Video Killed The Radio Star – Or How The Internet Altered Business Models In The Music Industry

Business Model Dynamics in the Music Industry

Author: Karina Link
University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands
k.link@student.utwente.nl

ABSTRACT
A well-developed business model is the foundation of every successful company. Yet, an ill-defined business model can equally ruin the plan of a marketer. For this reason it is important to gain sufficient knowledge about the business model in general as well as about the various factors influencing it. Dynamics in business models are especially recognizable in the context of the fast changing environment of the music industry. Not only is the music industry extremely influenced by innovative technologies like the internet and ICT, but also by changes in legislation and in customer needs. Moreover, marketers in the music industry act within a complex value chain whose various stakeholders must be satisfied. Therefore, this research aims to fill in a gap of the existing literature concerning future business models and influential factors on business model dynamics in the music industry. In order to do so, an extensive literature review as well as a comprehensive analysis of the music industry, including two case studies (Universal Music Group as a classic record label and Spotify Ltd as a new entrant), were conducted. Eventually, the analysis shows that integrated models (with strong elements of the promotion and merchandise model) will most likely dominate the music industry, while path-dependency as well as the social and technical factor of the PESTEL framework seem to have the most impact on business model dynamics.

Supervisors
1. Dr. K. (Kasia) Zalewska-Kurek
2. Ir. B. (Björn) Kijl

Keywords
Music industry, business model dynamics, business model canvas, path-dependency, PEST analysis, internet, ICT.

3rd IBA Bachelor Thesis Conference, July 3rd, 2014, Enschede, The Netherlands.

1. INTRODUCTION

Victor Hugo already explained 150 years ago that "Ce qu'on ne peut pas dire et ce qu'on ne peut pas taire, la musique l'exprime (William Shakespeare, 1864)." (engl.: "Music expresses that which cannot be said and on which it is impossible to be silent."), hence it is not surprising that more than 58% people listen to music 2 ½ hours daily (Music Survey Data Analysis, 2012). Besides listening to music via the radio or TV programs, the emergence of information and communications technology (ICT) as well as the internet enabled music enthusiast to access easily their favorite sounds through online media. However, the World Wide Web and ICTs, like hardware and software and tools such as websites or management information systems (Osterwalder, 2004), did not only evoke a change in customers' behavior but also require a change in companies' management. Various new communication and information channels simplify international trade and thus provide consumers with a more diversified range of possibilities to satisfy their needs (Teece, 2010). In this more transparent market, with an increased bargaining power of buyers, it is more important than ever before for companies to follow a customer-centric approach in order to stay competitive (Teece, 2010). This change in market powers can also be observed in the music industry: The "traditional" value chain is extended by online music providers (Guetta & Antebellum, 2012). Moreover, artists as well as producers have now the ability to elude record companies as well as retailers because computer recording equipment and software are considered to decrease in costs but to increase in quality (Warr & Goode, 2011). Additionally, such homemade tunes are easily uploaded onto sharing platforms and social networks so that they are available for everyone (Warr & Goode, 2011). This leads to empowered artists but also to lowered entry barriers which enable the democratization of media with new entrants having the ability to outperform major labels that have only limited experience with new technologies (Kaul, 2012; Lam & Tan, 2001; Warr & Goode, 2011). Another major drawback brought by digitalized media is music piracy decreasing tremendously the sales of precedent sound carriers (Warr & Goode, 2011) which are one of the most important revenue streams of record labels. Therefore, one can say that file sharing is some kind of creative destruction (as the famous economist Joseph Schumpeter would call it) by effecting sales in two ways: Firstly, MP3 files shared on P2P-networks are a simple downloadable substitutions for manufactured sound carriers (Curien & Moreau, 2009) and secondly, streaming and sharing networks can be accredited with a penetration effect that supports spreading an artist's work. Admittedly, the former effect is stronger for already well-known artist, while the latter is rather important for currently less famous artists functioning as an affordable marketing tool. Anderson and Frenz (2008) support the second assumption by claiming that around 25% of the people between the ages of 15-36 years are likely to discover new music by browsing through the internet. Besides discovering new music, young people also put a lot emphasis on sampling music which can happen through legal streaming services (e.g. Spotify Ltd, SoundClous) but also through illegal downloads (Warr & Goode, 2011). This notion leads in the long-term to diminished sales of digital music, but on the other hand to increasing revenues through non-digital products and services, like concerts and merchandising (Mortimer & Sorensen, 2005; Teece, 2010). Taking a closer look at sharing and streaming networks, one can see that the in 1999 founded file-sharing site Napster served ever since as template for many other similar websites (Ogden, Ogden, & Long, 2013). Even if Napster's history is studded with many infringements, related concept such as iTunes, SoundCloud and Spotify Ltd. provide consumers legally with a large choice of songs and warrant that revenues flow to artists, record labels and publishing companies (Leyshon, 2009). This emergence of different streaming and legal sharing sites shows that the value generation in the music industry went from ownership to access, while music marketing transformed from product- to customer-centric (Ogden et al., 2013). Consequently, record companies are losing control over their industry as the internet and new entrants weaken the effectiveness of well-tried business models (BM). Meisel and Sullivan (2002) explain further that the combination of digital content and P2P-technology creates an environment offering access to the music of the customers' choice which needs to be recognized and capitalized by record companies when developing new business models. Lam and Tan (2001) argue additionally that the business dynamics in the music industry are rapidly changing because of the various online distribution channels. This means that key players in this industry are only able to stay competitive if they are able to adjust their business models in ways through which they can channel the collectively generated value in their interests (Teece, 2010; Vaccaro & Cohn, 2004).

Therefore, it is important to analyze IT-based BMs and how they could support the classic record labels to create value and to identify future trends in the fast changing music industry. In order to so, this research paper will focus on the questions:" What kind of business model will be dominant in the future of the music industry?" and "What external and internal factors influence business model dynamics in the music industry the most?". The following parts of this research paper will provide the reader with a theoretical framework which is developed with the help of an extensive literature review on the business model ontology, the Business Model Canvas and the PESTEL framework. The next step will be the methodology clarifying the analysis section. This analysis part will first of all discuss business models in the music industry, show a PESTEL analysis of the music industry, followed by two case studies which are conducted by applying the Business Model Canvas representative on one major record label, namely Universal Music Group (UMG) as well as on the online music streaming platform Spotify Ltd. Additionally, both companies' path-dependency will be examined. Eventually, these various steps will lead to a comparison of both firms which will then again result in a model showing internal and external factors that influence a company's BM the most. Finally, the conclusion will give an answer to the research questions, indicate future prediction and it will include a discussion of the results.

2. THEORETICAL FRAMEWORK

2.1 Business Models

2.1.1 Business Models in general

While the concept 'business model' was quite disregarded by scholars during the last decades, the development and emergence of ICT and the internet have led to an ever increasing importance and consideration of the term leading to larger business networks and quicker adaptation to innovation (DaSilva & Trkman, 2013). It is hence not surprising that the use of the business model terminology is mostly common among technology-based companies explaining their implementation and usage of innovations and new technologies (DaSilva & Trkman, 2013).

Al-Debei and Avison (2010) characterize business models as holistic but abstract and dynamic frameworks that describe the fundamental reasoning of a business by converting strategic objectives into viable tasks and functions. Moreover, a BM shows how an organization creates and captures value (Baden-Fuller and Morgan, 2010; Chesbrough, 2007; Teece,

2010) and how it is linked to and interacts with its external environment (Al-Debei & Avison, 2010). DaSilva and Trkman (2013) summarize the theoretical grounding of a BM on the basis of the work by Morris, Schindehutte and Allen (2005) as follows: (1) it includes the company's internal competencies which are the basic for its competitive advantage; (2) it shows that value generation occurs by transforming available resources; (3) it represents a certain way transforming these resources so that value is generated for the customer and the firm itself. Teece (2010) as well as Baden-Fuller and Haefliger (2013) agree that is it important to asses customers' desires, costs and capabilities of competitors in the course of designing a BM. Arend (2013) provides a rather abstract but holistic definition of a BM by stating that

> the business model as a useful representation of how the organization creates value through transforming and transferring matter, by drawing on available factors, fueled by an identifiable economic engine. Gross social and economic value is embodied in matter that may be digital (e.g. information), analog (e.g. tangible assets), private, public, or other categories of goods. Factors involved include resources, capabilities, partners (e.g. in interdependent networks), and structures (e.g. governance choices). The economic engine is monetary or operational aid, and sourced from volunteers, customers, partners, governments, or other stakeholders (p.393).

Therefore, one can conclude that a BM is made of four basic components: Value proposition (offered product/ service), customer relationship and interaction, infrastructure management as well as financial aspects.

However, it is important to keep in mind that a BM per se will not bring a competitive advantage (Baden-Fuller & Haefliger, 2013; Teece, 2010). It is rather that new or adjusted business models often lead to a better integrated innovative technology, decreased costs, increased value to the customer, or if they are difficult to imitate by competitors, they can even bear the chance to generate higher returns to the first-mover (Baden-Fuller & Haefliger, 2013; Teece, 2010). The researchers elaborate also that it is indispensable to align the company's BM and the technology strategy in order to reach a sustainable competitive advantage. Moreover, it is important for managers to be creative in approaching this compound interaction between innovative and economic elements by either conducting experiments or by following recipes (Chesbrough, 2010;Baden-Fuller & Haefliger, 2013).These assumptions lead to the conclusion that internal as well as external consistency of a business model can only evolve over time (Morris et al.,2010; Teece, 2010; Bohnsack, Pinkse, & Kolk, 2013).

