suggestions for further research.

2 LITERATURE AND DEFINITIONS

2.1 Business Models

Al-Debei, El-Haddadeh & Avison (2008) have attempted to unify the wide range of theories and concepts surrounding this subject. They have identified four dimensions of a business model. These dimensions cover what various leading theories suggest should occur in a business model. This paper introduces these theories and dimensions. Additionally the position of value creation and value capture in this context will be clarified.

In the study of Zott, Amit and Massa (2011) a total of 103 publications were reviewed. They observed that a business model is a combination of *value proposition*, a *revenue model (financial aspects)* and a *network of relationships*. Bourreau et al. (2008) explain that based on Casadesus-Masanell & Ricart (2010) a digital business model for the recorded music industry has two main components: a strategy of value capture (through the protection and sale of content or the sale of complementary goods or services) and a strategy of value creation via the meta- informational structure. This is a simplified representation of the business model definition and lacks the value network and architecture components from the Al Debei et al. model. The writers did not make a component-analysis of the other two streams. The components named by Zott, Amit and Massa (2011) seem to be similar to the ones identified above (while using the definition as starting point). The only major difference concerns the “network of relationships” component. According to Zott, Amit and Massa (2011), this component involves “aspects related to the network between the firm and its exchange partners”, hence not taking into account the stakeholders that indirectly influence the value creation process. The latter is what Al Debei et al. call value architecture.

Value proposition: According to Magretta (2002), Osterwalder & Pigneur (2010) and Amit & Zott (2001) this dimension describes the products and/or services the organisation has to offer along with the value elements incorporated in these products/services. Furthermore the targeted market segments would be depicted in this dimension. This largely describes value creation. Value represents what an organisation has to offer for its customers that other organisations do not offer or offer to a lesser extent. It results from one or more unique aspects of an organisation. In any business model it should be clear what product/service is offered to whom and what value that product/service holds for those customers.

Content delivery (e.g. Al-Debei & Avison, 2010; Bouwman, 2008)

Main part of the value proposition is the added value relative to existing initiatives. The content of the innovation story (Osterwalder & Pigneur, 2010) is the most important part of the business model canvas.

Target customers and end users (e.g. Teece, 2010; Spil & Kijl, 2012)

First question asked when making a value proposition is: “who is your main customer?”. In this study this is answered in the research design: young music listeners in the age of 15 up to 25 (RIAA, 2008).

Value capture: Shafer, Smith & Cantrell (2005), Timmers (1998) and Linder & Cantrell (2000) identified the information related to costing, pricing methods and the revenue structure. This dimension describes value capture: it portrays the monetary side of the value proposition: how will the organisation profit financially from that value proposition? What do the revenue streams look like? A business model should describe the revenue streams, which keep the organisation viable, and how they

relate to the value proposition. In other words both the costs and the revenue sources should be identified.

Cost sources (e.g. Al-Debei & Avison, 2010; Osterwalder, 2004)

The total cost of ownership should be considered according to Al-Debei and Avison (2010). They are not very concrete when they talk about costs but Shafer (et al, 2005) and Timmers (1998) make a more distinctive description with stable and variable costs, and direct and indirect costs.

Revenue sources (e.g. Al-Debei & Avison, 2010; Osterwalder, 2004)

Both the revenue structure and pricing methods should be considered in the value capture. Bourreau (et al, 2008) and Jurisic (2011) show that these factors are troublesome within the music industry.

Value network: Amit & Zott (2001) Bouwman et al. (2008), Gordijn & Akkermans (2001) and Tapscott et al. (2000) defined this construct by all inter-organisational relationships and their nature. Any organisation is bound to have relationships with suppliers, competitors, customers etc. Together these stakeholders encompass the value network. The positions of these organisations in said network should become clear in this third construct.

Suppliers (e.g. Gordijn & Akkermans, 2001; Zott et al, 2011)

There are many parties involved in a value network (Al-Debei & Avison, 2010). Gordijn and Akkermans (2001) call it a multi-stakeholder network. This is an appropriate description of music industry supply as it can come from many sources.

