



Business Model Innovation in Music Industry: A Literature Review

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Abstract

Records sale in music industry is facing a decline in many countries. Actors in this industry from developed and developing countries often innovate some business models to survive. The innovation was conducted by finding new actors and their role, finding a new revenue stream, and finding a new marketing and distribution strategy. They are increasing their focus in business model innovation because of its value creation, value captures potential and also become other option or as an addition to process or product innovation. Many literature reviews has been conducted in terms of business model innovation research in the music industry. However, less review conducted in a structured method. This paper provides structured method of literature review in 4 steps; selection of time horizon and database, paper selection, paper classification, and pattern analysis after classification of articles. The literature review is aim at observing the state of the art and finding the research gap also research position of business model innovation research in music industry. Obtaining further research opportunity also becomes the purpose of this research.

Key-word: Business Model, Innovation, Music Industry, Creative Industry

1. Introduction

World's music industry is facing a big challenge ahead. Sustained declining of sales is threatening every actor in the music industry. Based on the International Federation of the Phonographic Industry's (IFPI) annual "Recording Industry in Numbers" report, in 2011 there were decreasing number of sales in the global recorded music industry from USD16.8 billion in 2010 to totaled USD16.3 billion in 2011, which means 3% decreased. Reported for two-thirds of global revenues, CD sales proceed to drop during the year for about 9%. The plunge remains an improvement in 2010 over the 14% fall recorded, whilst the rate of decline is still considerable (Sweney, 2012).

Indonesia as one of developing country is also facing a decline in its music industry. Notes from ASIRI (Recording Industry Association of Indonesia) in 2008 record label only sold 10 million albums, 2007 was 19.4 million and 2006 of 23.7 million, while in 2009-2010 approaching 15 percent decline. Moreover, the rate of piracy, according to data ASIRI since 2008 has reached 96%. Hundreds of record stores and CD in Indonesia has been closed for two years. Record labels are now living 15 major companies, of the 240 companies listed on the ASIRI.

Although the success is still unknown, finding the right business model and also inventing a new one seems to become one of the solutions to survive in current music industry. Nowadays, some organizations are increasing their focus in business model innovation because of its value creation and value captures potential (Santos et al, 2009; Chesbrough, 2010; Amit and Zott, 2001). They are approaching business model innovation as other option or as an addition to process or product innovation (Amit and Zott, 2001). It also argue that rather just conducting some technology innovation and research and development activity, innovation must also include the innovation in the business model itself (Chesbrough, 2010). Yet, to gain the benefit of business model innovation, organizations do not need to wait some new technology or huge investment in new products, new business ventures, or new market development (Santos et al, 2009).