So, summarizing the advantages of a company developing a business model: First, it is a helpful tool supporting the understanding, analyzing, communicating and managing of strategic choices and goals (Pateli & Giaglis, 2004; Osterwalder, Pigneur & Tucci, 2005; Shafer, Smith & Linder, 2005; Al-Debei & Avison, 2010; Gambardella & McGahan, 2010). Second, it illustrates the reasoning and evidence behind its knowledge capital on how business generates and provides value (Al-Debei & Avison, 2010; Teece, 2010; Gambardella & McGahan, 2010). Third, it shows the structure of revenues, costs, and profits concerning the value delivery (Gambardella & McGahan, 2010; Teece, 2010). Fourth, as general concept a BM allows to compare different firms and to constitute business model archetypes (Bohnsack et al., 2013; Morris et al., 2005; Zott & Amit, 2011). Fifth, a business model shows its practical value by revealing its descriptive impact by serving "as common language among stakeholder … [to] simplify networks (Arend, 2013, p. 394)" and as "cognitive tool for [the] visualization … [of] components residing in the participants' heads (Arend, 2013, p. 394)".

However, various researchers claim that there are several limitations of business models: (1) overlapping content of business models, concepts and other strategies (Arend, 2013); (2) the BM depends on other analysis concepts (Arend, 2013); (3) there is doubt that a BM can provide valuable and exclusive information (Arend, 2013; DaSilva & Trkman, 2013); (4) there is no general definition of the term (Arend, 2013; Morris et al., 2005); (5) until now, there is no concrete empirical support for the significance or the rightness of a BM (Chesbrough, 2010; Arend, 2013); (6) the lack of consensus concerning the language and definition hinders researchers to analyze and compare different business models (Zoot et al., 2011). Furthermore, the majority of companies still focuses on procedures to innovate technology, rather than on business models in order to adapt to market changes (Chesbrough, 2010). Teece (2010) explains also that as a BM is established once, companies struggle with redefining their business paths.

2.1.2 Business Models, Business Strategy or Business Concept

Nevertheless, the various characteristics of a business model often lead to the misperception that it is the same as the corporate strategy or a business concept (Al-Debei & Avison, 2010; DaSilva & Trkman, 2013; Morris et al., 2005). Despite often used interchangeably (Morris et al., 2005) the terms business model, business strategy and business concept describe three different ideas. A business model as Chesbrough and Rosenbloom (2002) summarize it, has the following tasks: clarifying the value proposition; explaining the value chain's structure and needed resources; classifying the company's position with in the value network; specifying market segments; identifying revenue streams and cost structure; as well as entailing the competitive advantage over the competitors. General speaking, a business strategy is more specific than a business model (Teece, 2010). DaSilva & Trkman (2013) explain that there are three differences between a BM and business strategy. First, they state that BM are portrays of the realized business strategy. Second, the researchers argue that each company developes some kind of a business model but not every firm follows a certain strategy. Third, they found that the BM illustrates the current situation of a firm, while the strategy shows the furture goals and aims of it. Nevertheless, connecting and adjusting the BM to the strategy, making it difficult to imitate and differing from other, is inevitable in order to protect the company's competitve avantage (Teece, 2010). Concerning the difference between business models and business concepts, DaSilva & Trkman (2013) explain a concept as "any conceptualization of business reality, such as the business itself along with a company's strategy and business model (p.7)". Therefore, one can conclude that the business model is rather an intermediate layer between business strategy and business processes and thus no substitute but rather a connecting tool (Al-Debei & Avison, 2010) channeling the perspective from economic over operational to the strategic level (Morris et al., 2005).

2.1.3 Business Model Innovation and Evolution

In order to provide a closer insight into the topic of business model innovation, dynamics and evolution, this paragraph will begin with a short definition as Gambardella & McGahan (2010) say that BM innovation arises when a firm implements a different approach in order to commercialize its fundamental assets. Teece (2010) explains further that it is better for every company to begin with such a change by itself, rather than being forced to it by external factors. Moreover, business model

innovation gives companies the possibility to create consistently value for its customers (Zott, Amit & Massa, 2011). Leading to the basic assumption that BM innovation has a certain strategic potential by recognizing new sources of value creation, innovating individual components of a BM or their interfaces (Morris et al., 2005; Zott et al., 2011). Zott and Amit (2008) describe two methods, which can also be combined, of creating value through BM innovation, namely "efficiency" and "novelty". Since both approaches focus on managing economic transactions, the efficiency technique aims to reduce costs of existing transactions and the novelty technique aims to look for new ways to conduct transactions. However, Teece (2010) adds that there are also other sources of business model dynamics: unsatisfied customer needs, technological and organizational capabilities.

Another important aspect is business model evolution since a BM might be expected to develop from a fundamental basis to a rather elaborated and complete construct (Morris et al., 2005). In more detail, the concept of business model evolution depicts an entrepreneurial notion at a basic level with restricted ideas and only some components at the so-called proprietary level. As the company matures, it will develop guidelines about operation as well as supporting growth and will be able to move more components to the proprietary level (Morris et al., 2005). Morris et al. (2005) emphasize further that the different stages of a BM differ in exclusivity, formality and complexity. The researchers explain also a conceptual life cycle of a BM: (1) specification; (2) modification; (3) adaptation; (4) adjustment; (5) reformulation.

Nevertheless, there is one major difficulty concerning BM innovation and evolution, especially in incumbent firms – they tend to be path-dependent and thus preferably integrate innovative technologies into old business models (Chesbrough & Rosenbloom, 2002). Researchers claim that path-dependency has its roots in the company's historical background, its resource endowment, contingent events and self-reinforcing mechanisms (Bohnsack et al., 2013) as well as in their tendency to keep their current operation structures (Chesbrough & Rosenbloom, 2002). On the one hand, this hinders incumbent companies to use their full potential, but on the other hand, this well-tried value framework serves as a defense-mechanism against market instabilities. Bohnsack et al. (2013) add that path-dependency of traditional firms is also an enabler for entrepreneurship and the development of new business models in innovative companies. This is because entrepreneurial companies use novelty as main source of value creation – they are more willing to engage in radical innovation (Zott et al., 2011).

2.1.4 E-Business Models Features

After the emergence of the internet and ICT evermore e-business model were adopted. Just like the "normal" BM, the e-Business model framework can be divided into four basis components: Value proposition (offered product/ service), customer relationship and interaction, infrastructure management and financial aspects (Dubosson-Torbey, Osterwalder, & Pigneur, 2002). Nevertheless, there are some specifics worth mentioning. Firstly, the internet increased the development of two-sided platforms which are BMs that combine two value delivery systems: one for the user and one for the customer (Baden-Fuller & Haefliger, 2013). Secondly, since the internet reduced extremely transaction costs, there are many more ways to manage business activities leading to various competing methods of organizing business processes (DaSilva & Trkman, 2013). Thirdly, the emergence of the internet and e-BMs supports the formulation of a company's vision and its strategy, the evaluation of business opportunities, the adjustment of business operations and the decision-making process by simplifying the share of knowledge (Dubosson-Torbey et al., 2002).

2.2 Business Model Canvas

After introducing different BM theories, perspectives and features, this paragraph will focus on the so-called Business Model Canvas by Osterwalder and Pigneur (2010). This concept will be used as analysis tool in this paper because of its descriptive nature that offers the possibility to compare the BMs of the two case studies which will be conducted in the analysis. Therefore, the following part will contain a to this research adjusted overview, that is in sake of simplicity, focused on the four main building blocks composing the Business Model Canvas.

To begin with the definition of Osterwalder and Pigneur's (2010) concept, they describe it as the basic principle of how an organization creates, delivers and captures value. Basing their findings on the theory of Chesbrough and Rosenbloom (2002) as well as on different concepts of other authors, Osterwalder and Pigneur (2010) divide their business model into three main categories: the value creation pillar, the value delivery pillar and the value capturing pillar. These groups can be again divided into four pillars, namely:

(1) Value proposition: This pillar is probably the most important aspect of a business model because it entails the value generation, value delivery as well as value linkages and hence delivers the "raison d'être" for the business entity (Morris et al., 2005; Amit & Zott, 2001; Casadesus-Masanell & Ricart, 2010). It describes "the nature of the product/ service mix, the firm's role in production or service delivery, and how the offering is made available to customers (Morris et al., 2005, p.729)" as well as the customer groups and their needs (Baden-Fuller & Haefliger, 2013), plus the construction of information flows (Amit & Zott, 2001; Casadesus-Masanell & Ricart, 2010). There are two major definitions concerning the value proposition. On the one hand, it is said that it is the way through which a company, together with other business actors (e.g. partners and suppliers), creates value for consumers (Magretta, 2002; Osterwalder et al., 2005; Rajala & Westerlund, 2007). On the other hand, there is the notion that the value generation concerns a company together with all its stakeholders in order to generate value for every party that is involved (Stahler, 2002). Moreover, Zott and Amit (2010) explain "the greater the total value created, and the greater the focal firm's bargaining power, the greater the amount of value that the focal firm can appropriate (p. 218)". Tecee (2010) also draws attention to one difficulty concerning the value delivery through intangible assets: since there are no perfect property rights, manager need to put more effort in the protection the sustainable advantage.