Partners

Timmers (1998) uses the term network actors but this study uses the term partners to make a distinction between suppliers and intermediaries. These partners can also be located in the customer side of the business model (Al-Debei & Avison, 2010).

As mentioned before, the components of a business model consist of a number of smaller dimensions and elements. Therefore the elements as mentioned in literature which comply most with the descriptions of the components above were selected.

2.2 Online Music and Business Models

We apply the business model framework to the music industry to illustrate the current state of business models in the music industry:

Value proposition

The first part of our business model structure, the value proposition, is in development as the music industry has been looking feverishly to generate new value or functionality in addition to the existing online musical content. We treat value proposition as: generating musical value towards interested listeners. Bourreau et al. (2008) describe musical value mainly from the perspective of the music industry in three aspects: i) the delivery of musical content, ii) the explanation about the content, or iii) additional content related to the musical content. This threefold definition is an extension to the single “listening to music experience” and we observe all three aspects, but not in an equal way.

i) the delivery of musical content

Currently the music industry is focusing mainly on this first “delivery of musical content” part. Sometimes this is deployed with an extended value proposition that is rather close to the listening or discovery experience. For example like automated (Pandora.com) or social network based (Last.FM, Spotify) recommendation algorithms support consumers in finding the music of their preference (Katsma & Spil, 2010).

ii) the explanation about the content

There are various services that either monitor and review releases, or publish background info on artists and their music (e.g. allmusic.com). Most of these current services that offer this value are financed via an advertised model.

iii) additional content related to the musical content

Recently there are some innovators within the music industry itself that match this third type. These services, often independent in the music industry, create substantial different additional value propositions to the listening experience. Bands like the Nine Inch Nails have done experiments in which they offer a comprehensive online channel, with forums, chat rooms and many other ways of interaction between fans and band, and amongst the fans themselves. Some of the big three majors (UMG, Sony or Warner) forced all the music videos of their artists off YouTube, but the Nine Inch Nails actually aggregate all the videos of their fans on one page.

The move by the majors proves a bad decision as the Nielsen 360 report of 2012 shows the majority of the teens listen to music through YouTube (Nielsen, 2012). The same type of value addition most recently is also deployed with photos. The release of a free iPhone app that allows fans to locate each other, and communicate with each other, while sharing photos and videos is a success. This elegantly shows current examples of value propositions by early adopters and innovators in the music industry.

Value capture

Different financial transactional models can be distinguished in the current online music industry. The typical Online Music Retailer (OMR, Katsma & Spil, 2010) like Amazon or Apple uses direct payment models. The personalized streaming services (PIR, Katsma & Spil, 2010) like Pandora or Spotify offer both subscription (van Dreunen, 2011) and advertised financial models, sometimes accompanied with the Freemium model (Cartwright, 2012). Both types of intermediaries manage the distinction between cost and revenues for the artists and stakeholders in the supply chain by making remittances to the artists based on fixed percentages, sometimes driven by country legislation. But in the music industry we see the same disintermediation phenomena, as observed in other branches.

The value capture channel is moving towards direct payments between consumer and the artists with examples like Radiohead (2007) or Imogen Heap in 2009. This type, also called “direct to fan”, uses micro payment services like PayPal to realize an accessible transaction model for the individual, and sometimes beginning, artist. On the other hand typical re-intermediation services are also coming up, sometimes even as a replacement of the classical record company. These services first start as a single financial transaction service focused on music sales (e.g. official.fm). But in some occasions these services extend towards specializing in marketing (e.g. bandcamp.com) for the beginning or independent artists.