2. Business Model Innovation In Music Industry

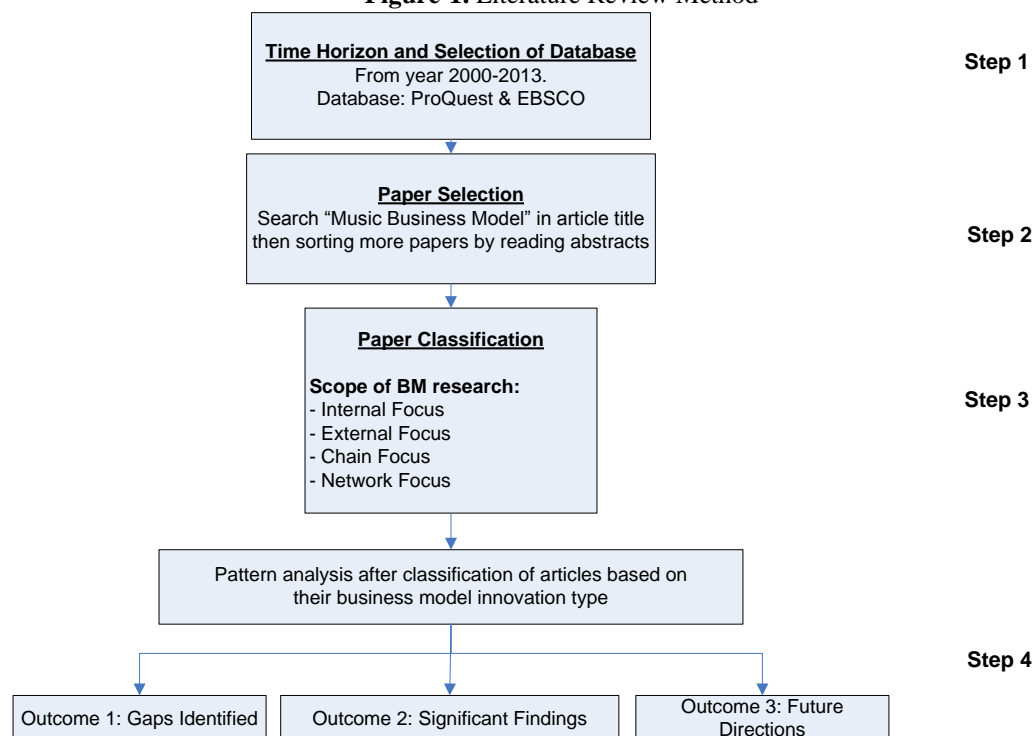
Business model innovation is a valuable transformation within structure of costs and/or revenues from diversifying to a new resource, developing a new source of revenue, externalizing a value chain activity, designing a modified or new activity system, relies on recombining the existing resources of a firm and its partners to discover an entirely different business model (Demil and Lecocq, 2010; Santos et al, 2009; Markides, 2006; Hamel, 2000; Amit ann Zott, 2010) in order to affects ongoing sales, earnings and cash flow advantages in comparison to competitors and what customers can fulfill for themselves and recommends a tactical insight into significance of a well-developed business model and its prospective value and benefits (Mitchell and Coles, 2003; Teece,2010; Amit and Zott, 2010). Pattern of innovation usually coherent with the some types of innovation (Utterback and Abernathy, 1975). The patterns were usually specific and reusable for some particular context. Different company within one industry usually has different pattern of innovation, particularly in business model innovation. However, there must be something similar from that different pattern. Knowing the pattern of innovation, especially those which already proven successfully could help other company to replicate the innovation attempt. Besides time saving, it also could reduce the risk that usually caused by trial and error innovation activity.

There are some music business model literature reviews that have been conducted. Bockstedt et al. (2005) conduct a literature review of the transition of music industry from the perspective of each of the players in the music industry value chain. Bhattacharjee et al. (2004) conduct a literature review of the experience goods and assumption of restrictions on music sharing, economic models with subscription pricing, software piracy, issues of quality and ease of dissemination, search process and costs. Hougaard and Tvede (2010) conduct a literature review of economic features of digital music, model the market for digital products and piracy models with product differentiation. Regner et al. (2009) conduct a literature review of role-based business model literature categorization such as DRM-based models, voluntary payment-based models, complementary product and service-based models. Overall, it was realized that the available literature review was less structured.

3. Methods

This section of paper elaborates the method adopted for the purpose of providing a comprehensive and critical literature review of music business model innovation research. The issues of time horizon of review, journal selection, article selection, article classification and analysis of articles will be discussed under literature review method. A schematic representation of literature review methodology adopted in the paper is given in Figure 1.

Figure-1. Literature Review Method



Selected papers are classified into 4 focuses of business model research. The focuses of research are defined based on two things; adaptiveness and actor(s) orientation. Some research in music business model were pertaining the static or dynamic adaptiveness. In actor(s) orientation, this categorization of literature review is based on two things; single actor perspective and multi actor perspective.

Categorized paper then analyzed based on its pattern of innovation. Pattern is an abstract models that describe the generic features of a type of situation that may occur in many different contexts (Johannesson and Wohed,1998). In business model innovation, patterns come in a large number of varieties and each of this pattern is here to solve a general problem within a particular context. The patterns, which already known are often reusable although it also need to be customized.

