NORGES HANDELSHØYSKOLE

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# Business model innovation in the Norwegian indie music industry

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Master Thesis in Strategy and Management

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# Abstract

In the nine years that have passed since Spotify launched its service in the fall of 2008, the industry for recorded music has experienced a streaming revolution where the industry's model for consumption and monetization has been turned around. This disruptive change is likely to have caused substantial changes in the strategies and business models for the industry, and especially so for the indie sector of the industry who due to their limited amount of income generating catalogue, has been deemed to be affected negatively by the exogenous change.

Building on a literature review of some of the most well-known and established literature on frameworks for business models and business model innovation, an overarching model for business model classification has been synthesized. Through a multiple-case study on four Norwegian indie record labels conducted with semi-structured interviews, the model is employed to facilitate a descriptive analysis of the four indie labels' business models which take aim at highlighting the main variable components the labels can change or manipulate to innovate and thus achieve a competitive advantage in their markets.

Despite having clear limitations, the model proved itself applicable for analysis of the indie sector of the recorded music industry, and was successful in highlighting some developmental trends that are likely to drive changes in strategy and business model innovation. The main challenge for the sector is deemed to be the pro-longed timeline for income generation and recoupment of costs. In a short-term perspective, the sector has mainly coped with this challenge through vertical integration and scope integration. In a long-term perspective, it is also met with what seems to be a shift in the industry standard for contract durations. Another developmental trend that was uncovered through the analysis is a shift in who the labels identify as their customers (from end consumer to the artist), which can open up for multi-sided business models. It can be argued that this has made way for a re-evaluation of the offerings of indie labels. This has led to business models with a strong focus on selected core activities, while most support activities are being outsourced to a small selection of suppliers being governed through relational or network based governance systems.

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# 1. Introduction

This section starts with a short review of the history leading up to the streaming revolution and continues with a chapter laying out the purpose of the thesis. The research question is then presented before the section closes off with a chapter on the structure of the thesis.

## 1.1 Background

In 1999 the peer-to-peer file sharing service Napster was introduced, and within its two years of operation, the service kick-started a disruptive shift that would turn the recorded music industry upside down. The 1990s had been a decade with record high music sales, as the record companies released new music on CDs while reissuing their back catalogues on the same format (Business Insider, 2011). In the following decade, the industry at large would experience declining sales and revenue year by year, while the music consuming populace became accustomed to illegal downloading as their main source of music consumption.

Although the launch of the iTunes Music Store in 2003 was a success and proved the sales potential for digital music files (Markoff, 2004), illegal downloading continued to gain ground at the expense of physical format sales. As a result, the revenue decline in the recorded music industry continued throughout the decade. The first real spur of optimism for the industry came with the launch of Spotify and other music streaming services at the turn of the decade. Although the royalty per stream paid to rights owners was minimal, the record companies could now monetize on their catalogues for the second and third time. In the 90s, the overwhelming majority of the revenue from a release was generated within the first couple of months after release. The introduction of streaming services implied a drastic shift, as releases now could be exploited and generate revenue ad infinitum. In addition to this, a substantial share of the total revenue to rights owners would come as a “long tail”, enabling releases with low sales to collectively make up a market share that could exceed the current bestsellers.

## 1.2 Purpose

The Norwegian music market is spearheading the streaming revolution. The sales numbers from the first six months of 2016 show that 83 % of the revenue in the market for recorded music comes from streaming, and that there is a 7,8 % increase in the total sales volume compared to the preceding year. Globally the situation is also catching up. After 15 years where the industry lost nearly 40 % of its revenues, the global recorded music market grew by 5,9 % in 2016, the fastest growth rate since IFPI (International Federation of the Phonographic Industry) started to track the market in 1997. For the first time, digital and physical revenues are on par, with streaming constituting 29,5 % of the total digital sales (IFPI, 2016).

The disruptive change in how much and when rights owners are being paid for the product is likely to have had implications for record companies' business strategies. The recorded music industry is usually divided in two sub-groups; the major labels, which are part of large international media groups (Universal, Warner and Sony), and the so-called independent labels, or indies, which are small in comparison and often localized. The sheer volume of the majors' back catalogues is considered to put them in an advantageous position compared to the indies, which are expected to face problems in their ability to invest in new artists and releases, as the time frame for recoupment of costs has become much longer compared to what it was for physical products.

The purpose of this thesis is to contribute to the limited existing knowledge of how the streaming economy has caused changes in the business models and strategies of indie labels. Through a deductive approach and a descriptive nature of the study, I will seek to find out how different Norwegian indie labels have coped with the transition and if (and how) they have changed their structure and business models to meet the challenges and potentials the streaming economy has presented. Hopefully the study can contribute to new and valuable insight for indie labels in music markets which are currently in the midst of or about to go through the same disruptive transition that Norwegian labels have gone through. It is also worth noting that the music industry is the first culture industry that has had to handle the challenges and opportunities caused by a streaming revolution. Other culture industries, such as the TV and film industry and the book industry are currently facing or about to face many of the same implications caused by the same technology. These industries are to a great extent also composed of major and indie players, and thus there is a reason to believe that some of the findings might have relevance for indies in these industries as well.