Another different model we recently observe is the bundling with other related services like: live concert venues or the bundling of a streaming music subscription service with cable or telecommunication providers. Finally, some artists are currently experimenting with the most extreme type of the financial value stream in which the music or parts of it (tracks) become the value container and not the money itself. In this variant music is exchanged for music and artists mix and/or re-mix musical parts of DJ's and artists using music formats that are still in development (e.g. Mxp4). But monetizing this extreme value capture stream is still ill defined and clearly the opposite from the classical approaches that some record companies deploy via content protection. Like the continuation of selling music with DRM intended to guarantee the existing revenue stream as much as possible (Bourreau et al. 2008).

Value network

The value network specifies the structure to get the musical content towards the listeners. The Music industry has been developing the musical supply chain (Cartwright, 2012) with new ways that sometimes go hand in hand with the prior described value capture part of the business model. Styven (2007) shows three ways to transfer music in the value network: Directly from artist to consumer (mostly supported by direct on-line sales); by the use of a record company or other intermediary

(mostly supported by an on-line music provider) and thirdly between consumers (via peer to peer networks). Stafford (2010) further specifies this model from the consumer perspective by showing patterns for music discovery. He distinguishes between the rather individual pattern in which consumers discover and obtain music by searching or browsing the internet using various online music retailers or steaming services, like Amazon or YouTube.

In the other, more social pattern, consumers mutually suggest music via different ways, not necessarily using information technology, or people in social media networks share their preferences in artists and music. The latter distribution of content is recently extended by the rise of cloud technology. Services like Amazons Music Locker, Apple iCloud en Googlemusic offer consumers an individual distribution and storage service (Morris, 2011). This further development of consumer-to-consumer pattern by e.g. recommendation and sometimes even co-listening can trigger fresh touch points in the music supply chain (Solis, 2012) and make way for digital influence of consumers.

However, the current legislation and inheritances from the old days make it difficult to really transform the value network. For example, in the European Union online music providers are troubled by the fact that different rights are owned by different rights holders and are legally bound in different contracts managed by different collective management organizations. Besides, the limitations and exceptions from the Copyright Directive are implemented differently in Member States. This makes it hard for online music providers to negotiate the terms of use of protected works for a large territory within the EU. Multi-territory licenses could be a possible solution to this problem.

3 RESEARCH DESIGN

This section elaborates how focus groups were employed to gather new business models for the digital music industry.

According to Krueger & Casey (2000) a focus group is “*a carefully planned discussion designed to obtain perceptions on a defined area of interest in a permissive, non-threatening environment*”. They state that a focus group usually involves between four to ten people who share a common characteristic and generate data through interaction. The participants take part in a structured discussion with each other. This discussion is guided by a moderator, who is one of the researchers (Powell & Single, 1996). Data is then collected by taking notes and/or recording the statements and responses the group provides (Krueger & Casey, 2000).

Kitzinger (1994) advocates a method in which the interaction between the participants itself becomes the central point of analysis instead of the actual answers the group provides. This method is mainly used in health related research projects. However for this research the interaction between participants as a point of analysis is not relevant. The interaction will simply stimulate the development of new ideas (Lindlof & Taylor, 2002).

Participants for a focus group session needed to be chosen carefully as they are the primary source of research data in this paper. To allow the groups to generate rich data, Krueger & Casey (2000) advocate the use of homogeneous groups. The participants should share similar characteristics such as age-range and social-class background (Krueger & Casey, 2000).

In 2008 the UK’s digital music rights body “British Music Rights” (nowadays part of the collective body “UK Music”) conducted a research project into the state of digital music in the UK. The age-group that spends the most amount of time listening to digital music, according to their research, is that of people between the age of 14 up to and including 24 (ZDNet, 2008). These homogeneous groups are also found by the consumer profile data collected by “The Recording Industry Association of America” (RIAA, 2008). Additionally, the recent Nielsen 360 review shows older consumers (aged 45 and up) to decrease their spending on online music significantly, compared to the younger age groups. The participants for the focus groups in this research were therefore between the age of 15 and 25.