Some patterns of innovation are also discovered in some types of business model innovation. Types of innovation were defined on the basis of some common characteristics on the implementation of business model innovation. There are several types of business model innovation explained by some authors. Giesen et al, 2007 describes the business model innovation by 3 types; Industry model that more into the industry value chain innovation, revenue model that more into innovation of the revenue stream using product or service reconfiguration or new pricing models and enterprise model that involves the innovation of structure of the enterprise and company’s position in new or existing value chains. Although there were many other types of innovation discovered by some authors (Koen, 2011; Amit and Zott, 2012, Santos et al; 2009) it is considered that Giesen et al (2007) model is most likely represent the available business model innovation types in music industry. Thus, this model is used in this literature review.

3.1. Time Horizon and Selection of Database

The literature review was conducted during year 2000-2013. The articles were collected from EBSCO (<http://search.ebscohost.com>) and ProQuest (<http://search.proquest.com>).

3.2. Paper Selection

3.2.1. Database of Proquest

The articles were sought using the search term “music business model”. As for quality criteria, peer-reviewed (scholarly) articles were chosen and meet the total numbers matching these criteria were 308 for “music business model. Then, iteratively narrowed the search by reading the abstracts to

eliminate irrelevant articles, and grouping relevant articles that overlapped on key ideas is conducted. Finally the relevant articles in full have worked, from which 52 articles for “music business model” identified. In order to deepen the analysis, forwards and backwards research were also conducted. Backwards research was resulted 2 articles for “music business model”. Forward research was resulted 3 articles for “music business model”

3.2.2. Database of EBSCO

The articles were sought using the search term “business model innovation”. As for quality criteria, peer-reviewed (scholarly) articles were chosen. After matching the title of the papers with the keywords, the total numbers matching these criteria were 184 for “business model innovation. Then, iteratively narrowed the search by reading the abstracts to eliminate irrelevant articles, and grouping relevant articles that overlapped on key ideas is conducted. Finally the relevant articles in full have worked, from which 21 articles for “business model innovation” identified. In order to deepen the analysis, forwards and backwards research were also conducted. Backwards research was resulted 3 articles for “business model innovation”.

3.3. Paper Classification

In this step, the selected 81 articles are critically analyzed to classified into 4 classes. Initial attempts to analyze this collection of articles start from the goal of this research, which is to find the gap in music business model literature.

Figure-2. Scope of Music business model

Adaptiveness \ Actor(s) Orientation	Single Actor	Multi Actors
	Static Model	Internal Focus (23)
Dynamic Model	External focus (22)	Network Focus (16)

Explanations of classifications are provided below:

Table-1. Characteristic of Paper Classifications

No	Classification	Characteristic
1	Internal Focus	<i>A research that has static adaptiveness and single actor orientation:</i> research which focus on business initiatives in one company or actor in the industry regardless to the network of actors along the chain and the flexibility towards changes and competition
2	Chain Focus	<i>A research that has static adaptiveness and multi actors orientation:</i> research which describe one or more business models which can represent a network of actors that together offer a complex product or service consisting of separate products and services (Gordjin and Akkermans, 2001) regardless to their flexibility towards changes and competition
3	External Focus	<i>A research that has single actor orientation and dynamic adaptiveness</i> research which describe music business model which focus on business initiatives only on one company or actor in the industry regardless to the network of actors along the chain and describes the flexibility of the business model towards changes and competition
4	Network Focus	<i>A research that has multi actors orientation and dynamic adaptiveness :</i> research which describe one or more business models which can represent a network of actors that together offer a complex product or service consisting of separate products and services. (Gordjin and Akkermans, 2001) and describes the flexibility of the business model towards changes and competition.

It was discovered that most research on business model in music industry is focus on the chain and external factors. This can be accepted since the new value chain in music industry was undergoing a major change by response of technology changes which usually require an external factor analysis such as environment, political, social, etc. From the categorization can be seen that the research is moving toward the dynamic concept, no matter it is on multi or single actor scope. In multi actor scope, why this research will slowly increasing is because the dynamic of music industry will need innovations in terms of actors collaboration and integration regarding to external factors affecting the development of music industry.