(2) Infrastructure management: This second pillar is concerned with cross-company and inter-organization relationships (Al-Debei & Avison, 2010), meaning the enabling of transactions as well as the cooperation among different companies, parties and various stakeholders (suppliers, partners, marketers, distributors and intermediaries, as well as competitors and public organizations) (Hedman & Kalling, 2003; Kallio et al., 2006; Al-Debei & Avison, 2010) in order to exchange value. Additionally, it entails the company's position in the value chain and indicates whether the collaboration network is rather open or closed (Pisano & Verganti, 2008).

(3) Customer interface: The third pillar differentiates between customer and users, hence the people who pay for the product/service and the people who are only making use of it (Teece, 2010). Morris et al. (2005) provide a more detailed explanation by including factors like customer types,

geographic dispersion of customers and their interaction requirements. The researchers claim further that an ill-defined target market is one of the most frequent reasons for failure (Morris et al., 2005). Nowadays, another important aspect of the customer interface is the internet. New communication technologies and forms of information-gathering have empowered consumers as well as enabled and pressure companies to offer a more differentiated product and service portfolio (Teece, 2010).

(4) Financial aspects: This last pillar facilitating the previous three (see Figure 1) includes costing, pricing methods and revenue structure (Osterwalder et al., 2005). Teece (2010) argues that in order to choose the appropriate constitution and pricing model, it is not only necessary to consider all possible choices but also to look for validation "about costs, customers, competitors, complementors, distributors and suppliers, […] of customer needs and customer willingness to pay, as well as of competitor positioning and likely competitive responses (p. 188)".

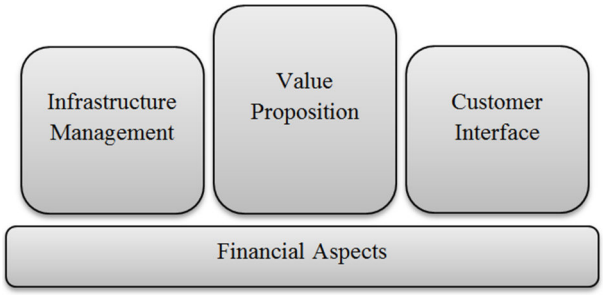


Figure1: Business Model Canvas simplified

2.3 External Factors influencing Business Models Dynamic: PESTEL Analysis

The PESTEL analysis is a tool that can be applied in order to get a better insight of a market's macro level.

The first element of the PESTEL analysis is the political factors. This factor is important to consider because it shows how the government may affect a certain industry. Moreover, structure and stability of a government enable the prediction of future scenarios in the political environment (Communication 18 Ventures, 2014). It is therefore essential to know about decision-makers, time lines for processing requests, tax or duty changes which could influence entire revenue generating structures (Communication 18 Ventures, 2014). Political factors include: tax policies, fiscal policy, trade tariffs, bureaucracy, corruption, environmental law, political stability, government type, labor law, freedom of the press, de-/regulation, employment, tariffs, trade restrictions, etc.

Examining different economic factors provide business people with basic information about threats and opportunities available within the industry (Communication 18 Ventures, 2014). These factors thus influence directly a firm's performance. For example, an increasing inflation rate would lead to change in the firm's pricing of services and products. Economic factors include: Business Cycle Stage, FDI, Consumers' Disposable Income, Economic Growth, Exchange Rates, GDP, Globalization, GNP, Interest Rates, Inflation Rate (cost of capital), Labor Costs, Labor Supply, Likely Economic Change, Unemployment Rate, etc.

Knowing the social factors of an industry enables a company not only to interact more easily with targeted customer segments but also to attract qualified employees (Communication 18 Ventures, 2014). Social factors include: cultural trends, demographics, population analytics, customer behavior, customer needs etc.

The technological element describes innovative technology that may influence operation in the market or industry, either favorably or unfavorably (Communication 18 Ventures, 2014). Especially the emergence of the internet and ICT as well as wider connected transportation networks effect the simplicity of doing business (Communication 18 Ventures, 2014). Technological factors include: automation, R&D, technological awareness, the product diffusion curve etc.

Environmental factors which influence or are influenced by the industry are becoming more and more important. Governments and consumers are demanding ethical and sustainable sourcing and production, adherence to pollution targets and a reduced carbon footprint (Professional Academy, 2014). Therefore, environmental factors affect companies regarding their product and service offering as well as their industry because this "greenish" awareness can create as well as diminish markets (Professional Academy, 2014). Environmental factors include: climate cycles, weather patterns, ecosystem of the region, pollution, scarcity of raw materials, ethical and sustainable operating methods, carbon footprint, etc.

Certainly, companies need to be aware of their rights and responsibilities in order to function properly and without statutory violation. Moreover, legal factors can impact a firm's operation, costs and its market demand regarding product safety and advertising standards (Professional Academy, 2014). Another challenge is trading globally because each country's regulations and demands are different (Professional Academy, 2014). Legal factors include: consumer laws, intellectual property rights, competition laws, employment laws, health and safety legislation, advertising standards, product safety, etc.

3. METHODOLOGY

The emergence of streaming and sharing platforms is an interesting setting to analyze business model dynamics in the music industry. In order to do so, the developed theoretical framework about business models in general, business model dynamics, the Business Model Canvas and the PESTEL analysis can be used as theoretical background. This theoretical background is based on more than 50 different scientific articles and books. As research method a simple keyword search was conducted by focusing on terms like business model, + dynamics, + innovation, +canvas, e-business models and music industry.

This theoretical knowledge will be applied during the analysis which will not only consider the companies' perspective but also the standpoint of artists and customers. In more detail, the analysis will focus on PESTEL factors influencing the music industry and on the different branch-specific BMs. Moreover two case studies will be conducted by exploring the business model adopted by the Universal Music Group (as a representative for traditional record labels) and Spotify Ltd (as a representative for new players in the industry) as they are important players in their business:

(1) UMG was founded in 1996, but renamed in 1999, and is the global market leader concerning record music, artist service, music publishing as well as merchandising (UMG, 2014). Since 2000, the company belongs to the multinational mass media and telecommunication company Vivendi S.A. (UMG, 2014).

(2) Spotify Ltd was founded in 2006 and is a commercial music streaming service (Spotify Ltd, 2014b). Launched only in 2009 with about 88,000 songs, the company offers now over 20 million tracks including digital rights

management-restricted music from various record labels like Sony, EMI, Warner Music Group and UMG in more than 57 markets worldwide (Spotify Ltd, 2014c).

A short overview of the firms' characteristics is provided in Table 1(Spotify Ltd, 2014b; UMG, 2014).

Table1: Overview UMG and Spotify

Company profiles in 2012	UMG	Spotify Ltd
Founded	1996	2006
Organizational and management structure	Subsidiary of a multinational music corporation, Inc.	Privately held company
Headquarters	Santa Monica, California (US)	London (UK) and Stockholm (Sweden)
Employees	1,050 +	111+
Type	Record label	Social networking service, music website
Revenue in	$ 69,300,000[i]	$ 146,142[ii]
Market share	32.8%	3.5%
Main competitors	Warner Music Group Corp., Sony Music Entertainment	iTunes (Radio), Pandora, Rhapsody, Soundcloud

Since the goal of this paper is to compare different BMs and the effect of the internet on the music industry, UMG and Spotify Ltd will be assessed by applying an adjusted version of the Business Model Canvas (see Table 2).

Table 2: Business model elements with description

Business Model Elements		
Value propositions	Offer	What value will be delivered and experienced by the customer?
Customer interface	Customer segments	Whose needs and desires are addressed?
	Channels	How can the customer be reached?
	Customer relationships	What type of relationship has the company with its customers?
Infrastructure management	Key resources	What resources are necessary to create value?
	Key activities	What are the most important activities in order to implement the company's value proposition?
	Key partnerships	Who belongs to the company's network?
Financial aspects	Revenue streams	How to generate income from the various customer segments?
	Cost structure	What are the characteristics of the different costs?

Additionally, the companies' path-dependency will be assessed by taking a closer look at the history and willingness to adapt to innovative technology (see Figure 2). As Sydow, Schreyögg and Koch (2009) explain in more detail, a company's future actions are influenced by previous events that in turn have led to a particular combination of operation structures – which can be, for example, a certain decision-making process or the outsourcing of a production step. These well-tried patterns yet again hamper business model dynamics because incumbent firms relay on their previous success. Concerning the music industry, companies could be analyzed regarding their willingness to use new technologies to produce and develop their music and artists or how they include online channels to sell and promote their music as well as merchandising products.

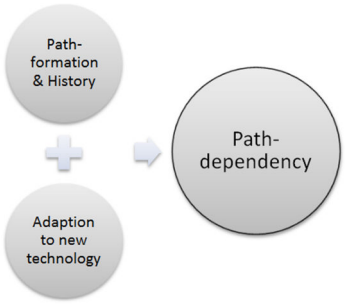


Figure 2: Assessing path-dependency

In order to examine various external factors' impact on BM dynamics in the music industry, the PESTEL analysis will be used as a tool to assess the macro level of the environment (see Table 3).

Table 3: PESTEL factors in the music industry

	PESTEL	Music Industry
P	Political	Not relevant in this case; factors influenced by legislation will be discuss in the "legal" section
E	Economic	Market access and independence of artists, producer and labels; sales figures
S	Social	Change in customer needs and behavior; music genre and the matching life style
T	Technological	Distribution of digital music and the usage of copyright protection technologies
E	Environmental	Not relevant for this analysis because the music industry is not directly related to environmental matter
L	Legal	Laws and regulations concerning intellectual property rights, music distribution and piracy

The gathered results will be compared afterwards, so that a model showing different influencing factors and their effect can be developed.