In total around 200 people were considered for inclusion in this research. After a selection procedure to ensure participants complied with the above-mentioned criteria, a group consisting of approximately 90 people were elected to take part in the focus group interviews.

These focus group interviews have yielded the following data to be analysed: video recordings from the business modelling results, written reports and notes that were taken by moderators.

Once gathering data, by performing multiple focus group sessions, was completed the need arose for a means to structure the data. In this paper we use the 'long table approach' as advocated in Krueger and Casey (2000) and discussed in Rabiee (2004).

The long table approach involves creating a table in which all answers from all groups to a specific question are put together under that question. This creates a (long) table in which all answers are structured according to their corresponding questions.

All video data was transcribed into business models according to the structure as proposed in section 2.2. The textual notes and reports were incorporated and added to this collection of business models. This resulted in a pile of similarly structured models from which the long table was constructed.

To form a well-founded theory from the long table and the numerous individual business models, a qualitative data analysis method called "grounded theory" was used. LaRossa (2005) describes a pragmatic method based on the leading theories of Glaser and Strauss. That paper proposes a three stage approach to grounded theory (LaRossa, 2005):

1. Open coding

The first stage aims to distil so-called 'categories' and their 'indicators' from the data. Every individual element of each business model was compared to all other elements of all business models. This one-by-one comparison resulted in a number of (more general) categories each of which is backed up by a number of indicators.

2. Axial coding

The second stage aims to clarify the relation of the categories with its subcategories. The relation of a category with other categories can be discovered by looking at each category individually and asking questions such as why, who, where, when etc.

3. Selective coding

In the final stage the core category is identified. This category is central to all other categories and allows the researcher to create an explanatory whole.

This three-stage approach resulted in the formation of a key category with corresponding indicators, which allowed identification of the proposed means of value creation and capture embedded in the business models. These will be presented in section 4.

4 RESULTS & ANALYSIS

This chapter will introduce the results of the grounded theory method (or GTM) analysis as described in section 3.

In the first stage of GTM, each individual characteristic as found in the sorted long table was compared one by one with all other characteristics. Every time a category seemed to be found, it was verified by comparing it again to all other characteristics and adjusted or discarded accordingly. This resulted in the identification of the categories presented in table 1. Stage two of GTM incorporated business model theory to identify the relationships among the categories. The final stage involved repetitively comparing and structuring the various categories. This process was continued until all categories were correctly represented as subcategories of a main category. Identification of that main category lead to the formation of three stereotypes as presented in the following paragraphs.

The main category is named the 'differentiating value element'. All of the analysed business models could be classified as containing one of three differentiating value elements that arose from the

analysis. These three elements are: ‘social focus’, ‘artist focus’ and ‘extra value focus’. In table 1 all categories and their indicators that resulted from the grounded theory approach are presented.

The grounded theory analysis provides each of these three groups with corresponding indicators for various categories. Together this yields three stereotype images, one for each group, which give a rough indication as to what the business models in those groups look like. These stereotypes are discussed further in the following sections.

| | | Value Proposition | | Value Capture | | Value Network | |
|-----------------------------|-------------------------------|--|--|---|--|---|---|
| Indicators | Differentiating value element | Content Delivery | Target Customers | Revenue sources | Cost sources | Suppliers | Partners |
| | Categories | Social focus | Website, Application, High availability | Social media users, Mobile phone users, Advertisers | Digital music sales, Advertisements | IT development, Content acquisition, Hosting | Hosting services, Artists, Distributors, Payment service |
| Artist focus | | Technically high quality content, Website, Application, Radio station | Dedicated fans, Mobile phone users, Advertisers | Sign-up fee, Digital music sales, Advertisements | Content acquisition, Hosting | Hosting services, Artists, Payment service | Artists, Telecom providers, Radio stations |
| Extra value activity | | Technically high quality, content, Website | People with an interest in an extra value activity, Advertisers | Digital music sales, Advertisements, Extra value activity | Content acquisition, Hosting, Extra value activity | Hosting services, Artists, Distributors, Payment service | Partners for extra value activities, Telecom providers |

Table 1. Categories and indicators resulting from grounded theory analysis

The following sections will elaborate the contents of table 1.

