Adopting a Business Model View to Study Industry Change: The Case of the French Record Industry

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Résumé :

Dans cet article, nous utilisons le concept de business model pour étudier l'évolution de l'industrie phonographique entre 1998 et 2008. Cette approche nous permet de décrire la façon dont une industrie transforme sa logique de création de valeur lorsqu'elle est confrontée à d'importantes turbulences. En adoptant une perspective longitudinale, nous identifions différentes stratégies de changement qui impliquent un degré d'innovation plus ou moins important. Après avoir analysé ces stratégies, nous montrons que le développement de partenariats en dehors des frontières de l'industrie stimule l'innovation organisationnelle. Cette démarche permet aux dirigeants de surmonter les pressions cognitives qui sont le résultat d'un « business model dominant ». En outre, les partenariats en dehors de l'industrie sont un moyen efficace d'accroître le potentiel de création de valeur de l'industrie. Cette recherche aboutit à des résultats intéressants pour les praticiens évoluant dans les industries créatives en mettant en évidence différentes stratégies d'innovation. Au niveau théorique, cette recherche apporte une perspective nouvelle sur les mécanismes de création de valeur au niveau inter-industriel.

Mots-clés : Business model, innovation, changement, création de valeur, industrie de la musique

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I. INTRODUCTION

Since the late 1990's, the emergence of several technological innovations such as the MP3 or peer-to-peer networks (referred to as P2P from now on) induced the '*digitalization*' of the record industry. From these disruptive innovations appeared opportunities to develop alternative distribution channels and to sell music content differently. However, these new possibilities mostly benefited several outsiders[1] that created innovative business models. This new type of competition had a very negative impact on the record industry. Between 2000 and 2004, the global CD market declined by 16% which caused an $8.3 billion revenue decrease for the record industry. Moreover, the Internet and ICTs offered alternative ways for artists to market their music; they did not necessarily have to partner with a record label since they could use distribution and promotion platforms such as MP3.com, MySpace or Youtube. After surviving the emergence of the radio in the 1920's, magnetic recording in the 1930's, and the CD in the 1980's, the record industry was probably facing its biggest challenge (Lampel, Bhallah and Pushkar, 2008). For managers, it appeared a priority to dramatically change their business model to compete with free models and assure survival (Alderman, 2001 ; Mann, 2003 ; Wilde and Schwerzman, 2004).

The aim of this paper is to understand the evolution of the record industry's business model over the last decade. This original approach has two significant benefits. Firstly, the business model offers the possibility to have a holistic view of the industry's value creation logic whereas research usually studies change focusing only on the evolution of the offer or the introduction of new technologies. We used the RCOV model (Demil and Lecocq, 2010) which enabled us to investigate three main components of the industry's business model: **resources & competencies, organization** and **value proposition**. Secondly, using the business model approach to address the topics of innovation and change are consistent with the concerns of both practitioners and scholars. When we attended professional conferences organized by the

[1] Outsiders are companies that did not belong to the record industry in its original setting (before the development of the ICTs).

record industry, we noticed that designing a new business model was one of their priorities (for instance, it was repeatedly discussed during the MIDEM[2] conference between 2002 and 2008). Furthermore, the business model concept is currently used more and more by scholars to study change (Brink and Holmen, 2009; Chesbrough, 2010; Sosna, Trevinyo-Rodriguez and Velamuri, 2010; Svejenova, Planellas and Vives, 2010). This research provides a synthetic description of the record industry's evolution between 1998 and 2008. Using the RCOV analytical framework, we present several strategies that were adopted by the record industry to preserve or to improve its profitability. Between 1998 and 2003, our research reveals that the record industry could not imagine innovative ways to create value because of cognitive pressures. Consequently, they tried to reinforce the traditional logic in order to capture profits more efficiently. Because these strategies were not successful, the record industry chose another approach since 2004. Record labels developed partnerships with very heterogeneous companies such as electronics manufacturers, telecommunication providers or Internet service providers. Inter-industrial partnerships have three major consequences. Firstly, these partnerships enabled companies from the record industry to "think outside the box" and to imagine innovative ways to do business. Secondly, they had a very positive impact on the record industry's value creation potential by developing alternative revenue sources. Thirdly partnerships with outsiders have progressively impacted the industry boundaries; after years of evolution, the record industry now includes a wider set of activities such as live-event production, merchandising and sponsorship. More generally, our results provide insight to better understand value creation mechanisms that take place at an inter-industrial level of analysis.

II. THE BUSINESS MODEL APPROACH

The business model concept has been developing from the end of the 1990's due to the need for new ventures in the Internet industry to explain to investors how they can generate value from technology (Chesbrough and Rosenbloom, 2002) and share value between stakeholders (Verstraete and Jouison-Laffitte, 2011). However, various strategic innovations in terms of activities or revenue sources from incumbent firms in sectors such as the airline industry or media have also contributed to its diffusion. Following Demil and Lecocq (2010), we conceive of the business model as the way an organization operates to ensure its sustainability.

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[2] MIDEM is the largest conference of the record industry, it is held every year in Cannes.

Thus, in the most basic sense the business model spells-out how a company is organized to make money in an industry (Afuah, 2004).

Nowadays, business model appears as an intriguing and interesting concept both for managers and for academics. It speaks to practitioners because it appears as an integrative construct, encompassing strategic, marketing, organizational and financial logics. Moreover, as noted by Magretta (2002) the first strength of a business model is that it tells a story about a business. In the meantime more and more scholars are interested in business models and are developing a new approach to the firm and its performance. Indeed, Lecocq, Demil and Ventura (2010) mentioned that the business model is now a research program in strategic management alongside more traditional ones such as industrial organization or a resource-based view of the firm. The concept of business model may be used at different levels, which are of equal importance. At an abstract level, it refers to generic representations that can be applied to multiple sectors (i.e. the low cost business model). However, the concept may also refer to real world instances and to the study of the models implemented by organizations. These instances may be considered at the individual level of analysis (i.e. Ryanair's business model) or at the industry level of analysis (i.e. the low cost airline business model). In the latter case, the most adopted business model may become the dominant logic in an industry as noted by Sabatier, Kennard and Mangematin (2010) in the biopharmaceutical industry.