4. ANALYSIS

4.1 Business Models in the Music Industry

It is already well-known and also indicated in this paper that traditional business models in the music industry were unable to stop a decrease in revenues and profits during the last years (Chesbrough, 2010). One reason for this is that digital music distributed via alternative formats like iTunes and Spotify leads to decreased CD unit sales (Chesbrough, 2010; Fox, 2004). However, not only record companies but also artists are affected by changes in the market. Still 40 years ago an artist could live quite well from revenues through sold music records (Teece, 2010), while in the 80s and 90s music videos were a significant source of revenues (Teece, 2010). The emergence of digital distribution and online music piracy has most certainly disrupted this structure and forces record labels to rethink their cost structure, cost savings and thus their approach of artist development (Fox, 2004). This is a decisive turning point since record labels act basically like venture capitalists – they invest in as many artist as possible hoping that some of them will bring significant financial returns (Fox, 2004). On the other hand, the decreasing costs concerning physical inventory, manufacturing, distribution and retailer inventory-holding boost competition in the music sector between major and online labels (Fox, 2004). Additionally, the online distribution of songs allows labels to better evaluate the expected success of their artist, it enables a more precise forecast of the music enthusiasts' preferences and hence provides the label with information regarding the choice which artist to support (Fox, 2004).

Another important aspect is that contractual arrangements between the record label and the artist formed for a long time a major entry barrier to the music industry and provided the record labels at the same time with monopoly rights concerning the artists' output (Fox, 2004). Nowadays, artists earn money by offering their music as physical CD or digital in online stores as well as for soundtracks to video games and movies, they can play concerts and engage in live productions – musicians can act more independent and indie labels can more easily enter the market (Teece, 2010). Stähler (2001) identifies various new stakeholders in the music sector: The traditional market was divided among major record labels and independent labels, the new market structure also comprises artists' websites, online retailer, download sites, peer-to-peer networks and music portals (Stähler, 2001).

Nevertheless, there are various different business models in the music industry (see Table 4), only the five most important or popular ones will be discussed in more detail:

(1) The traditional model: This model is regarded as the traditional or classical business model because its most important characteristics are the mass production and distribution of physical goods (e.g. CDs). Moreover, it contains solely one aspect that is connected to the World Wide Web – online retailers. Some researchers describe the traditional model still without any "online factors". However, this model is still the basic BM in many record labels that only adopt incrementally to the fast changing online environment.

(2) The subscription model: This model is characterized by a fee that is mostly paid monthly in order to access a music library (Dubosson-Torbay, et al., 2004; Fox, 2004). This approach is especially favorable when it is about attracting so-called "sleepers" – customers who would purchase more music if it was easier to access and to acquire (Fox, 2004). The one concern about subscription services is that they are competing with platforms where music can be acquired for free (Dubosson-Torbay et al., 2004; Fox, 2004). As a consequence, legal business models need to provide the customer with a value that 2P2-networks do not offer (Fox, 2004). Therefore, subscription services should further focus on proving a better sound quality, guaranteed file quality and virus protection (Fox, 2004).

(3) The 'à la carte'/ pay-per-track model: As the naming already indicates, this model's main characteristic is that customers only pay for each track/ album either each time they play it or only once when they download it (Dubosson-Torbay et al., 2004; Fox, 2004). One critical issue in this approach is pricing – surveys show that music enthusiasts are not anymore willing to buy complete albums if they only want to hear one specific song (Fox, 2004). Besides that, customers are well aware of the fact that the costs of online distribution are low compared to the distribution of physical products and that record labels depend their pricing approach on the popularity of the artist or song (Fox, 2004), leading to the assumption that a change in pricing structures is required in order to attract more consumers. Still, the 'à la carte' service can place additional value for the customer by offering prerelease recordings or access to rare tracks (Fox, 2004).

(4) The broadcasting model: The broadcasting model distinguishes oneself by offering its users music for free and generating revenue instead from advertising, merchandising, selling consumer data as well as related products and services (Dubosson-Torbay et al., 2004; Fox, 2004). This model belongs to the notion of the so-called "open-source" movement which holds the view that music should be offered for free and that business models in this industry need to be adjusted towards this idea (Fox, 2004). Further, record labels can license their music for free distribution to third-parties so that music fans only need to visit one website in order to listen to all their favorite artists (Fox, 2004). Fox (2004) explains also drawbacks of this model: offering music for free burdens the networks with retailers and radio stations, the distribution of products is more difficult to monitor and the main revenue stream for record labels moves away from music itself.

(5) The artist-to-consumer model: There are various possibilities to implement this model. Dubosson-Torbay et al., (2004) suggest, for example, that artists could attract customers with free samples but refuse releasing a full album or new tracks until they are sufficiently compensated or that consumers tip the artist after downloading a song. Therefore, the special

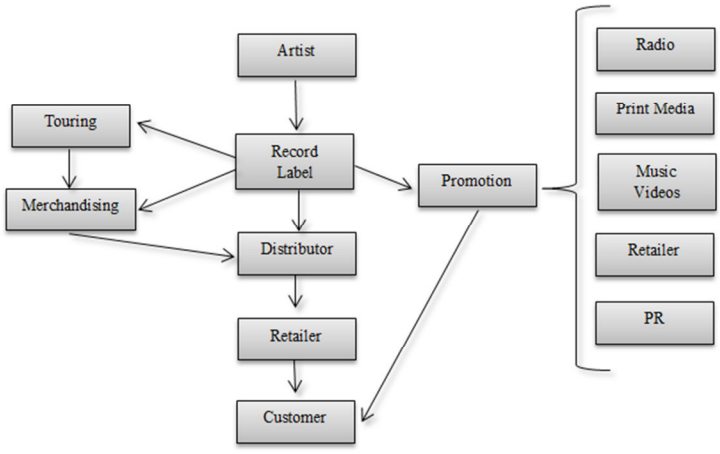


Figure 3: The "classic" music industry (simplified value chain)

aspect of this model is that record labels as intermediary between the artist and the fan are bypassed. One major advantage of this model in the view of artists is that music becomes more diversified and innovative, the music industry becomes democratized and that profits will be distributed more reasonable (Fox, 2004). However, this model will mostly be a favorable for artists who have already devoted fan base and who rather judge their achievement regarding their popularity rather than concerning their profit (Fox, 2004).

Nonetheless, there will be more BMs to come and thus Dubosson-Torbay et al. (2004) explain which critieria need to be met by emerging BMs in the music industry: (1) usable by the five majors and independent labels; (2) provide ownership for the consumers so that they can mix it, burn it and copy it; (3) accessible by various devices; (4) uniqueness with exclusive content and services; (e) digital rights management.

Table 4: e-Business Models after Dubosson-Torbay, Pigneur & Usunier (2004), Fox (2004) and Vaccaro & Cohn (2004)

Business Models in the music industry		
The traditional model	Is characterized by mass production and distribution of physical goods (e.g. CDs) through bricks-and-mortar stores, online retailers and during concerts	e.g. Universal Music, Sony, EMI, Warner Music
The subscription model	Launched or initiated by major labels as fee-based services in order to decrease free MP3-file downloading; cannot compete with the variety offered for free by P2P networks	e.g. Napster, Rhapsody
The 'à la carte' model	Customers pay for each single track either each time they play (pay-for-play model) it or only once when they download it (pay-for-download model)	e.g. iTunes Store, Amazon.com, 7digital, EMusic
The distribution model	Provides the consumers to stream various tracks before choosing the ones they want to rent as time-limited downloads for a fixed price	
The ransom model	Artists attract customers with free samples but refuse releasing a full album or new tracks until they are sufficiently compensated	
The tipping model	Consumers tip the artist after downloading a song	e.g. Espara, Snarfizilla
The promotion model	Music is for free, but revenue is increased through increased popularity	
The merchandise model	Music is for free and revenues is generated by related merchandise sales	
The broadcasting model	Offer the streaming of music for free, while they gain revenues through advertisement	e.g. YouTube, Spotify Ltd, SoundCloud
The integrated model	Combination of different BM in order to increase value generation	

4.2 PESTEL Analysis of the Music Industry

As already mentioned, the PESTEL analysis provides an overview of factors that influence the macro-environment of a company. By investigating these factors and evaluating how their effect the two firms studies, it is possible to assess how well the different BMs are aligned with the external environment and how they react to changes in it.

(E) Economic: The online distribution revolution has led to several major changes in the music industry's economic environment: more independence for producers , artists and consumers (Warr & Goode, 2011); easier market access for new entrants (Kaul, 2012; Warr & Goode, 2011); increased joint venture activities (Teece, 2010; Vaccaro & Cohn, 2004); the unit of sales changed from "album" to "single" (Fox, 2004); revenues are drawn away from CD sales towards, merchandising and touring (Mortimer & Sorensen, 2005); decreased sales of tangible sound carriers (Teece, 2010). The IFPI (International Federation of the Phonographic Industry, 2014) indicates that the global revenue in 2013 in the recording industry is divided into 51% physical formats, 39% digital revenues, 7% performance rights and 2% synchronization revenues (IFPI, 2014). Therefore, revenues from digital channels increased by 4% compared to 2012, while revenues through physical formats decreased by 4% compared to 2012. The IFPI (2014) also estimates increasing revenues through performance rights in the following year. Consequently, BMs needs to be adjusted so that the internet can be used as source for value generation.