4. Analysis

Analysis of classified articles were conducted to know the pattern of business model innovation based on its types: industry model, revenue model and enterprise model (Giesen et al, 2007).

4.1. Internal Focus Scope Of Research

There are 12 papers pertaining industry model type (Lee, 2012; Khac, 2003; Easley, 2005; Campos, 2010; Zentner, 2008; Kwok, 2002; Baym and Burnett, 2009; Chen, Shang and Lin, 2008; Choi, 2009; Guiney and Chong, 2012; Lysonski and Durvasula, 2008; Roberts, 2010; Styvén, 2007). The patterns are entering the digital industry of music recording and development. This action was suggested since there are an obvious a development of digital music player and high diffusion of mobile handset.

There are 18 papers pertaining revenue models (Lee, 2012; Vaccaro, 2004; Khac, 2003; Easley, 2005; Levy and Bosteels, 2010; Zentner, 2008; Kwok, 2002; Baym and Burnett, 2009; Bhattacharjee et al., 2004; Choi, 2009; McCourt and Burkart, 2003; Lantos and Craton, 2012; Eckstein, 2009; Bhatnagar, 2004; Cataluña and Ruiz, 2010; Styvén, 2007; Vlachos et al., 2003). The pattern of this type was by providing a various product, such as Polyphonic ringtones, Ring-back song, Truetone ringtones, Full-track music download, U-Music (ubiquitous music).

There are 4 papers pertaining enterprise models (Khac, 2003; Campos, 2010; Zentner, 2008; Homan, 2011). This type of business model innovation explains the activities for value creation and revenue creation in music industry, which already changed because of the new product offering and emerging new actors and role.

4.2. In Chain Focus Scope Of Research

There are 16 papers pertaining industry models type (Koster, 2011; Buhse and Wetzl, 2003; Choi, 2009; Connolly and Krueger, 2006; Koung and Wen, 2003; Kretschmer, et al., 2001; Krueger, Swatman and Van Der Beek, 2004; Ghosemajumder et al., 2002; Fox, 2004; Masanell and Drane, 2010; Wymbs, 2000; Furini et al., 2008; Bonner and O'Higgins, 2010; Allard, 2003; Asai, 2008; Graham et al., 2004). The patterns are moved into the concert business including its promotion, move to mobile music industry, entering digital industry, executing vertical integration by being a distributor also retailer at the same time, entering the TV industry and creating music portals.

There are 14 papers pertaining revenue models (Koster, 2011; Buhse and Wetzl, 2003; Liu et al., 2003; Choi, 2009; Connolly and Krueger, 2006; Koung and Wen, 2003; Kretschmer et al., 2001; Krueger, Swatman and Van Der Beek, 2004; Curien and Moreau, 2005; Ghosemajumder et al., 2002; Fox, 2004; Leem et al., 2004; Masanell and Drane, 2010; Furini and Montangero, 2008). One of the pattern was by getting a new revenue stream from digital sales, concerts, advertising, merchandise, producing and promoting collaborated works, movie scoring, newsletters, commercials and cell phone jingles, ancillary products and publication royalties in performers' income. Other pattern in revenue model type was reconfiguring the product or service. The pattern examples were giving additional services to access mobile music, service for audiences to make mix tapes with available sound samples, offer a subscription systems, enable consumers to share and recommend copy-protected songs, giving a new service for music fans to find, purchase, manage and enjoy music at anywhere using internet, developing CD's content by adding lyrics, photos, protected link to online bonus and releasing music DVDs.

Changing a pricing model also becomes a pattern in revenue model type. Some patterns occurs were adopts Creative Commons concept and offers music for free, changing the usage rules, frequency of access, expiration date and restriction to transfer to other devices, different price for users for each download, creators for a place on the platform, and advertisers, and lowering the CD or digital product price.