In this article, the business model concept is used to capture the value creation logic of an industry. This lens helps us to analyze the evolution of the architecture and the functioning of organizations involved in the record industry. In order to facilitate the analysis of the business model at various stages of the industry, we use the RCOV model, which was inspired by the Penrosian view of the firm (Demil and Lecocq, 2010). The RCOV framework constitutes a parsimonious and dynamic approach of the business model. In this view, the business model of a given organization (or of a set of organizations) is a snapshot, at a given time, of the ongoing interactions between these several core components of a business.

The basic assumption of the RCOV model is that a firm builds its business model by answering several questions: how to leverage resources and competencies ("Resources & Competencies"), what is the internal and external organization of the business ("Organization") and how to supply products and services to markets ("Value propositions"). The "Resources & Competencies" are the assets of a firm. The resources may come from external markets or be developed internally, while the competencies refer to the abilities and knowledge developed to combine, leverage, improve, or change the services resources can offer. The "Organization" refers to the choice of operations that an organization performs (its value chain) and to the relations it establishes with external stakeholders (including suppliers, competitors, regulators and complementors) to exploit its resources and competencies. Finally, the "value propositions" are delivered to customers in the form of products and services. Value propositions encompass three aspects: "what?" will be proposed (products and services), "how?" will it be proposed (access terms) and to "whom?" (customers).

As noted by Demil and Lecocq (2010), the three core components of a business model (resources & competencies, organization, value propositions) generally each encompass several different elements (various kinds of resources, different partners within the value network, various kinds of services and products offered to customers). The structure and volume of the firm's revenues and costs is a consequence of the choices made relatively to the three core components. Value propositions are sources of revenue, to be understood in the broadest sense (as turnover but also royalties, rents, interest, subsidies or asset handovers). Alongside revenue, organization set costs (running different activities and acquiring, integrating, combining or developing resources are the main costs drivers). The difference between revenue and costs ultimately generates a more or less substantial (or even negative) margin, reflecting the value that the organization captures. This margin may subsequently contribute to feed the stock of resources and competencies, therefore determining ultimately the sustainability of the business model. In this section, we presented the business model approach that we used to study change at the industry level. The next section provides a brief description of the methodological framework that was designed to investigate the record industry from an historical point of view.

III. METHODOLOGY

To address our research question, we adopted a specific research design that combines an historical perspective to a business model approach. The historical perspective appears to be particularly conducive to study change and innovation: *"historical perspective refers to understanding a subject in light of its earliest phases and subsequent evolution.*" (Lawrence, 1984, p.174) Preliminary research that was essentially based on interviews and questionnaires revealed that the introduction of the first P2P network was the most important event that precipitated change of the record industry. Because the first P2P network appeared in 1998, we were then able to distinguish two separate time frames, the "traditional era" (before 1998) and the "change era" (between 1998 and 2008). To understand how the record industry's business model changed, qualitative data had to document both time frames; for each of them we used multiple data sources in order to increase the internal validity of the research.

To investigate the "traditional era" (before 1998), secondary sources were mostly used to build our data set. Several books, monographs and pieces of academic literature provided a global understanding of the record music's initial setting (e.g. Denisoff and Schurck, 1986; Gronow and Sonio, 1999; Sanjeck, 1998). Corporate communication that was published by the major labels during the traditional era was also a useful source of empirical evidence. To strengthen our understanding of the research field, we completed our data set with primary sources of information (ex: informal discussions with professionals that worked in the record industry before 1998). Finally, we used the Nvivo software to process a vast array of qualitative data that were gathered. After the analysis we were able to delineate the traditional business of the record industry based on the RCOV model (we present it in the fourth section of this paper which is dedicated to the traditional era).

We selected several sources of primary and secondary data to document the "change era" (1998-2008); books and monographs specializing in the evolution of the record industry provided very detailed descriptions of the phenomenon that we studied. Some authors chose to adopt an historical approach (e.g. François, 2004; Millard, 2005), others favored an economical angle (e.g. Cvetkovski, 2006; Tschmuck, 2006; Weissman and Jermance, 2007; Wikström, 2009) while others offered a legal point of view (e.g. Krasilovsky, Shemel and Gross, 2007). We also collected more than fifty academic articles focusing on the evolution of the record industry during the change period from heterogeneous disciplinary fields (business management, economy, sociology). To complete our database of secondary data, we collected press articles that were published between 1998 and 2008 in various sources of specialized press (Music Info Hebdo, a weekly newspaper specialized in the French music market, and 1.586 articles from Zdnet[3], a website specialized in innovation and entertainment industries). We also conducted research on the Factiva database[4] which enabled us to gather 1.583 articles that were published in the economic press during the change period. Moreover, we systemati-

[3] Source: http://www.zdnet.fr

cally collected all the archives that were produced between 1998 and 2008 by the key actors of the record industry, the five major record labels (BMG, EMI Music, Sony Music, Universal Music and Warner Music) and different professional associations (IFPI[5] and RIAA[6] for the global market, SNEP[7] and IRMA[8] for the French market). Finally, interviews represent the main source of primary data; 28 professionals of the record industry were interviewed- the presidents of each major label, strategy executives, representatives of the ministry of culture and several professional associations, etc.

IV. THE TRADITIONAL ERA OF THE RECORD INDUSTRY

The record industry was born with the introduction of Edison's phonograph in the late 19th century. For the first time, sounds could be recorded on a physical support, reproduced and played on a device (Gronow and Saunio, 1998). Through years of industrialization, several actors specializing in different activities progressively appeared: producers who were in charge of finding new talent and organizing recording sessions, manufacturers who produced physical supports (discs, tapes, packaging), promoters, distributors and finally radio stations and television channels who participated in promoting records (Denisoff, 1986). By the late 1990's, the recording industry became a very profitable business, with annual global sales of over $40 billion[9]. During this period of growth, music labels progressively merged both horizontally and vertically which led to the so-called "*big five*" major labels (BMG, EMI Music, Sony Music Universal Music and Warner Music). These five labels operated globally, were vertically-integrated (from artist detection to record distribution) and held approximately 80% of the market. Thus, the record industry was very heterogeneous while the remaining labels only represented 20% of the market. The "independent labels", in opposition to the "majors" were usually positioned on a single market and focused on recording (Gander and Rieple, 2002).