(S) Social: One of the most important aspects of the social factors is the change in customer behavior and their needs. Firstly, as already mentioned before, people are more interested in buying single tracks than in buying whole albums (Fox, 2004). Secondly, ownership still matters but access is more important. Consumers want to access their favorite music anywhere and anytime (Ogden et al., 2013) – a possibility that is enabled by the internet and various mobile devices. Thirdly, music fans are willing to invest more money in merchandising and concert tickets than before (Mortimer & Sorensen, 2005; Teece, 2010). Furthermore, the social effect of the music industry can be seen clearly in the life style and the appearance of representatives of the different music genres, whether it be the black clothes of the Goths, the unconventional style of PunkRock or the gold and "bling-bling" of the HipHop scene. Additionally, many musicians represent publically the political view and support different politicians.

(T) Technology: One major aim of the music industry is to protect their resources and products. Innovative technologies like the internet and advanced ICT have evoked changes in the last decades that have either supported helpful solutions to certain upheaves or that did not contribute to this notion. In this way, the current goal is to distribute digital music online without transgressing rights of artists, publisher and record labels (IFPI, 2012). Therefore, present companies in the music industry focus on developing software and hardware solutions to reduce piracy (IFPI, 2012). In order to avoid infringement there are efforts to encrypt downloaded music and CDs, to work with equipment manufactures to protect copyrights, to protect streamed music, to track users during file-swapping and move from MP3-format to a more secure one (IFPI, 2012). At the same time, all the new technologies also

enable the music enthusiasts to overcome copyright protection technologies (Warr & Goode, 2011).

(L) Legal/ Political: There are currently three major public policy issues concerning the music industry. First, the industry is still struggling with the usage of digitalized music in new formats because of the violation of existing copyrights (IFPI, 2012). It is nowadays common knowledge that the combination of digital technology and the internet supports the making and distributing of music copies. Consequently, the second aspect is that the industry supports regulations that increase copyrights protection (IFPI, 2012). Third, online music sites claim to revise the 1998 Digital Millennium Copyright Act in order to gain access to the records of the major music companies (Vivendi, 2013). These major record labels on the other hand do not see urgency in changing this law even if their customers show interest in it (Kaul, 2012).

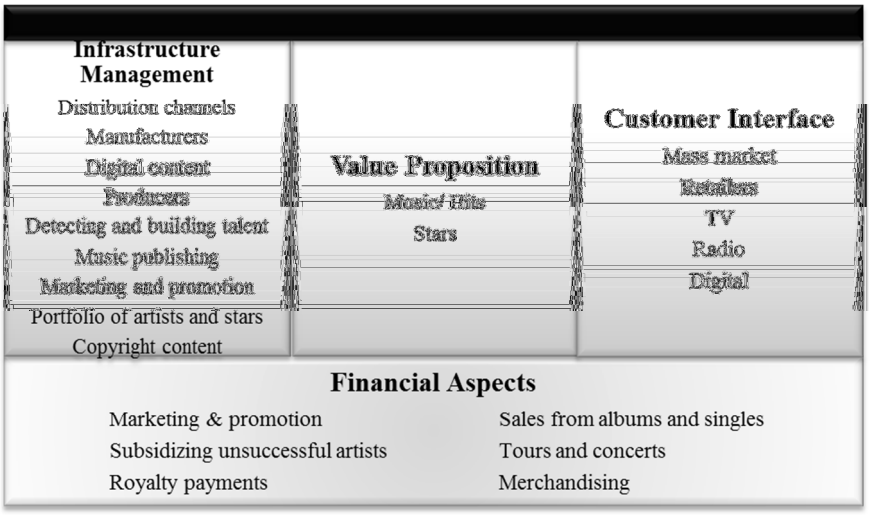


Figure 4: Business Model UMG

4.3 Case Studies

4.3.1 Traditional Record Label: Universal Music Group

As already mentioned in the theoretical framework, path-dependency hampers incumbent firms to engage fully in the exploitation of innovation because they are adjusted to the company's business model and not vice versa. UMG exists in this form indeed for only 20 years, but the company's history in the music industry already begins in 1936. Therefore, the company witnessed various technical changes like vinyl record, cassettes and compact discs. Nevertheless, only the internet brought a real disruptive change and one can see in Figure 4 that the internet with its possibilities as well as the digital format for music tracks are only integrated in UMG's BM.

So, taking a closer look at the four pillars of the business model from UMG (see Figure 4) one can recognize the following structure:

(1) Value Proposition: Universal Music wants to offer its customers a diversified portfolio of hits and stars (Vivendi, 2013). In doing so, the company focuses on serving the mass market, hence everyone who listens to music. For that reason, the company represents more than 200 smaller labels in areas of North America, Europa, Latin America and Asia Pacific to take care of the company assets: stars and their hits. Moreover, UMG owns various smaller record labels and even acquired EMI Music in order to appear in many different music genres and strengthen its online presence (Vivendi, 2013). The most famous and popular musicians who worked during the last years for UMG are among others: Eminem, Adele, Justin Timberlake, The Beach Boys, Irving Berlin, Mariah Carey, Jon Bon Jovi, Maroon 5, Florence and the Machine, André Rieu, Andrew Lloyd Webber, Ne-Yo and U2 (Vivendi, 2012).

(2) Infrastructure Management: In order to sell their products globally, UMG is focused on engaging in various distribution channels. The second important aspect in its partner network are the various manufacturers producing CDs, DVDs and merchandising products like t-shirts, posters, books and key tags (UMG, 2014). Thirdly, UMG has more than 420 online digital content partners worldwide, e.g. iTunes, Deezer and VEVO (Vivendi, 2012). Fourth, UMG collaborates with various producers and songwriters in order to support its artists. However, there are no products to be sold when there is no artist. Therefore, one of the key activities is the detecting and building of talented musicians via sent-in demo tapes, casting shows or interactive platforms like SoundCloud and YouTube (UMG, 2014). Moreover, the promotion and marketing for an artist is a very important aspect –performances in TV shows, interviews with various magazines, publishing music videos and presence at radio stations need to be organized (Vivendi, 2012). Therefore, a widespread portfolio of artists, songs and stars as well as copyright protected content are the key resources of UMG.

(3) Customer Interface: UMG wants to provide the mass market with music, hence everyone who listens to music that is favored by the general public (UMG, 2014). It hence only targets musicians that belong to the main genres, e.g. pop, rock, urban, classic, jazz and folk music. UMG also uses various distribution channels: The company works not only with regional stores, but also with online retailers like iTunes, amazon.com and Bravado to sell music records and merchandising products (Vivendi, 2012). Additionally, UMG spreads its music by airing it on TV and radio stations as well as by making it available on online platforms like YouTube and VEVO and by selling it for movies and games (Vivendi, 2013).

(4) Financial aspects: Even if there are no specific numbers concerning UMG's cost structure, one can guess that most of the company's expenses are spend on marketing and promotion, subsidizing unsuccessful artists as well as on royalty payments (Vivendi, 2013). IFPI (2014) published a table summarizing a record label's investment which will also be used to amplify this paper (see Table 5).

Table 5: A record company's investment (average)

	Invested Amount ($)
Advanced payment	$ 200,000
Marketing & Promotion	$ 200,000 – 500,000
Music Videos	$ 50,000 – 300, 000
Tour Support	$ 100,000
Recording	$ 200,000 – 300,000
Total	$ 750,000 – 1,400,000

On the other hand, with revenue streams like album and single sales, tour and concert tickets as well as merchandising UMG reached a turnover of $ 69,300,000 in 2012[iii].

4.3.2 Online Audio Distribution Platform: Spotify Ltd.

Taking a closer look at the new player in the market and its path-dependency, one can find in the theoretical framework that the inhibited behavior of incumbent companies enables entrepreneurship and the entrance of new players in the market. Spotify Ltd was founded in 2006 as music streaming service and it BM was built on the innovative technologies of digitalization and the internet (Spotify Ltd, 2014b). Therefore, the company was able as new entrant/ player to implement and engage in radical innovation.

Looking at the four pillars of Spotify Ltd's business model (see Figure 5), one can find the following configuration:

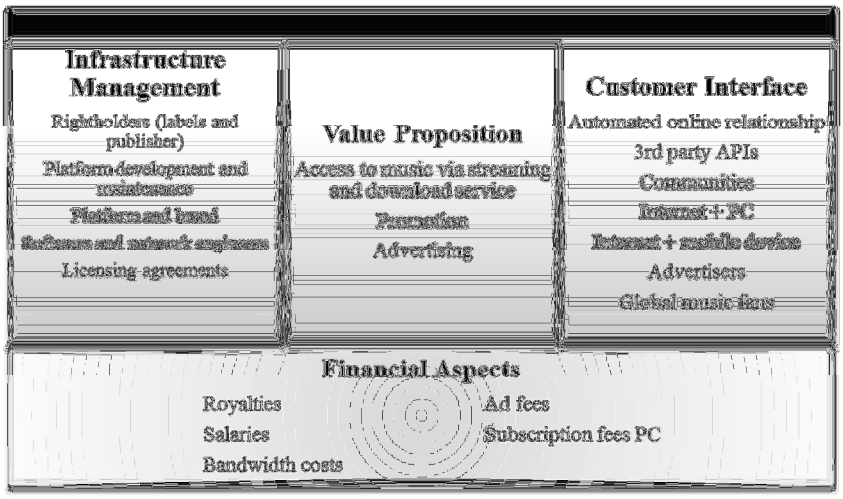


Figure 5: Business Model Spotify Ltd.