There are 10 paper pertaining enterprise model (Buhse and Wetzel, 2003; Choi, 2009; Koung and Wen, 2003; Kretschmer et al., 2001; Krueger, Swatman and Van Der Beek, 2004; Curien and Moreau, 2005; Masanell and Drane, 2010; Allard, 2003; Asai, 2008; Graham et al., 2004). The innovation was conducted by changing the role of actors in existing value chain. Some examples of available pattern were changing a distribution channel from one focus to multiple distribution channels, tolerating the P2P services in order to maintain the relationships and building a “community”, perform a joint ventures with companies from other industry such as Telco’s, ISPs, or providers of other types of technology, perform partnership with third parties whose acting as brokers for copyright to the media, selling a digital music by e-commerce web station established by Internet in brick and mortar physical store, direct distribution and relationship between artist and consumer, perform intense relationships with radio or television stations to emphasize repeat visits.

4.3. In External Focus Scope Of Research

There are 13 papers pertaining industry models type (Clemons and Lang, 2002; Prakash and Velu, 2009; McIntyre, 2009; Hummel and Lechner, 2001; Burkart, 2005; Stevans and Session, 2005; McLean, Oliver and Wainwright, 2010; Chu and Lu, 2007; Lantos and Craton, 2012; Bach, 2004; Henry, 2001; Rose, 2011; Leyshon et al., 2005). Some of the available pattern identified in industry model type was entering a new business in promotional management and production management services for competitive fees, entering mobile industry, entering TV and advertising industry, and also entering the digital market.

There are 9 papers pertaining the revenue model type (Bach, 2004; Hughes, Lang and Vragov, 2007; Konig et al., 2006; Leyshon, 2000; Peters, 2008, Kerényi, 2004, Hummel and Lechner, 2001; Bach, 2004; Henry, 2001) the available pattern was giving different subscription levels, give new service for consumer to facilitate the transfer of traded goods, negotiate the terms of a transaction and let consumers knowing information about the pricing of goods, provide service that let consumer conducting the wireless download to mobile devices, diversifying the product through multimedia, create bundling of different entertainment products.

There are 8 papers pertaining the enterprise model type (Clemons and Lang, 2002; Leyshon, 2000; SunEagle, 2010; Prakash and Velu, 2009; Peters, 2008; Burkart, 2005; Bach (2004), Rose, 2011). Some of the available patterns were partnership with online distribution channels, intensifying and adjusting existing modes of operation by conducting a partnership with new actors in music industry.

4.4. In Network Focus Scope Of Research

There are 10 papers pertaining industry models type (Bockstedt, Kauffman and Riggins, 2005; Adner et al., 2002; Klym, 2005; Poel and Rutten, 2005; Hougaard and Tvede, 2009; Benetti, 2009; Torbay, Pigneur and Usunier, 2004; Wang and Doong, 2010; McLean et al., 2010; Bishop, 2005). The available patterns identified in industry model type was going to digital industry for producing, selling, marketing, promotions, distributing, copyrighting and licensing, acquire the technology by investing or forming alliances with existing digital music retailers, selling physical products through big e-retailers like amazon or physical retailers like Carrefour or Virgin, getting into mobile industry, center to own on-line distribution businesses and on-line shops.

There are 9 papers pertaining the revenue model type (Bourreau, Gensollen and Moreau, 2007; Fischbeck, 2000; Bockstedt, Kauffman and Riggins, 2005; Wigand, 2003; Adner et al., 2002; Klym, 2005; Benetti, 2009; Torbay, Pigneur, and Usunier, 2004; Wang and Doong, 2010). The available pattern were getting new revenue stream from mobile phone ringtones, advertising, concerts, merchandise, selling tools to compose music, add commercial to albums or song. Another pattern in revenue model was by reconfiguring service or product by creating, bundling and adapt their bundle to the service offering (i.e., download, streaming, limited vs unlimited track life), personal addressing, temporal addressing (DRM of expiration), streaming subscription, access to music library and service

to burn the CD, modify the physical store by combining with nightclubs, tattoo parlors, workstations, and live performances with the traditional music store.