4.1 Social Focus

Value creation

In the socially focused business models, a strong focus is placed on social interaction to stimulate sharing and discovery of music. Users are able to share their music preferences, which encourages discovery by others (Komulainen, Karukka, & Häkkinä, 2010). Furthermore, tracks the user likes can be added to a personal music selection.

Several studies (Komulainen, Karukka, & Häkkinä, 2010; Liu, Yang, & Tan, 2012) indicate that social interaction has a large influence in a user’s decision to download or listen to a track. Komulainen et al. (2010) even identify social interaction as a ‘must have’ component of future digital music services.

The content is delivered either through a website, an application or both. The ‘high availability’ indicator refers to the fact that these business models stress 24/7 availability of the music content on any Internet enabled device, anywhere in the world. Haaker, Hetingga, Siegers, & De Vos (2007) identified that this aspect is crucial to raise the willingness to pay for digital music services.

Value capture

The social aspect is not only prominent as a means of user interaction and music discovery, but also as a means of financial discount. An example of such a construction is a discount on the purchase price of a track if another user purchases the same track after you recommended the track to him/her.

Pricing methods of these socially focused business models include a subscription fee and payment on a usage basis (pay per use, pay per track). Furthermore, parts of the offered content are available for free. As Gopal, Sanders, Bhattacharjee, Agrawal, & Wagner (2004) and Papies, Eggers, & Wlömert (2011) indicated, this freely available content is necessary to attract customers, since a lot of customers are accustomed to free music originating from piracy. In order to compensate for this partially free content, advertisement is appointed as a revenue source in these business models (Papies et al., 2011). Additionally Peitz & Waelbroeck (2006) concluded that free content may help customers to select tracks they will eventually purchase, thus still creating revenue for the music service in the end.

The most important cost factors include the hosting of the content, the acquisition of the content and the development of the required IT infrastructure.

Value network

The most important asset in the value network of socially focussed business models is the network of users. The users connect to each other through the music service, supported by some form of social medium. This constantly interacting network of users provides the most important source of income. From a user's point of view, the size of the user network, which in this case can be considered a communications network, constitutes an important value element. A large user base represents a strong incentive for a new user to join the music service (Shapiro & Varian, 1999).

The supply side of the value network largely consists of content providers. The content is acquired both directly from artists as well as through intermediates such as record labels and distributors. Furthermore, a hosting provider to host the digital content and the music service software platform constitutes a major supplier. In addition, in order to be able to offer a payment option that is perceived as easy by the users, the music service employs the services of external payment providers, which specialise in this area. Related to this is the cooperation with telecom providers. These were mentioned in the business models as partners to accommodate the billing process. This allows customers of the music service to pay for the music through an existing telecom subscription. This means the monthly telecom bill is increased with the amount of money spent in the music service. The telecom provider will then transfer that money to the music service, acting as a payment service and possibly charging a small fee for this.

4.2 Artist Focus

Value creation

Business models that could be classified as 'artist focused' emphasise the role of the artist in the user experience. These services may appeal to fans of a particular artist, because they create a closer relationship between the artist and his/her fan base.

Delivery of the content is done in a way to ensure technically high quality content, for example by employing audio technologies with superior sound quality or high-resolution videos.

Apart from utilizing both a website and an application to distribute the content, cooperation with radio stations may ensure a larger audience for the artist and at the same time attract new customers to the music service (Komulainen et al., 2010).

Value capture

As is true for the 'social focus' based business models, artist focused business models employ both subscription fees as well as payment on a usage basis as pricing methods. Furthermore, parts of the content are offered for free, for the reasons explained earlier.

The sale of digital music and the sale of advertisement space are considered to be the primary sources of revenue.