(1) Value Proposition: Spotify Ltd's mission statement which can be found in the latest annual report 2013 says: "We want to connect millions of people with their favorite songs and create a service that people love to use. We believe music should be easily accessible and that listening to music will make people live richer lives. We want to create a win-win situation for people who love listening to music and people who love creating music (Spotify Ltd, 2013)." Spotify Ltd offers its customers thus an "anywhere, anytime – service" to access music for-free via streaming and via a fee-based downloading service (Spotify Ltd, 2013). Moreover, users are able to create their own playlists, follow their favorite artists' playlists, subscribe to theme-specific playlists and users are provided with personalized music suggestions. Spotify Ltd gives also artists which do not have a contract with a record label the possibility to upload their music so that they can promote themselves (Spotify Ltd, 2014b). Additionally, Spotify Ltd sees its advertising not only as revenue stream, but also as way to generate value: on the one hand, Spotify's business-to-business network has the possibility to advertise its products to their target group, and on the other hand, music enthusiasts do not have to pay for music and they get informed about music-related products and trends (Spotify Ltd, 2014c).

(2) Infrastructure Management: Spotify Ltd's partner network contains mainly of rightholders represented by different labels (e.g. Universal Music, Sony, Warner Music and EMI) and publishers (e.g. noisy and The Guardian) (Spotify Ltd, 2014b). Since Spotify Ltd is an online audio distribution platform, the company's two key activities are platform development and maintenance, meaning that technical aspects as well as the offered music and playlists need to be updated constantly (Spotify Ltd, 2014b). Therefore, the business model of Spotify Ltd covers three key resources: licensing agreements with labels, publishers and artist; platform and brand awareness; as well as close cooperation with software and network engineers.

(3) Customer Interface: Since it is Spotify Ltd's goal to create value for music fans all over the world as well as for advertisers, it is only consistent to appoint them as customer segment. The relationship between Spotify Ltd and its customers is basically an automated online relationship (Spotify Ltd, 2014b). However, there are different interest- or question-based communities for the currently more than 50 million users and 3rd parties APIs (application programming interface) simplify user interface components (Spotify Ltd, 2013; Spotify Ltd, 2014c). Spotify Ltd depends mainly on the internet as distribution channel but in this way, it is possible for users to access music as long as their computer or mobile device is connected to the internet (Spotify Ltd, 2014b).

(4) Financial Aspects: Even if there no specific numbers about the cost structure Ltd of Spotify, it is possible to name the three major cost factors: royalties, salaries and bandwidth. Nevertheless, Ltd Spotify had revenues of $ 146,142[iv] in 2012. Sources for that gain are on the one hand the ad fees and on the other hand, the over 10 million paying subscribers (Spotify Ltd, 2014c). These subscription fees for users are divided into three groups: free = $ 0,00 (music is instant, available on desktop/ laptop, million songs made possible by ads); premium = $ 9,99/month (music is instant, listen on all devices, better sound quality, listen offline and download millions of songs, no ads od comments) or student discount = $ 4,99/month (offers the same advantages as the premium account but costs only half the price for students) (Spotify Ltd, 2013; Spotify Ltd, 2014b).

5. RESULTS

After analyzing several influential factors on business model dynamics (see Figure 6), various differences between traditional record labels and new entrants in the music industry could be found.

Beginning with the Universal Music Group as a representative for traditional record labels, the business model analysis shows that UMG developed an integrated model which contains elements from the traditional model (e.g. distributing physical goods) and the subscription model (e.g. fee-based collaboration with P2P-networks). Moreover, the numerous artists covering the various genres indicate a product differentiation strategy. Another important aspect is the company's path-dependency – Figure 4 shows that in recent years UMG tried to integrate online distribution and digitalization of music records into their traditional business model rather than to develop a new BM which is adjusted to the possibilities provided by ICT and advanced technology. This can be seen in the digital content as additional aspect in the infrastructure management and the extra digital customer interface. Considering UMG's value proposition, Zott and Amit (2010) introduce the concept of lock-in – describing a company's supremacy to keep third parties attracted to their activity network as consequence of a special activity structure or offered content. In this case, UMG offers its customers exceptional musicians who have the makings to become a star and release hits regularly. The company's infrastructure management is very diversified and covers the discovering and developing of talents, music production and merchandising as

well as distribution. The offered goods are usually available as physical or digital products and can be acquired via offline and online channels. Even if the musicians and stars are promoted via various channels (e.g. radio, TV etc.) in order to reach the mass market, there is no direct relationship between consumers and UMG. The major cost factors for UMG are marketing and promotion as well as royalty payments. However, the revenues streams from album and single sales, concerts as well as merchandising complement the financial aspects. The results of the PESTEL analysis applied to the case study of UMG indicates that there is a change in the economic matter because of revenues are drawn away from CD sales towards merchandising and touring. Taking a look at the social factor, one can see three important changes in customer needs: from buying albums to buying singles; from ownership to access and from investing in music records to investing in merchandise and concert. These are three notions which are not yet fully implemented by UMG. Regarding the technological factors, UMG focuses on securing digital products, also with the help of extended copyright laws as main legal factor.

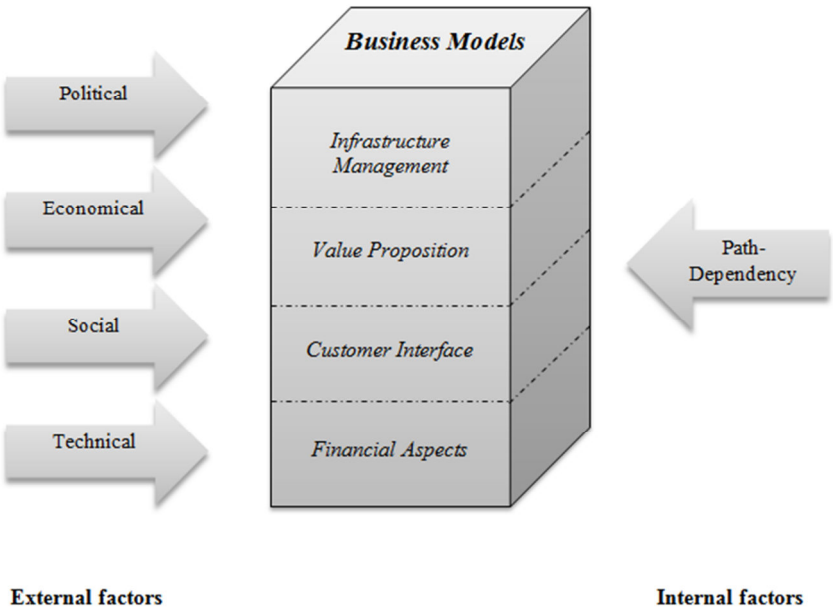


Figure 6: Factors influencing the four building blocks of a business models in the music industry

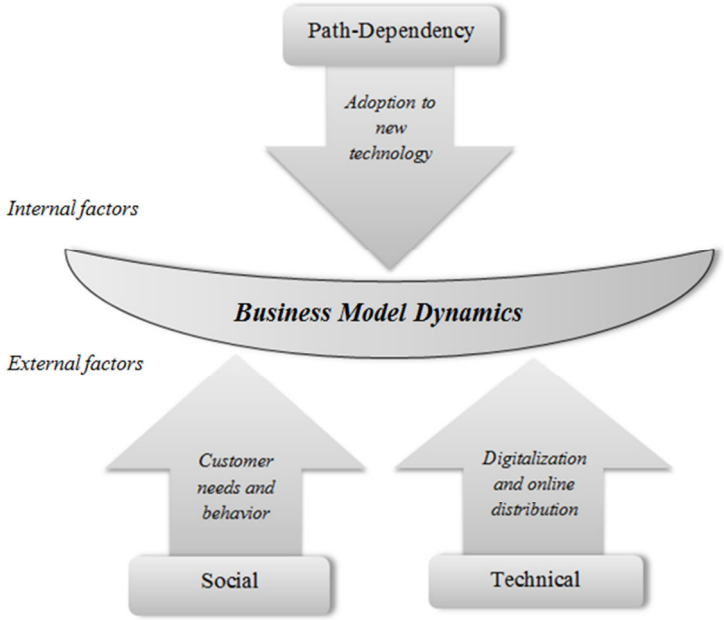
Proceeding with Spotify Ltd as a representative for new entrants in the music industry, one can clearly recognize on the basis of the case study that the company developed a broadcasting business model – free music streaming for customers while the profit and royalties are mainly covered by revenues from advertisement. However, Spotify Ltd also offers the acquisition of premium accounts without any advertisement. These premium accounts are rather an indicator for the subscription model. Nonetheless, the broadcasting model seems to be dominant. Additionally, Spotify Ltd as representative for new entrants in the music industry does not show path-dependent behavior. Taking a closer look at the four pillars of Spotify Ltd's BM, one can see that the company focuses on providing music "anywhere, anytime" supplemented with targeted promotion and advertising. These targeted activities are based on the consumers' customized playlists as well as on the playlists and stars the consumer follows. Therefore, Spotify Ltd shows a broader and more varied value proposition in order to serve its customers as well as musicians and its advertisers. Moreover, Spotify Ltd's value proposition can be described as novelty – hence an activity system characterized by new activities and/ or a new configuration and/ or new way of organizing (Zott & Amit, 2010). The infrastructure management of Spotify Ltd is compared to the one shown by UMG rather focused on ICT and online activities, whereas both companies consider the management of rights and content as important aspects. Regarding the customer interface, Spotify Ltd has no third parties involved in order to communicate with its customer. This automated online relationship is enhanced by topic-related communities, interactive playlists and targeted advertisement as well as by the fact that Spotify Ltd can be reached via every mobile device and PC that is connected to the internet. Another difference compared to Universal Music is that Spotify Ltd does not target the mass market but everyone, meaning that the company offers music from every genre and every niche regardless ofs language and popularity. Moreover, Spotify Ltd distributes only digital and no physical products. Applying the results of the PESTEL analysis to Spotify Ltd, the economic factor indicates that the company can benefit from the shift from of record sales to merchandising and advertising as source of income. The social factor and hence the changes in customer needs concerning consumer behavior and the increasing requirement of interaction with other people, musicians and companies are served by the company because of shared playlists and targeted advertisement. Further, taking a closer look at the technological factors, Spotify Ltd focuses on securing their digital products and their online platform. Regarding the legal factor, Spotify Ltd is in favor of lowering copyright laws and regulations so that more songs can be offered without the risk of an infringement.