There are 10 papers pertaining the enterprise model type (Wigand, 2003; Bourreau, Gensollen and Moreau, 2007; Fischbeck, 2000; Bockstedt, Kauffman and Riggins, 2005; Klym, 2005; Poel and Rutten, 2005; Benetti, 2009; Frynas, 2002; Bishop, 2005; Gordijn and Akkermans, 2001c). The available patterns were perform partnership with intermediaries as independent agents and matchmaker for new opportunity, decentralized promotion by multiple agents, viral marketing through free peer to peer music sharing, changing from physical music retailers to digital music retailers, the distribution bypass from artist to consumer, emerging digital music service by mobile carriers or by partnership with existing service providers, various distribution (online distribution, online sales, deliver by mail, pick up in shop, mail-order), and creating a bundling for online and offline activities.

5. RESULTS

5.1. Significant Findings

The cost for producing, developing and distributing new product is increasing continuously. Leading technology can no more be accountable to grab a huge profit since the product life cycle became shortening (Chesbrough, 2010). A huge investment in time and money are often needed in order to innovate the product and process of making it and unfortunately, the return of the investment is sometimes not certain (Amit and Zott, 2001). The competition and number of competition is increasing, and they also bring a new product everyday. Customer's tastes and needs also shifting everyday that organization need to capture to avoid the unexpected (Mitchell and Coles, 2003; Demil and Lecocq, 2010). Besides of that, organization is now challenged to make sure that the value must always be captured in providing products and services to the consumers (Teece, 2010). Thus, business model innovation is become one of the solution to overcome those situation.

Some of the emerging music business model includes innovation. Based on the paper analysis, the innovations are mostly includes the new business or/and vertical integration (Bockstedt et al., 2005; Lee, 2012; Koster, 2011; Buhse and Wetzel, 2003; Choi, 2009; Connolly and Krueger, 2006; Koung and Wen, 2003; Kretschmer, et al 2001; Krueger, Swatman and Van Der Beek 2004; Clemons and Lang, 2002; Bockstedt, Kauffman and Riggins, 2005; Adner, et al, 2002; Klym, 2005; Poel and Rutten, 2005), new products or services (Prakash and Velu, 2009; Peters, 2008; Lee, 2012; Connolly and Krueger, 2006; Choi, 2009; Liu et al, 2003; Koster, 2011; Buhse and Wetzel, 2003; Fischbeck, 2000; Bockstedt, Kauffman and Riggins, 2005; Adner, et al, 2002), new revenue stream (Ghosemajumder et al., 2002; Campos, 2010; Hougaard and Tvede, 2009; Koster, 2011; Hughes, Lang and Vragov, 2007; Bach, 2004; Leyshon 2000' Bourreau, Gensollen and Moreau, 2007; Wigand, 2003), new actors role and network (Easley; 2005; Krueger et al., 2004; Adner et al., 2002; Hougaard and Tvede, 2009; SunEagle, 2010; Curien and Moreau, 2005; Kretschmer et al, 2001; Choi, 2009; Clemons and Lang, 2002; Leyshon, 2000; Wigand, 2003; Bourreau, Gensollen and Moreau, 2007; Fischbeck, 2000; Bockstedt, Kauffman and Riggins, 2005; Klym, 2005; Poel and Rutten, 2005), This means that the innovation are in line with the type of business model innovation described by Giesen et al (2007); Industry Model, Revenue Model and Enterprise model. Can be seen that the trend to research all of three types of business model innovation is now emerging.