The main cost sources that were identified in artist focused business models are the acquisition and the hosting of music content.

Value network

A striking aspect of the value network of artist focussed business models is the lack of intermediaries in the acquisition process of music content. The music services rely as much as possible directly on artists, skipping the record labels, distributors and any other intermediate parties. Additionally, in order to offer a close artist-fan relationship, the music services work closely with the artists to create unique content and value propositions that might interest the music service customers.

As mentioned earlier, the artist focussed business models mentioned cooperating relationships with radio stations.

Apart from the aspects mentioned in this section, the rest of the value network is similar to that of socially focussed business models.

4.3 Extra Value Focus

Value creation

Business models in the final group incorporate a value element that is substantially different than digital music related value. These models try to gain customers with that differentiating value element.

An example of such an extra value element is the donation of part of the revenues of digital music sales to charity. Another example is setting up concerts. These elements represent value for the customer and differ strongly from traditional digital music value elements. The IFPI (2012) report states that various services are already experimenting with bundling digital music sales with other value elements.

Just as the artist focused models, these business models focus on providing technically high quality content. However as opposed to the previous types, content distribution in 'extra value' focused business models occurs exclusively through a website.

Value capture

The only pricing method that was identified for these business models is that of usage based pricing.

The revenue sources for 'extra value focus' business models include the sale of digital music content, the sale of advertisement space (just as the previous stereotypes) and in some instances the extra value activities themselves (for example concert ticket sales).

Apart from being a revenue source, these extra value activities also incur costs and are thus identified as a cost source. Other cost sources include hosting and content acquisition.

Value network

The supply side of the extra value focussed business models is similar to that of the social focussed business models. The main difference comes in the form of a strong collaboration with a wide range of companies that can each deliver a specific type of value element: music related or not. These collaborations result from the need to deliver 'extra value activities' as mentioned earlier.

4.4 Overview

A number of elements are present in all three stereotypes and can thus be considered as essential to any digital music service. These elements are as follows:

Advertisements as a source of revenue: since the availability of free content is of importance to attract customers (Gopal et al., 2004; Papies et al., 2011; Peitz & Waelbroeck, 2006), advertisement is considered a requirement as a source of revenue to compensate for this free content (Papies et al., 2011).

Payment on a usage basis as a pricing method: this is considered a traditional pricing structure that has been widely used in the digital music sector (Dubosson-Torbay, Pigneur, & Usunier, 2004). From the

business models considered in this research, it can be concluded that it is still regarded as a relevant pricing method.

Content acquisition and IT investments (hosting and development) as cost sources: just as Premkumar (2003) indicated, retail of digital music without a physical store will have content acquisition and IT related investments (IT development and hosting) as the main sources of costs apart from marketing (which is a major cost source for any commercial organisation).

Website as means of content distribution: since an increasing amount of devices incorporate a web browser, websites become instruments to target a wide range of devices. As mentioned earlier, this cross platform availability is perceived as an important aspect by customers (Haaker et al., 2007).

To ensure the payment process is as easy as possible for customers, all stereotypes incorporate relationships with payment service providers. Furthermore, partnerships with telecom companies are suggested in order to add the subscription fee of the music service to the telecom bill, whereby the need for a new subscription for the customer is removed.

Aside from distributors (including record labels), content is acquired directly from the artists. This makes the music service a platform for any artist to present their music, regardless of the fact whether they are represented by a record label or not. Considering this aspect is incorporated in all stereotypes, making the threshold for an artist to present their music to a large audience as low as possible can be concluded to be a major theme for a digital music service.

Since all digital music services rely on a digital platform, hosting is the most essential technical activity. All stereotypes acknowledge the notion that this is not the core business of a music service and is thus outsourced to a dedicated hosting company.