6. CONCLUSION AND DISCUSSION

6.1 Conclusion

After analyzing the music industry and examining different factors influencing business model dynamics (see Figure 6) it is possible to answer the beforehand posed research questions "What kind of business model will be dominant in the future of the music industry?" and "What external and internal factors influence business model dynamics in the music industry the most?" in the following paragraph.

To begin with the second research question, the analysis and the results section indicate that three factors have the most impact on business models in the music industry, namely path-dependency as well as the social and the technical element of the PESTEL analysis (see Figure 7). In more detail, path-dependency - as an internal factor, developed from the firm within - with its constraining power regarding incumbent firms on the one side and the thereby emerging opportunities for new entrants on the other side, reveals to have a powerful influence on business model dynamics. Especially, when



considering the aspect of adapting new technology which is significant in the fast changing music industry. Speaking of technology's influence, it shows that the internet and digitalization brought a rigorous shift in the music industry regarding distribution, consumer behavior and techniques to protect intellectual property. Therefore, also the social element - focusing especially on customer needs - indicates that the major shifts towards online sales of single tracks, merchandising and concert tickets as well as on a focus on access rather than ownership have a determining impact on business model dynamics. The two remaining factors "economic" and "legal" indicate in their practical relevance a rather strong influence on the business strategy.

Focusing on the first and main research question and thus on the thought of a dominant business model, one can see that there will not be "the one" BM applied in the music industry. The two case studies show that it is more likely that companies will develop integrated models (with strong elements of the promotion and merchandise model) in order to serve the various customer needs and to overcome different challenges brought by disruptive technologies. Regarding the music industry, companies face problems concerning brand identity, niche markets, royalties, legislation, file sharing and data streaming. Moreover, Spotify Ltd's business model indicates a shift towards a more interactive model in terms of communication between companies, customers as well as musicians. Further, the analysis predicts a notion of classical record labels losing their power because of more independent artists and other strong companies with differing value proposition, e.g. Spotify Ltd is providing music anywhere, anytime as well as Live Nation Entertainment is focusing on live entertainment, concert and tours. These companies offer the customer more than just recorded music and evoke a change in the music industry's value chain (see Figure 3 and 8).

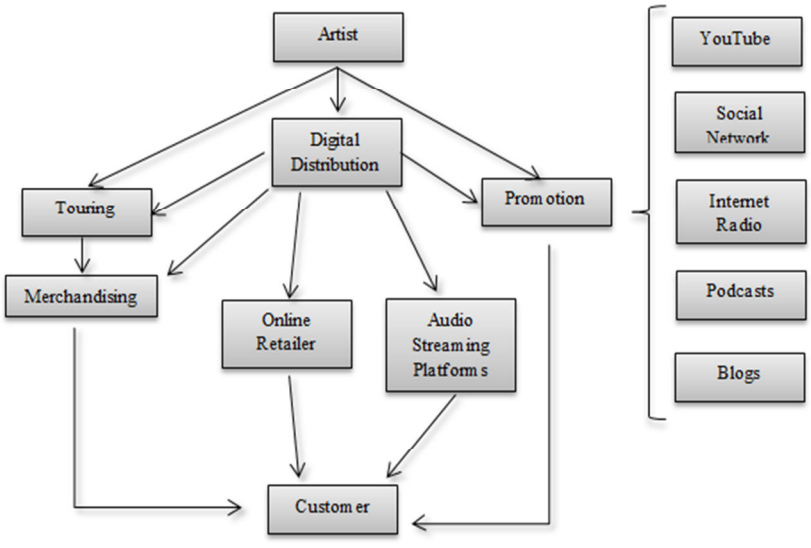


Figure 8: The "new" music industry (simplified value chain)

6.2 Discussion

However, the business model analysis is based on the Business Model Canvas framework introduced by Osterwalder and Pigneur (2009). This well-tried theory is a widely used tool to visualize and communicate a company's business model. Still, the Business Model Canvas is a model rather developed for a company-internal usage since it shows involved stakeholders and their contribution to value creation. Therefore, using the Business Model Canvas framework from an external perspective in order to categorize the different BMs could show a slightly distorted picture.

Discussing the application of the path-dependency concept one could claim that it is a very important and influential factor concerning business model dynamics. Since path-dependency is rooted in a company's past actions, it is still very difficult to assess because of the limited time frame and resources of this research.

The PESTEL analysis can for one be used as an effective overview of the macro-environment, but for the other, it shows only the current state of very dynamic factors that change especially often in the highly active markets of the music industry. Moreover, the simple presentation of the PESTEL analysis ignores the interrelationship of the different factors which clearly influence each other. Since the PESTEL framework only considers the external environment, it is used best in combination with other analysis tools in order to develop a comprehensive approach for strategic planning.

This research contributes to the academic world in terms of an extensive analysis of the music industry and various factors influencing its business models. Moreover, it can also be used as a basis for theory building. As Carlile and Christensen (2005) explain, theory building consists of three rotating steps which are "observation", "categorization" and "association". The detailed descriptions of the business model ontology as well as of the music industry serve as comprehensive observation. Categorized are the different phenomena in the analysis part as their attributes are classified. The results as well as the conclusion show different associations by explaining relationships between the category-defining attributes and the observed outcomes. Therefore, this paper

provides a descriptive theory that can be used to develop a rather normative approach. Additionally, this paper bears its practical relevance in showing the most influential factors on business models (see Figure 7) which thus can be used as an analysis tool facilitating the decision-making process. Business scholars and managers can use this paper also to structure their own analysis of business models in the music industry.

Nevertheless, this research is also constrained by a few limitations. First of all, this research is restricted by limited accessibility of resource as only articles and texts in English or German are considered for the literature review. Another important aspect is that only secondary data (i.e. scientific articles, business reports) was used and no own gathered data contributes to the findings. Moreover, the short time frame and restricted space narrowed the scope of this research. Even if the various influencing factors were considered, the developed framework is not exhaustive and mostly based on path-dependency and the PESTEL analysis.

Consequently, further research examining the impact of other internal factors like change management as well as external factors like competitors‘ influence on business model dynamics should be conducted.

7. REFERENCES

Al-Debei, M. M., & Avison, D. (2010). Developing a unified framework of the business model concept. *European Journal of Information Systems*, *19*(3), 359–376. doi:10.1057/ejis.2010.21

Amit, R., & Zott, C. (2001). Value creation in E-business. *Strategic Management Journal, 22* (6-7), 493–520. doi:10.1002/smj.187

Anderson, C., (2004). The long tail. Wired, October 2004. 170–177.

Andersen, B.,Frenz, M. (2008).The impact of music downloads and P2P file-sharing on the purchase of musicin Canada. Paper Presented at the 25th Celebration Conference 2008 on Entrepreneurship and Innovation — Organizations, Institutions, Systems and Regions. Copenhagen, CBS, Denmark, June 17th–20th, 2008.

Arend, R. J. (2013). The business model: Present and future--beyond a skeumorph. *Strategic Organization, 11*(4), 390–402. doi:10.1177/1476127013499636

Baden-Fuller, C., & Haefliger, S. (2013). Business Models and Technological Innovation. *Long Range Planning, 46*(6), 419–426. doi:10.1016/j.lrp.2013.08.023

Bockstedt, J., Kauffman, R., & Riggins, F. (2005). The Move to Artist-Led Online Music Distribution: Explaining Structural Changes in the Digital Music Market. Paper presented to 38th Hawaii International Conference on System Sciences, Hawaii.

Bohnsack, R., Pinkse, J., & Kolk, A. (2014). Business models for sustainable technologies: *Exploring business model evolution in the case of electric vehicles*. Research Policy, 43(2), 284–300. doi:10.1016/j.respol.2013.10.014

Casadesus-Masanell, R., Ricart, J., 2010. From strategy to business models and on to tactics. *Long Range Planning, 43,* 195–215.

Carlile, P., R., & Christensen, C., M. (2005). The Cycles of Theory Building in Management Research. *Harvard Business School Working Paper, 05-057*.

Chesbrough, H. (2010). Business Model Innovation: Opportunities and Barriers. *Long Range Planning, 43*(2-3), 354–363. doi:10.1016/j.lrp.2009.07.010

Chesbrough H., & Rosenbloom, R. S. (2002). The role of the business model in capturing value from innovation: evidence from xerox corporation's technology spin-off companies. *Industrial and Corporate Change, 11*(3), 529-555.