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4 Factiva is a database aggregating multiple source of business information.

5 International Federation of the Phonographic Industry

6 Recording Industry Association of America

7 Syndicat National de l'Edition Phonographique

8 Centre d'information et de ressources pour les musiques actuelles

9 Source: SNEP (2004), L'actualité du disque

Despite consolidation and the emergence of technological innovations such as the radio transmitter or the CD, the record industry's business model remained relatively stable from the 1950's until the end of the 1990's (Rivkin and Meier, 2005; Tschmuck, 2006). Figure 1 represents the traditional business model of the record industry based on the RCOV analytical framework, each component is then presented in more details.

Value proposition

The record industry's value proposition used to be pretty basic (Garofalo, 2007): "*the industry was about selling discs, that was it, there were no other revenue sources.*" (Olivier Montfort, president, EMI Music France)[10] Besides having a single product (**records**) and a single revenue source (**music consumers**), the way records were marketed was also very standardized for many reasons. Firstly, the emergence of **standard supports** such as tapes or CDs was a fundamental aspect of the traditional business model: *"the goal for any entertainment business is the standard. Not because we own it, but because the consumer's acceptance of a new media is highly correlated with the launch of a standard."* (Strauss Zelnick, president, BMG[11]). Secondly, the record industry was based on two **revenue models**: the "single format" which offered one or two songs and the "album format" which aggregates between ten and twenty songs. Thirdly, music records were sold through a limited number of **distribution channels**: record stores, specialty stores (HMV or Virgin Mega Store), superstores and mail-order (Britannia Music, Biz or Club dial on the French market[12]).

Organization

The traditional business model was composed of several activities. Upstream, the role of artists, which includes musicians and composers, was to **create and perform music**. Then labels transformed the artistic creation into a marketable product. Consequently, labels were usually in charge of several activities: the **artists & repertoire** (referred to as A&R from now on) which aimed to discover new talent and **producing** which was about recording the artists' performance[13] and **marketing**. While previously presented activities essentially referred to artistic activities, **manufacturing & packaging** introduced the industrial dimension. Thus manufacturers were exclusively in charge of duplicating records. Once discs were produced,

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[10] Source: Interview on 18 May 2010

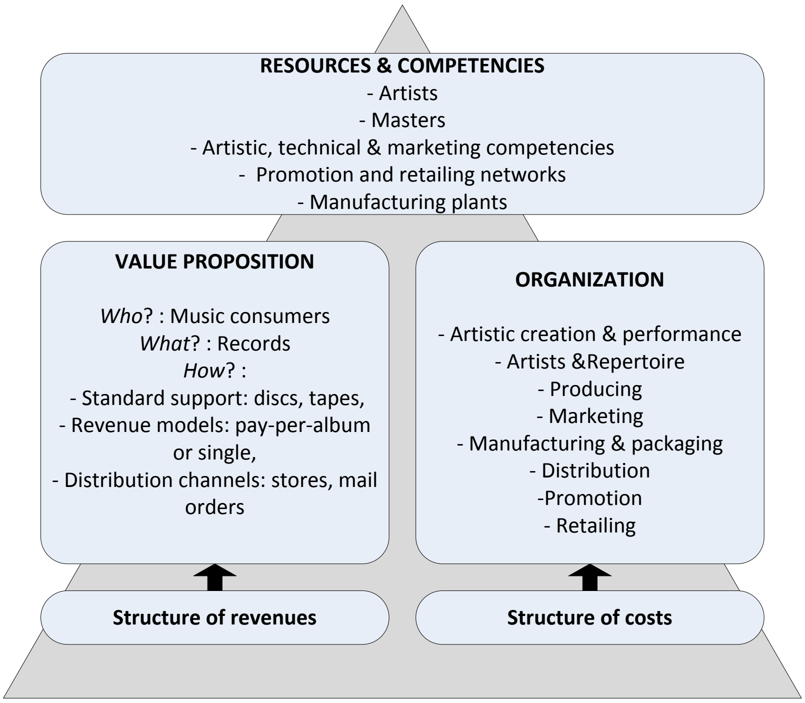
[11] Conference at Harvard Business School, 2002

[12] Source: Billboard, 24 Sept. 1994

[13] Original recording of a music performance which can then be copied and sold.

distribution dealt with supplying them to the **retailers**. Through time, superstores' market shares grew while independent record stores progressively disappeared.

Figure 1: The traditional business model of the record industry (before 1998)



Resources & Competencies

Traditionally, **artists** were a fundamental resource for the record industry because they were the source of artistic creation. For what some authors call the "star-system logic" (Curien, Laffond, Lainé and Moreau, 2004), it was important to promote the image of the artists in order to reinforce their potential to sell records. Moreover, the record industry was a copyright industry. The ownership of **masters** greatly determined the companies' capacity to create value and to make profit. For example, the ownership of the Beatles and the Rolling Stones masters explained the great performance of EMI Music during the 1960's and 1970's. After that period, EMI Music kept creating significant revenue streams by regularly reissuing these legendary records. Therefore, masters represented a valuable resource and a key driver for competitive advantage in the record industry (Denisoff, 1986; Tschmuck, 2006).

We identified several other resources & competencies that defined the value creation potential of the record industry. Competencies could be grouped in three main categories: **artistic**, **technical** and **marketing**. Thus, artistic capabilities were frequently presented as a key characteristic of competitive labels: *"the artistic side of the job is considered an essential skill for a record company, there is no school for that. A long time ago when I got back in the business someone had told me that you can always learn marketing but you cannot learn to be an artist, you need to feel it.*" (Thierry Chassagne, president, Warner Music[14]) The **promotion and retailing networks** also appeared to be an important resource. For instance, major record labels developed global networks which were of great interest for artists who wanted to pursue an international career: "*the music industry was characterized by a controlled supply, both in terms of distribution and promotion, that is to say that there were fewer opportunities. Access to these opportunities was controlled by the largest suppliers, the major record labels.*" (Morvan Boury, executive, EMI Music[15]) Finally, **manufacturing plants** were necessary to produce discs, tapes and packaging (Reavis, 1999).