5.2. Gap Identified

5.2.1. Music business model research is moving toward to network concept and less research pertaining this matter

This means that the external factors in terms of technological changes, regulations, market conditions and consumer behavior should also being count in to the business model analysis and innovation. Although there are some articles that already include the multi actors scope and have a dynamic concept (Adner et al, 2002; Bourreau et al., 2007; Benetti, 2009; Torbay et al, 2004; David Bach, 2004; Bockstedt et al., 2005; Wang and Doong, 2010; Henry, 2001; Jedrzej, 2002; McLean et al, 2010; Rose, 2011; Bishop, 2005), the analysis were rarely well elaborated in terms of number of external factors analyzed and multi actors linkage. The analysis shows that most articles mentioning value chain in music business model describing the process of value creation within a particular firm

(Porter, 1985). Almost all of them mentioned value creation (Tapscott et al., 2000; Koung and Wen, 2003; Lee, 2012), actors role and relations (Adner et al., 2002; Benetti, 2009; Torbay et al., 2004; Rupp and Estier, 2002), and cost and other financial matter (Adner et al., 2002; Lee, 2012; Gordijn and Sweet, 2003).

One attempt that slightly different is Klym (2005), who expand her research by examining the value chain dynamics of competing business models, along with the forces triggering new models and the domination of one model over another. Instead of analyzing the tangible aspect, intangible aspects are rarely discussed in the articles. The fact that intangible assets such as competencies, internal structures and the relationship with the environment, which are the driving factors behind the financial results, are being ignored.

However, as information technology and globalization developed, Lynda and Meredith (2000) deem that it is not suitable any more to use conventional value chain concept to analyze enterprise business model in the network economy era. As products and services become dematerialized and the value chain itself no longer having a physical dimension, the value chain concept becomes in an inappropriate device with which to analyze many industries today and uncover sources of value. This is particularly evident in sectors such as banking, insurance, telecommunications, news, entertainment, music, advertising, and certain areas of the public sector (Peppard and Rylander, 2006). One approach that might be suitable to elaborating the value chain analysis is by using value network concept. Value network concepts, links specific interactions within the value creating network directly to financial and non-financial scorecards, such as insight into complexity of interactions among people (Allee, 2003; Middendorp, 2005):

5.2.2. Less research mapped the business model innovation types in music industry

From the literature analysis can be understood that even it was not clearly stated in their paper, the patterns of business model innovation were identified in most of music business model papers. However, the patterns were scattered and not easy to be understood especially for those who want to adopt the pattern.

5.2.3. Less research discussed the success and failure of business model innovation in music industry

From the literature analysis can be seen that there were some research pertaining about the challenges and determinants factors of business model innovations (Chesbrough, 2009; Frankenberger, 2010; Mitchell and Coles, 2004). However, comprehensive explanation from internal perspective and external perspective could give a clear direction for those who want to conduct a business model innovation in music industry.

5.3. Implication for Future Research

This paper offers new avenues of further research in music business model. The findings of the paper and the gaps identified leads to following implications for further research. They are discussed as follows:

- From above analysis can be seen that research in business model is moving toward to the dynamic concept. Research in music business model using dynamic concept that is considering and integrating the external factors in music industry, is still needed.
- Providing a pattern and mapping the business model innovation types, particularly research in music industry, will give a contribution to research in this specific industry.
- Research that give an explanation of business model innovation's success and failure, particularly in music industry is still less conducted and a promising thing to do.

6. Concluding Remarks

The paper reviewed 478 articles on empirical research in music business model. The paper started with identifying content relevant by reading the abstract. Then 104 most related papers were found. Classification of each of the selected articles is done into 4 classifications; internal focus, chain focus, external focus and network focus. Each classification is then analyzed by the business model

innovation types. The paper highlights the growth of empirical research in music business model especially in dynamic ways, whether it scopes multi actors or single actors.

This literature review has resulted some gaps. This literature review revealed that research in music business model using value network concept still rarely found although the need of dynamic concept of music business model is needed. Research that discussing a pattern of business model innovation process and a business model innovation types map, also less discovered. There is also less research conducted to know the value network of music industry. Last, from literature analysis can be found out that there were less research conducted to know the critical success and failure factor of the business model innovation in music industry.

It is believed that this literature review will encourage the research community to make endeavors in less explored areas of music business model and also remove the highlighted deficiencies in approach towards empirical research in music business model.

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