Communication 18 Ventures. (2014). *PESTEL Analysis.* Retrieved from http://pestel-analysis.com/ on May 23, 2014

Cooper, M.N. (2005). Time for the recording industry to face the music: the political, social and economic benefits of peer-to-peer communications networks. *Consumer Federation of America Consumers Union Free Press,* U.S. Public Interest Research Groups Paper.

Curien, N., & Moreau, F. (2009). The Music Industry in the Digital Era: Toward New Contracts. *Journal of Media Economics, 22* (2), 102–113. doi: 10.1080/08997760902900254

DaSilva, C. M., & Trkman, P. (2013). Business Model: What It Is and What It Is Not. *Long Range Planning*, 1–11. doi:10.1016/j.lrp.2013.08.004

Dubosson-Torbay, M., Pigneur, Y., & Usunier, J.-C. (2004). Business models for music distribution after the P2P revolution. Proceedings of the Fourth International Conference on Web Delivering of Music, 2004. EDELMUSIC 2004., 172–179. doi:10.1109/WDM.2004.1358115

Dubosson-Torbey, M., Osterwalder, A., & Pigneur, Y. (2002). E-Business Model Design, Classification, and Measurements. *Thunderbird International Business Review, 44*(1), 5–23.

Fox, M. (2004). E-commerce Business Models for the Music Industry. *Popular Music and Society, 27*(2), 201–220. doi:10.1080/0300776041000168583 1

Gambardella, A., & McGahan, A. M. (2010). Business-Model Innovation: General Purpose Technologies and their Implications for Industry Structure. *Long Range Planning, 43*(2-3), 262–271. doi:10.1016/j.lrp.2009.07.009

Guetta, D., & Antebellum, L. (2012). Mergers of Majors: Applying the Failing Firm Doctrine in the Recorded Music Industry. Brooklyn Journal of Corporate*, Financial & Commercial Law, 7*, 589–612.

Hedman, J. & Kalling, T. (2003). The Business Model Concept: Theoretical Underpinnings and Empirical Illustrations. *European Journal of Information Systems, 12* (1), 49-59.

IFPI. (2012). *Digital Music Report*. Retrieved from http://www.ifpi.org/content/library/dmr2012.pdf

IFPI. (2014). *Global Statistics*. Retrieved from http://www.ifpi.org/global-statistics.php on June 03, 2014

IFPI. (2014). *How record labels invest*. Retrieved from http://www.ifpi.org/how-record-labels-invest.php on June 14, 2014

Kallio, J., Tinnila, M., & Tseng, A. (2006). An international comparison of operator-driven business models. *Business Process Management Journal, 12* (3), 281-298.

Kaul, V. (2012). Changing Paradigms of Media Landscape in the Digital Age. *Journal of Mass Communication and Journalism, 02*(02), 1–9. doi:10.4172/2165-7912.1000110

Lam, C. K. M., & Tan, B. C. Y. (2001). The Internet Is Changing The Music Industry. *Communications of the ACM, 44*(8), 62–68.

Leyshon, A. (2009). The software slump: digital music, the democratisation of technology, and the decline of the recording studio sector within the musical economy. *Environment and Planning, 41*, 1309–1331

Magretta, J. (2002). Why business models matter. *Harvard Business Review, 80* (5), 86-92.

Meisel, J.B., Sullivan, T.S., 2002. The impact of the Internet on the law and economics of the music industry. *Emerald, 4* (2), 16–22.

Morris, M., Schindehutte, M., & Allen, J. (2005). The entrepreneur's business model: toward a unified perspective. *Journal of Business Research, 58*(6), 726–735. doi:10.1016/j.jbusres.2003.11.001

Mortimer, J.H., Sorensen, A.,(2005). Supply Responses to Digital Distribution: Recorded Music and Live Performances. Harvard University Working Paper.

Ogden, J. R., Ogden, D. T., & Long, K. (2011). Music marketing: A history and landscape. Journal of Retailing

and *Consumer Services, 18*(2), 120–125. doi:10.1016/j.jretconser.2010.12.002

Osterwalder, A., Pigneur, Y., & Tucci, C. L. (2005). Clarifying Business Models: Origins, Present, and Future of the Concept. *Communications of the Association for Information Systems, 16*, Article 1.

Pateli, A.G., & Giaglis, G.M. (2004) A Research Framework for Analysing Business Models, *European Journal of Information Systems, 13* (4), 302-314.

Peitz, M., & Waelbroeck,P., (2006). Why the music industry may gain from free downloading—the role of sampling. *International Journal of Industrial Organization, 24*, 907–913.

Pisano G. P., & Verganti R., (2008). Which Kind of Collaboration is Right for You? The new leaders in innovation will be those who figure out the best way to leverage a network of outsiders. *Harvard Business Review, 86*, 78-86.

Professional Academy. (2014). *Marekting Theories – PESTEL Analysis*. Retrieved from http://www.professionalacademy.com/news/marketing-theories-pestel-analysis on May 23, 2014

Rajala, R., & Westerlund, M. (2007). Business models - a new perspective on firms' assets and capabilities: Observations from the Finnish software industry. *International Journal of Entrepreneurship and Innovation, 8*(2), 115.

Schulman, B.M. (1999). The song heard 'round the world: the copyright implications of MP3s and the future of digital music. *Harvard Journal of Law and Technology, 12* (3), 589–646.

Shafer, S. T., Smith, H. J., and Linder, J. (2005). The power of business models. *Business Horizon, 48*, 199-207.

Sosna, M., Trevinyo-Rodriguez, R. N., & Velamuri, S. R. (2010). Business model innovation through trial-and-error learning: The naturhouse case. *Long Range Planning 43*(2/3), 383-407.

Spotify Ltd. (2013). 2013 Annual Report. Retrieved from http://www.behance.net/gallery/Spotify-Annual-Report/13069853

Spotify Ltd. (2014a). *Advertisers*. Retrieved from https://www.spotify.com/us/about-us/advertisers/ on May 30, 2014

Spotify Ltd. (2014b). *How is Spotify contributing to the music business?*. Retrieved from http://www.spotifyartists.com/spotify-explained/ on May 30, 2014

Spotify Ltd. (2014c). *Information – What is Spotify? Some fast figures.* Retrieved from http://press.spotify.com/us/information/ on May 30, 2014

Stähler, P. (2002). *Geschäftsmodelle in der digitalen Ökonomie. Merkmale, Strategien und Auswirkungen*, Josef Eul Verlag: Lohmar-Köln

Stein-Sacks, S. (2006). The Canadian independent music industry: an examination of distribution and access. *Prepared for the Department of Canadian Heritage, Sound Recording Policy and Programs Directorate*.

Sydow, J., Schreyögg, G. & Koch, J. (2009). Organizational Path Dependence: Opening *The Black Box. Academy of Management Review 34* (4), 689-709.

Teece, D. J. (2010). Business Models, Business Strategy and Innovation. *Long Range Planning, 43*(2-3), 172–194. doi:10.1016/j.lrp.2009.07.003

Thall, P.M. (2002). *What They'll Never Tell You About the Music Business*. Watson- Guptill Publications, New York.

UMG. (2014). *Our Company*. Retrieved from http://www.universalmusic.com/company on May 30, 2014

Vaccaro, L.V., Cohn, D.Y., 2004. The evolution of business models and marketing strategies in the music industry. *International Journal on Media Management 6* (1), 46–58.

Vivendi. (2012). *Annual Report*. Retrieved from http://www.vivendi.com/wp-content/uploads/2013/04/20130403_Annual_report_2012_ENG.pdf

Vivendi. (2013). *Annual Report.* Retrieved from http://www.vivendi.com/wp-content/uploads/2014/04/20140415_annual_report_doc_de_ref_2013_en.pdf on June 1, 2014

Zott, C., & Amit, R. (2010). Business Model Design: An Activity System Perspective. *Long Range Planning, 43*(2-3), 216–226. doi:10.1016/j.lrp.2009.07.004

Zott, C., Amit, R., & Massa, L. (2011). The Business Model: Recent Developments and Future Research. *Journal of Management, 37*(4), 1019–1042. doi:10.1177/0149206311406265

Notes

[i] Orbis is affiliated company of Bureau Van Dijk. On its website the company makes data about other firms available. The provided report includes the firms' contact information, legal and account information, size and group information, information about the industry and activities as well as financial information.
Orbis (2012). *Universal Music Group*. Retrieved from: https://orbis.bvdinfo.com/version-2014527/Report.serv?_CID=389&context=1XOIA4OOYX9T4JM&SeqNr=16 on May 31, 2014

[ii] Orbis (2012). *Spotify Limited*. Retrieved from: https://orbis.bvdinfo.com/version-2014527/Report.serv?_CID=774&context=1XOIA4OOYX9T4JM&SeqNr=8 on May 31, 2014

[iii] Orbis (2012). *Universal Music Group*. Retrieved from: https://orbis.bvdinfo.com/version-2014527/Report.serv?_CID=389&context=1XOIA4OOYX9T4JM&SeqNr=16 on May 31, 2014

[iv] Orbis (2012). *Spotify Limited*. Retrieved from: https://orbis.bvdinfo.com/version-2014527/Report.serv?_CID=774&context=1XOIA4OOYX9T4JM&SeqNr=8 on May 31, 2014