For decades, the traditional business model was perceived as a "dominant logic", which Prahalad and Bettis (1986) defined as: "*A mind set or a world view or conceptualization of the business and the administrative tools to accomplish goals and make decisions in that business.*" (p.491) Indeed actors within the record industry considered it the best way to create value and make profits, they therefore tended to reproduce this logic (Huygens, Van den Bosch, Volberda and Baden-Fuller, 2001).

V. REINFORCING THE TRADITIONAL BUSINESS MODEL TO CAPTURE VALUE MORE EFFICIENTLY

In the late 90's, the record industry suddenly faced new opportunities and threats due to the evolution of its environment (new technologies, new ways to consume music, new regulations) and its competitive structure (new entrants such as Napster, Yahoo, Apple, etc). In order to take advantage of these opportunities, the record industry decided to **reorganize the value network.** However, the decrease of record sales also represented a major threat for the record industry. The record labels also performed an **optimization of the business model** to increase revenue or to decrease costs. The goal of these two strategies was not to significantly change the business model; they aimed to reinforce the traditional value creation logic in or-

[14] Interview on 27 May 2010

[15] Interview on 7 March 2007

der to make more profits. The two strategies that were adopted between 1998 and 2003 are described in this section.

Value network reorganization

Traditionally, superstores and specialty stores such as Virgin Megastore and La Fnac controlled most of the music retailing, while media including radio and TV channels were in charge of promotion. The Internet provided an alternative channel for music distribution and promotion and a great opportunity for the record labels to increase their vertical integration : "*the Internet is the ultimate means of direct marketing to the consumer (…) This is one of a number of opportunities for EMI to generate additional income*" (Jay Samit, vice president, EMI Music[16]). Nevertheless this "*insourcing strategy*" required access to a combination of specific resources and competencies (infrastructures, skills related to web development and technology management). For this purpose, the major labels bought several e-business start-ups (ex: MP3.com was taken over by Universal Music for $372 million[17] while Bertelsmann bought Napster for $85 million[18]) that would constitute the technological backbones of their new digital music platforms such as Pressplay and GetMusic. Through these massive investments, major labels were able to reach a full vertical integration (from artist identification to music retailing).

Business model optimization

The majors' digital music platforms failed to attract music consumers; two years after their introduction, GetMusic and Pressplay only had 100,000 subscriptions. As record sales started to decrease in 2002, the record industry decided to focus on its core activity (A&R, producing and marketing) while distribution, promotion, manufacturing and packaging were progressively being outsourced to decrease costs: "*the real business of record companies is to discover and produce artists, and to entrust their products to those whose job is to have direct contact with consumers: media and retailers. We had to go back to the fundamentals; the market did not change because of Internet*" (Stanislas Hintzy, director, OD2 France[19]).To preserve its profitability, the record industry also had to become more efficient regarding its core

[16] Source: New York Entertainment Wire, 10 June 1999

[17] Source: http://www.MP3.com Retrieved on 8 August 2010

[18] Source: http://www.nytimes.com/2003/05/13/business/media/13MUSI.html Retrieved on 13 May 2003

[19] Source: http://www.zdnet.fr/actualites/les-majors-du-disque-en-position-de-retrait-sur-internet-2135215.htm Retrieved on 29 June 2010

business model: "*like in many well run businesses, we are constantly seeking more efficient ways to operate. And this agreement will allow us to invest even more resources in such core functions as artist signings and development*" (Doug Morris, president, Universal Music Group[20]). This strategy impacted the three main components of the business model.

Regarding the "value proposition" component, record labels diversified their distribution channels and revenue models in order to offer more flexibility for consumers: "*we went from a mono-product industry to a multi-product industry*" (Stéphane Le Tavernier, president, Sony Music[21]). From 2002 until 2005, the record labels contracted multiple partnerships with online music retailers in the US and European market. The "digitalization" of music also enabled the record industry to develop innovative **revenue models** (pay-per-track, subscription, unlimited access, etc.).

In the "organization" component, the record industry also undertook restructuring its activities. Firstly, some record labels took advantage of new technologies to perform some activities directly online in order to cut costs. Whereas A&R was traditionally a very costly activity, Universal Music launched the *Jimmy & Doug's Farm Club* website that aimed to facilitate the discovery of new talents. Artists could post their music directly on the website and any Internet user could listen to it and leave comments either he liked it or not. This new tool offered the record labels the opportunity to test the marketing potential of new artists[22]. Technological innovations also transformed the marketing possibilities; the record industry used new tools to reduce costs: buzz marketing, street marketing, emailing, etc. Secondly, restructuring activities also led to major layoffs. In France, the record industry's workforce decreased 13% between 2000 and 2007 which represented approximately 600 employees[23].

Regarding the "resources & competencies" component, the record industry tried to use more efficiently its master records. Because of the "star-system logic" (Curien et al., 2004), record labels were traditionally focusing on selling new releases. The new e-retailers provided a very wide range of music references even back-catalogues which were generally unavailable on discs. According to Chris Anderson's long tail theory (2004), it was an opportunity to increase revenue by selling smaller quantities of much larger references.