This section has so far identified all aspects that the stereotypes have in common. To identify the differences between the stereotypes, table 2 is presented. All elements that *differentiate* the three stereotypes are summarised in table 2. A combination seems most viable on the italic printed diagonal.

| | Value Creation | Value Capture | Value Network |
|--------------------------|---|---|--|
| Social Focus | Social interaction, High availability, Application | Social benefits, Subscription fee, Usage based pricing, Partially free | <i>Distributors,</i> <i>Social media</i> |
| Artist Focus | Close artist-fan relationship, High quality, Application, Radio station, | <i>Subscription fee,</i> <i>Usage based pricing</i> | Artists, Radio Stations |
| Extra value focus | <i>Extra value element,</i> <i>High quality</i> | Usage based pricing | Distributors, Partners for extra value activities |

Table 2. *Distinctive elements from all stereotypes*

5 DISCUSSION

The three stereotypes provide a direction for new digital music services and should not be interpreted as a blueprint for success in the digital music sector. It is likely that future music services incorporate elements from one or more stereotypes at the same time, but it is assumed that each new and successful digital music service still resembles one of the three mentioned stereotypes or emphasizes one of them.

In order to analyse the viability of the three stereotypes, a stakeholder approach similar to that in Premkumar (2003) is taken. The following stakeholders are identified: the artist, the record company,

the distributors (or intermediaries in general), the retailers and the consumer (Premkumar, 2003). A digital music service is considered to be a retailer in this value chain. These different stakeholders might have a different preferred music service stereotype.

The artist would prefer 'artist focused' business models as these direct the most attention to individual artists in comparison to the other business models. This attention should translate in larger revenue from digital music sales for artists. Record labels and intermediaries will most likely profit the most from 'social focus' based business models, due to their high exposure and availability of content. The logic here being that the more the consumer is exposed to music content originating from an intermediary and/or record company, the more revenue is generated for those parties. Finally the consumer might have a preference for any of the three stereotypes as these were all discovered from a consumer perspective, which implicates a consumer need for all three stereotypes.

Bourreau et al. (2008), also investigated new business models, but merely from the perspective of the record companies. Their research results suggest the music industry is especially using big bang approaches during a radical innovation process. In these situations the business model experimentation path is not necessarily the same among firms, and might be highly uncertain. At the industry level it is likely to bring about a wave of creative destruction. This is because the winner of the race for the effective business model is highly unpredictable.

We think the success of a future digital music service is largely tied to the correct alignment of the value chain design corresponding to the chosen stereotype. But the record companies currently seem to have positioned themselves almost uniformly across those models; in other words, they try to play it safe, do not take a selective approach and show no sign of concentration around any particular model.

Nevertheless there is still hope as van Buskirk (2012) puts it, saying the music industry stands before a new era in which good music can be enjoyed over a long period of time making money for the different stakeholders in the value network for a long time: "the way the Beatles did" (van Buskirk, 2012).

6 CONCLUSIONS & FUTURE WORK

The first conclusion that we like to draw from our data is that there are radically new business models predicted by consumers but that these models are not confirmed by industry in recent literature. This study delivers a first step to cross this gap. The limitation of this paper is that we only had focus groups on the user side. Empirical data from music industry is needed for validation on that side.

The social focus is visible in more than 50% of the business models created by the research population, being the most important customers. It is surprising that the value network is less visible from a consumer point of view.

The artists are faced with a dual perspective. They can benefit from the new business models in visibility and creating niches for their artistic products. At the same time they have difficulties in capturing the value of their products and services.

Value capture is problematic in all three focus areas. The third, extra value focus, addresses this capture problem by creating new services that can capture value for the artist and intermediaries.

A combination of dominant indicators on different focusses will be guiding towards a new business model with a social focus network, an artist focussed value capture and a creative extra value focus recognizable as a green diagonal in table 2.

This paper tackled the investigation of new business models by taking a consumer perspective. Investigating new business models from the perspective of a different stakeholder might reveal whether these have different visions for the future of digital music services.

Finally, a quantitative financial analysis of the three stereotypes might expose the profitability for each of the stakeholders and its implications for the music industry.

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