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[20] Source: http://new.umusic.com/News.aspx?NewsId=270 Retrieved on 31 March 2006

[21] Source: Interview on 8 June 2010

[22] Source: Musique Info Hebdo, 19 Nov. 1999, N°100, p.23

[23] Source: Questionnaire - Alexandre Lasch, legal expert, SNEP, 2 July 2010

VI. REINVENTING THE BUSINESS MODEL TO CREATE NEW VALUE SOURCES

Strategies that were described in the previous section appeared to be unsuccessful. Because the "digital market" did not grow as expected, it did not offset the decrease of the "physical market". Whereas the value proposition was still mainly based on music content, the record industry's main issue was still to "*compete with free*" (Doug Morris, chairman, Universal Music Group[24]). In other terms, the consumers' unwillingness-to-pay was the main reason why reinforcing the traditional business model was not a successful strategy. Companies had to take into consideration broader opportunities available outside the record industry's boundaries: "*sales kept collapsing, we could not keep doing business the way we were, we had to take into consideration our environment and to look for new opportunities*" (Olivier Montfort, president, EMI Music [25]). Starting in 2006, the record industry adopted completely different approaches to change its business model. Record labels developed partnerships with outsiders to create alternative revenue sources. Three different strategies were then identified: **value network extension (1), value proposition bundling (2) and new resources & competencies valorization (3).**

Our empirical research revealed that opportunities arising from other industries were based on complementarities between the record industry's value proposition and that of the outsiders. We consider that a **value proposition is complementary to another when it has a positive impact on the consumers' willingness-to pay**. For instance, consumers' willingness-to-pay for a digital portable device (ex: mp3 players) is much higher when they have access to music content. On the other hand, the ownership of a digital portable device which offers the possibility to listen to music everywhere raises the consumers' willingness-to-pay for music content. Based on these complementarities, the record industry developed innovative partnerships outside its boundaries. We identified three main aspects of the outsiders' value proposition that are complementary to music content: **community networks**, i**nfrastructure networks, storage devices.**

Some complementarities were also identified between the record industry and several sectors related to music. During the traditional era, artists' incomes did not only originate from the

[24] Source: Almeida and Gregg (2003)

[25] Source: Musique Info Hebdo, 4 July 2003, N°265 p.23

sales of record. They also generated revenue from concerts and merchandizing (t-shirts, mugs, posters, etc.). Live-events production, merchandizing and career management were by nature related to music but they were totally isolated from the record industry's traditional business model. However, there was a high level of complementarity between their value propositions. For instance, the success of a record usually had a positive impact on the sales of concert tickets and merchandizing. Inversely, great music performances could improve the image of an artist and increase record sales. Considering these sectors related to music, we identified two more aspects that are complementary to records: **live performances and image of artists (i.e. Merchandizing, career management).**

Value network extension

The partnership with Apple was one of the first to be established outside of the record industry's boundaries. After the success of the iPod, record labels considered that iTunes represented a significant opportunity to sell music. Consumers reacted very positively to this new offer; Apple sold 1.5 million tracks during its first week of activity and more than 25 million tracks during the first nine month (Dounès and Geoffroy, 2005; Levy, 2006). Since the mobile phone market was rapidly growing, partnerships with telecommunication providers (ex: SFR, Bouygues Telecom, Orange) were also a great opportunity for the record industry to create new streams of income. Several deals were also signed with Internet Service Providers, referred to as ISP from now on (ex: Lycos, AOL, MSN or Yahoo) to use their platforms to offer on-demand music. After this development the record industry had a very creative approach to diversify its distribution channels. Video games represented another possibility to sell music content. For example, Warner Music partnered with Microsoft to sell musical videos through the Xbox Live network[26]. More surprisingly, some record labels created innovative digital music outlets in airports[27] or in hotels with Fairmont Hotels & Resorts[28]. These examples show that the "*extension of the value network*" mostly impacts the **organizational component** of the business model (figure 2): the record industry developed multiple partnerships with outsiders. Nevertheless, the combination of **resources & competencies** and the **value**

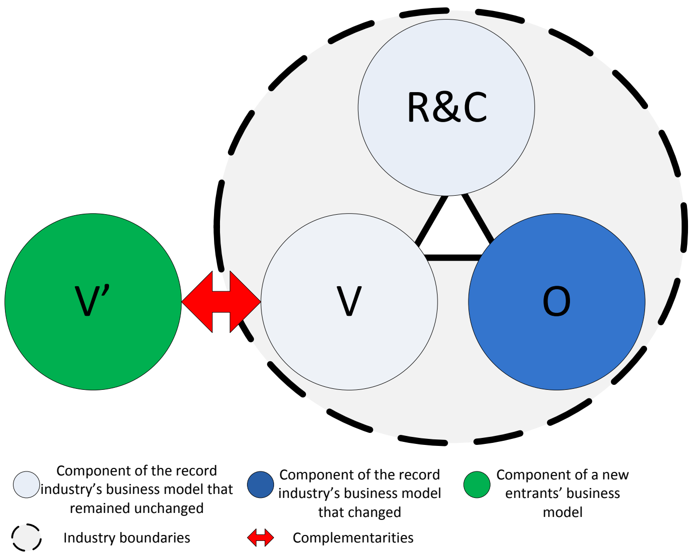
[26] Source: http://www.wmg.com/newsdetails/id/8a0af82d1ba43fc4011bc32d09b820f0_new Retrieved on 23 Aug. 2010

[27] Source: http://www.emimusic.com/news/2008/download-emi-music-on-the-go-with-medianywheres-music-download-kiosks/ Retrieved on 27 July 2010

[28] Source: http://www.emimusic.com/news/2007/emi-music-brings-global-music-programme-to-fairmont-hotels-resorts Retrieved on 27 July 2010

proposition did not change even if the distribution channels were diversified, the customer (*who?*) and the content (*what?*) remained similar.

Figure 2: Value network extension



Value propositions bundling

Partnerships with outsiders enabled the record industry to develop alternative revenue sources. But creating more value did not necessarily result in more profits. In the case of Apple, this type of partnerships appeared to be very profitable for electronics manufacturers that were selling music players with a significant margin, while inversely on iTunes margins were very low because of Apple's $1 per track policy. Furthermore, the volume of music sales on iTunes progressively declined; four years after the iPod's introduction, only 2.5 billion songs were sold. Considering the 100 million iPods that were sold, it represented an average of 25 songs per device whereas iPods could generally stock a few thousand songs[29]. Therefore, the extension of the value network was not a long-term solution for the record industry: *"even if the new models are not profitable, new entrants in the recording industry use music contents to generate traffic, not to sell content (...) The major economic challenge for the sector is to find a profitable model for those whose job it is to sell music. In our case, we want to make money.*" (Roldophe Buet, La Fnac, director of the record department)[30]

[29] Source: http://www.apple.com/hotnews/thoughtsonmusic Retrieved on 12 Aug. 2008

[30] Source: http://www.zdnet.fr/actualites/internet/0,39020774,39147204,00.htm Retrieved on 22 May 2009

In 2006, the record industry adopted a different approach towards outsiders. Partnerships were more frequently leading to a "bundled value proposition" which enabled the record industry to capture some of the revenue resulting from the sales of the complementary products or services. For instance, Universal Music considered that they should capture some of the revenue resulting from digital music players: "*we have the feeling that a large amount of music stored on these electronic devices comes from illegal music services and we want to get some compensation for the shortfall (...) Our music contents contributed to the growth of some new businesses and I want to capture a part of their revenue.*" (Doug Morris, president, Universal Music[31]). Microsoft agreed to share with Universal Music the revenue that resulted from the sales of the Zune media player that was supposed to compete with Apple's iPod. If such a deal would have been set with Apple, Universal Music would have received more than a $100 million in royalties between 2001 and 2007.

Later, several partnerships between record labels and electronics manufacturers were established. From the record labels' point of view, these deals offered the possibility to overcome consumers unwillingness-to-pay for music by capturing revenue from the sales of electronic products. From the electronics manufacturer's point of view, music was considered an efficient tactic to differentiate their products from the competition: "W*e look forward to this partnership that allows us to enrich the value of our media players with EMI Music's catalogue.*" (Henri Crohas, president, Archos[32])

Bundling telecommunication services with music contents was another innovative value proposition. In 2007, the Internet provider *Neuf Telecom* partnered with Universal Music to add a music offer to its already existing triple-play offer[33]. Shorty after, similar deals were made with Alice[34], SFR[35], Sky Telecom[36] and Orange. For telecommunication providers, this was a way to increase value for customers: "*let's be honest, the telecommunication providers*

[31] Source: http://www.zdnet.fr/actualites/universal-music-touchera-sa-dime-sur-les-ventes-de-baladeurs-zune-39364626.htm Retrieved on 29 June 2010

[32] Source: http://www.archos.com/corporate/press/press_releases/CP-ARCHOS_EMI-20061024.pdf Retrieved on 1 June 2010

[33] Source: Les Echos, 20 Aug. 2007

[34] Source: http://www.journaldunet.com/ebusiness/telecoms-fai/actualite/0712/071205-alice-lance-alicemusic-telechargement-gratuit-illimite-emi.shtml Retrieved on 9 July 2010

[35] Source: Musique Info Hebdo, 16 Nov. 2007, N°456, p.7

[36] Source: http://www.zdnet.fr/blogs/digital-jukebox/royaume-uni-universal-music-se-convertit-aux-forfaits-sans-drm-39601837.htm Retrieved on 16 Oct. 2008

get involved in the music industry because they see it as an efficient way to attract and keep the consumers. It is a way to increase customer loyalty whereas record companies explore new ways to sell music." (Richard Wheeler, director of new media, Orange[37]).

At first the record industry was very reluctant to bundle music with Internet services. Indeed, the ISP business model was to provide a wide range of content and services for free while revenue resulted from advertising. In reference to the traditional business model, the record industry considered that consumers should remain the revenue source: "*some sites use music to attract advertisers and make money, I think music should not be free.*" (Michael Haentjes, director, Edel[38]) After 2006, the record industry adopted a different strategy and established multiple partnerships with ISPs in order to share their revenue (Youtube, Qtrax, Baidu, Bolt, Google, Spiralfrog, Deezer, Dailymotion). From the ISP's point of view, the purpose of these partnerships was to reinforce their legitimacy in regards to the record industry: *"offering legally-authorized audio and video downloads in an advertising-supported environment works, as our business model is based on sharing our income streams from that advertising with our content partners like Universal.*" (Robin Kent, founder, SpiralFrog[39]).

Finally, the record industry established some innovative partnerships with other outsiders coming from more heterogeneous industries based on value proposition complementarities. For instance, EMI Music signed a deal with video game developer Harmonix to market the Beatles Rock Band game. "*So Music" was* another example of a creative joint value proposition in which Universal Music and Société Générale bundled traditional banking services with access to a digital music platform.

"*Value proposition bundling*" impacts two main components of the record industry's business model (figure 3). Its **organizational** dimension is transformed when partnering with outsiders that perform new activities. The **value proposition** also evolved substantially: the content ("what?") changed after bundling complementary products or services and the customer ("who?") was also different in the case of ad-supported offers.

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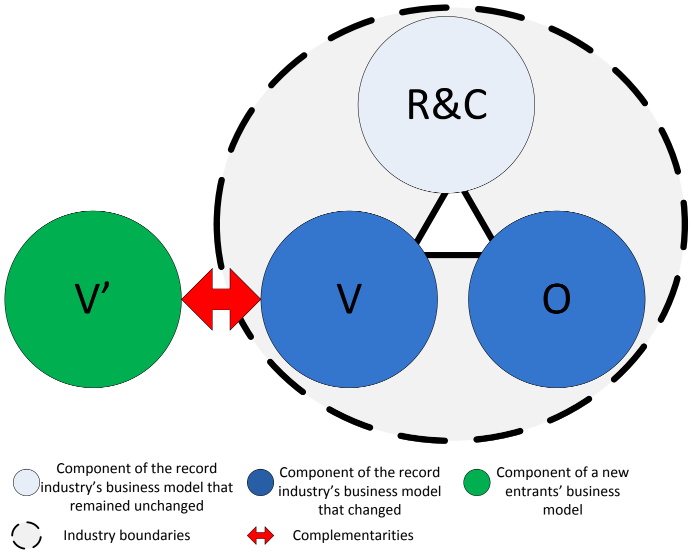
[37] Source: Musique Info Hebdo, 27 June 2008, N°485, p.18

[38] Source: Musique Info Hebdo, 29 Oct. 1999, Special issue 5, p.4

[39] Source: http://www.universalmusic.com/corporate/news35373 Retrieved on 23 Jan. 2008

Figure 3: Value propositions bundling



New resources & competencies valorization

Records represented only one of the many potential revenue sources that artists could benefit from. In addition to records, income could also result from alternative sources such as concerts, merchandising and sponsorship. But the record industry did not benefit from this: *"Record companies never traditionally had a slice of all of the cash an artist made - just a share of their recording revenue."* (Andrew Gemmell, director, Big Print Music[40]) From 2007, the record industry, more specifically the major labels, implemented "360-degree strategies" to capture revenue from every activity in which artists participated. New resources and competencies were required to develop these 360-degree activities. The first step was to extend the scope of the artistic contracts. While contracts traditionally concerned only the production of a master, major labels introduced new types of contracts that covered the artists' live performances and image. EMI Music was a pioneer in 2002 with Robbie Williams[41]; meanwhile contracts covering multiple rights became widespread starting from 2006. Major labels believed they had the legitimacy to do more than just sell record music: *"As a label, we play an important role in the branding of an artist or a band. So it makes sense to not only be involved in the process of selling records."* (Jeanne Meyer, Representative, EMI Music[42]) The second step was to access a combination of infrastructures and competencies that the major

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[40] Source: http://news.bbc.co.uk/2/hi/business/6948097.stm Retrieved on 31 Nov. 2008

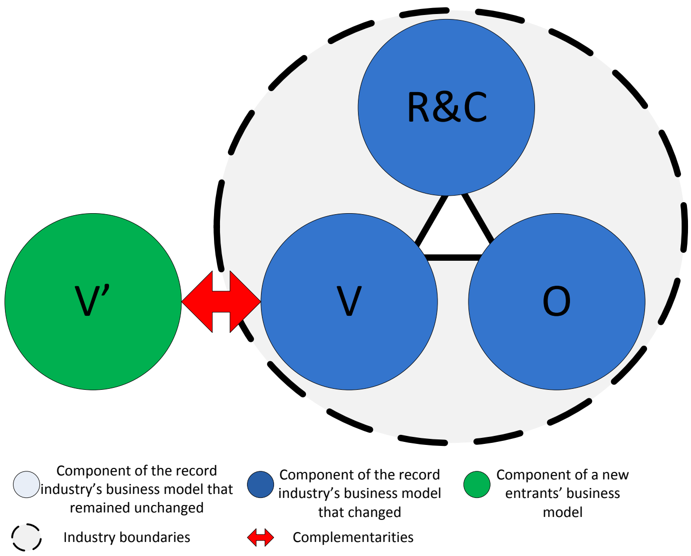
[41] Source: http://www.guardian.co.uk/uk/2002/oct/03/arts.artsnews Retrieved on 1 Oct. 2008

[42] Source: Musique Info Hebdo, 17 Nov. 2006, N°412/19

labels did not have. To do so, they chose to integrate companies that possessed such capacities. With the development of these new activities, the paradigm in the record industry has shifted from a record-oriented business to an artist-oriented one. They developed a wide range of services for the artists that resulted in a diversification of revenue sources: *"We are no longer a 'record label'. I believe that the name of 'artist label' represents more accurately our job. Since 2007, we changed our philosophy and the way we operate.*" (Emmanuel Mougin-Pivert, director, Warner Music)

The "*360-degree strategy*" represented the most radical change of the record industry's business model because it impacted the three main components. On the **organizational** dimension, the record industry developed a wide range of activities that were traditionally performed by outsiders. We also noted that the introduction of new activities required a great transformation of the combination of **resources & competencies** which is the consequence of acquisitions. The **value proposition** also drastically changed because the record industry's offer was no longer solely based on record music. Figure 4 represents the impact of the "360-degree strategy" on the record industry's business model.

Figure 4: New resources & competencies valorization



VII. DISCUSSION AND CONCLUSIONS

From an empirical point of view, this research provides a longitudinal description of the record industry's evolution. Whereas many authors consider that the record industry was revolutionized (Almeida and Gregg, 2003; Kot, 2009), our results reveal that several essential aspects of the record industry did not change. Despite increasing competitive pressures, record labels still play an important role and the major labels still hold a dominant position. Their influence even increased over the last decade: there are now only three major labels after BMG and Sony Music merged in 2004 and Universal Music bought EMI Music in 2011. Today, the industry concentration is higher than ever while three companies represent more than 70% of the global market (Universal Music/EMI Group 39%, Sony Music 21% and Warner Music 11%[43]). This phenomenon reveals that the extension of the music catalogue remains a priority for the labels. In other words, masters are still a key characteristic of the record industry's business model; it greatly impacts its value creation potential.

Using the business model approach to study innovation was particularly relevant; the RCOV analytical framework provides a fined-grained representation by revealing exactly which aspects of the record industry changed. Regarding the value **proposition component**, the record industry went from a mono-product offer (records on a physical support) with one source of revenue (music consumers) to a multi-product (digital music, ringtones, music video, etc.) offer with several sources of revenue (advertising, sponsorship, sales of complementary products such as electronics or telecommunication services). Consumers now have much more flexibility to access music content. From an **organizational** perspective, the record industry is now based on a much broader set of external and internal activities. Record labels now partner with a broad range of firms including electronics manufacturers, telecommunication providers and ISPs. These partnerships appeared to be an efficient way to enrich the record industry's value proposition. Also, new activities were performed internally since the adoption of the "360-degree strategy". Activities such as live-events production, merchandizing and sponsorship offer the possibility for the labels not to overly rely on the fluctuations of the record market. We mentioned earlier that masters remained a key aspect of the business model; however the record industry now has a much more heterogeneous combination of **resources & competencies** (concerts infrastructures, merchandising units, career-management services, etc.). These newly acquired resources and competencies have a major impact on the labels' value creation potential because they greatly determine their capacity to attract artists. More and more artists now prefer to sign "360-degree deals" which cover every aspect of their work: *"the paradigm in the music business has shifted and as an artist and a business woman, I*

[43] Source: IFPI (2011), Digital Music Report

have to move with that shift (...) For the first time in my career, the way that my music can reach my fans is unlimited. I've never wanted to think in a limited way and with this new partnership, the possibilities are endless." (Madonna, artist[44])

Our study also reveals how cognitive templates can represent a barrier to business model innovation (Chesbrough, 2010; Garfield, Taylor, Dennis and Satzinger, 2001; Pfeffer, 2005). Since the late 1990's, most managers were aware that changing their business model was necessary to preserve the industry's profitability. Yet their decisions reveal that managers had difficulties to "think outside the box". From 1998 until 2008, the record industry tended to reproduce the traditional logic which they consider to be the only way to generate profits (Moyon and Lecocq, 2010): *"They cannot detach themselves from the way they used to do business in the 'physical world'. There is no innovation in their e-business platforms; it looks like an old mail order catalogue.*" (Jean-François Dutertre, director[45], ADAMI[46]). Therefore, a "dominant business model", such as the traditional business model in the record industry, results in cognitive pressures that can hinder innovation by limiting the managers' range of action. Our longitudinal approach also enabled us to observe how firms can overcome cognitive pressures. Partnerships that were established with outsiders since 2006 had an important impact on the mindset in the record industry; this enabled managers to imagine new ways to create value. **Partnerships outside the industrial boundaries had a positive impact on innovation**.

More generally, this research shows how business model change can shape industries. As previous research noted (Borés, Saurina and Torres, 2003; Duysters and Hagedoorn, 1998; Gambardella and Torrisi, 1998; Yoffie, 1996), the introduction of new technologies (ICT) resulted in the convergence between industries that were previously unrelated. This research shows that convergence is also the result of the firms' strategy that developed inter-industrial partnerships to increase their value creation potential. Therefore, **the record industry played an important role in reshaping its boundaries**.

Our research presents an interest not only for the record industry but, more generally, for the creative industries which refer to a range of sectors that are concerned with the generation or exploitation of knowledge and information (Hesmondhalgh, 2002). This includes architecture,

[44] Source: AFP, 16 Oct. 2007

[45] Interview on 3 July 2006

movies, design, video games, software, radio, research and development, advertising, television, music, daily press, etc. (Howkins 2001, pp. 88–117). After the introduction of the Internet and ICTs, creative contents were easily accessible online and it became more and more difficult for these industries to find ways to capture revenue and to remain profitable. **This research highlights several strategies that creative industries can use to change their business models**. We consider that complementarities between value propositions are a great opportunity to develop alternative revenue sources. For example, the daily press can develop revenue resulting from advertising by diffusing information through social networks such as Facebook.

Several theoretical contributions also arise from this research. Understanding and studying change is a major concern for scholars in strategic management (Poole and Van de Ven, 2004). Nonetheless in the literature, scholars usually focus primarily on the introduction of new offers or on the technological dimension of change. Because of this focus, we believe that existing research on innovation does not provide a full grasp the complexity of change. The RCOV framework offers the possibility to observe the impact of change on several components (value proposition, organization, resources & competencies). **We believe that this holistic approach is necessary to fully grasp the complexity of the organizational change process**. For example, our research shows that change sometimes requires reconsidering the combination of resources & competencies which can dramatically increase the volume of costs. This holistic approach also highlights the dynamic nature of change by demonstrating interactions between the different components: variations within one component can have an impact on the other components in order to preserve the business model's global consistency.

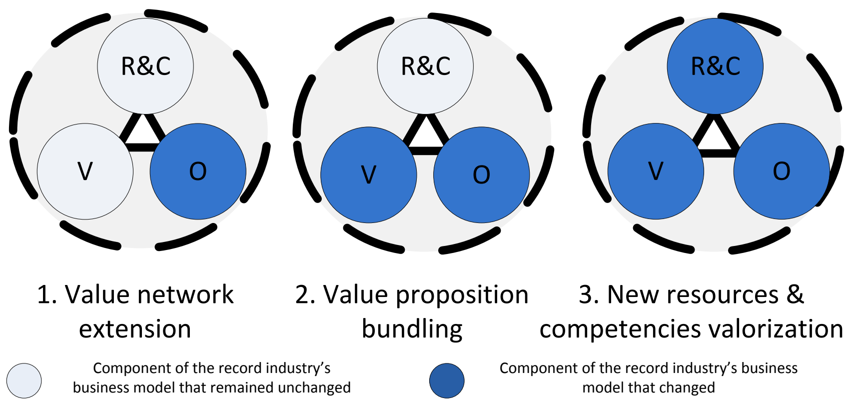
From the Porterian view (Porter, 1996) to the Resource-based view (Barney, 1989; Wernerfelt, 1984), scholars in strategy tried to explain the value creation phenomenon at the organizational level of analysis. For Zott & Amit (2008), one of the most important contributions to strategy of the business model concept is to provide a "*boundary-spanning*" (p.1) level of analysis to understand how stakeholders interact to collectively create value. With the concept of the "*open-business model*", Chesbrough (2007) considered that companies should partner with each other to take full advantage of the industry's innovation potential. Along the same lines, our research demonstrates that collaboration with outsiders had a very positive

[46] ADAMI is a society for the collective administration of performers' rights.

impact on the value creation potential of the record industry. **Therefore it seems very relevant to adopt an inter-industrial level of analysis to capture the mechanism of value creation**.

Finally, the identification of three change strategies contributes to the emerging literature on business models. We believe that scholars tend to offer a very simplified vision of business model change. Considering that business model change is an unpredictable and risky process from the organization's perspective (Berggren and Nacher, 2001; Berry, Shankar, Parish, Cadwallader and Dotzel, 2006; Doz and Kosonen, 2010), managers often prefer to maintain the *status quo* to preserve business model consistency and short-term profitability (Strebel and Ohlsson, 2006). On the contrary, some research emphasizes the need for innovation and they advocate a complete transformation of the business model to achieve new goals or to increase the industry's profitability (Giesen, Berman, Bell and Blitz, 2009; Viscio and Pasternack, 1996). Between the *status quo* and a complete transformation, the literature usually does not consider intermediary options which would lead to a partial modification of the business model. However, these intermediary options can be necessary to preserve business model consistency while changing. Based on the RCOV framework, our results show three strategies of change that result in a partial or complete transformation of the business model (figure 5). **These results reveal that business model change can lead to a greater or lesser degree of innovation**. Based on these results, strategies that imply a small degree of innovation (ex: "value network extension") should be employed when maintaining the stability of the industry is a major concern. On the contrary, strategies that result in a high degree of innovation (ex: "new resources & competencies valorization") represent a higher risk to destabilize the industry but they also enable a more radical change process.

Figure 5: Typology of business model innovation



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