## 1.3 Research question

As mentioned in the introduction, it is likely to assume that the major and disruptive changes caused by the streaming revolution in how and when rights holders are paid must have had implications for the strategy and business models of indie record labels. My research question has thus been formulated as:

*How has the shift towards a streaming economy caused changes in the business models and strategies of Norwegian indie labels?*

Building on well-known and established business model literature, I will synthesize different business model components relevant for the industry into one overarching model for business model classification. Through interviews with the labels heads of four different Norwegian indie labels, I aim to make a descriptive analysis of their business models and map out which changes have been made to adapt to a new model of consumption and payment for the industry.

## 1.4 Thesis structure

The next section starts with a review of the relevant literature on business models and business model innovation. Section 3 aims at extracting the most common and relevant business models components described in the previous chapter, and compiling them into a three-level overarching model for business model classification, which will lay the foundation for the analysis of the results. Section 4 is devoted to a description of the methodology and an explanation of the methodological choices that have been made, including the research strategy and sampling method.

Section 5 presents the results following the structure of the model established in section 3, before moving into a discussion of the results in section 6 where the results will be analysed in relation to the theoretical framework presented in section 2. Section 7 will start with concluding on the main results discussed in section 6. A discussion of the theoretical and managerial implications of my study will follow, before a brief section on limitations of the study and possible directions for future research will conclude the thesis.

# 2. Literature review

In this section I have conducted a review of the relevant literature on business models and business model innovation. In my search for literature I have not been able to find any relevant, prior research that couples these topics with the recorded music industry or other creative industries. Thus, the following review is based on the general literature that exists.

The section begins with a general presentation of the theoretical foundation for the business model concept, before moving into more at-depth descriptions of Baden-Fuller and Mangematin's (2013) typology for business model configurations and Zott and Amit's (2009) activity based perspective on the business model. The section ends with a chapter on business model innovation as a concept and the importance of it, mainly seen through Zott and Amit's (2010) NICE-framework and Chesbrough's work on prerequisites for and barriers to business model innovation. Zott and Amit's work was chosen due to the substantial amount of literature that references their work. For the descriptive business model framework, I chose to complement their activity system perspective with Baden-Fuller and Mangematin's typology, as the latter elaborated on some business model components that the former did not, and could thus serve as a complementarity to it. With regards to Zott and Amit's work on business model innovation, I chose to complement this perspective with Chesbrough's (2002) work, as the latter seems to point out several, general pitfalls and obstacles (both organizational and cognitive) that managers might face in business model innovation processes, and thus brings in a complementary perspective to Zott and Amit's activity-centred focus.

## 2.1 The business model concept

The business model term is often used interchangeably with terms like business strategy and profit model. Magretta (2002) argues that the terms business model and strategy are amongst the most inaccurate used terms in business and may up rendered useless if they are applied too widely. Thus, although they are connected, it is important to make a clear distinction between them. The business model deals with how the offering is produced and delivered to the customer, while the business strategy should in addition provide an answer on who the customers are and what the offering is (Santos, Specter & Heyden, 2009). The model should be limited to how business activities fit together, while the strategy also incorporates the external environment, and thus the competition. A business model should include a value proposition, a revenue model and the network relationship, and not just these elements separately, but also how they work together.

According to Baden-Fuller and Haefliger (2013), the *"work on classifying business models has proceeded along two lines"*; on the one hand those *"who see the business model concept as part of the strategy lexicon and intertwined with technology"* and *"talk of "novel" and "efficient" business models if a new technology is incorporated into a business to produce a superior effect"*. On the other hand, there are those who regard business models as *"potentially separable from technology and strategy and examine how understanding business models and business model innovation might shed light on core strategy and technology questions"*. Baden-Fuller and Morgan (2010) point out the paradox that theories of firm behaviour tend to be very general, while the *"real world of firms is made up of very many enterprises that behave and are organized in very different, individualistic ways"*. Business models thus serve its purpose as an intermediate level between these two poles. *"Management scholars generate descriptions of firm behaviours that capture their salient features...these business model descriptions are neither so general that they fail to distinguish the main differences between firms, nor are they so absolutely particular that they cover every last detail of contract and activity"*. Business models are thus formed by *"generic kinds of behaviour that are distinctly different"*.

In their article from 2013 Baden-Fuller and Mangematin suggest a typology for business model configurations that considers four elements: *"Identifying the Customers (the number of separate customer groups); Customer Engagement (or the customer proposition); Monetization; and Value Chain and Linkages (Governance typically concerning the firm internally). Each of these dimensions relates to the business model definition of either value creation or value capture, or both"*.

- Identifying customers *"identifies the firm's targeted user and customer groups"*. This also *"specifies if the business model is one-sided or multisided, that is if the users pay for the services received, or if there is another group of customers who pay for services when the core offering is provided for free"*.
- Customer engagement, or the value proposition is based on the benefits, costs and value an organization delivers to its customers (Barnes et. al 2009). One of the most established distinctions in the literature is "*between project based systems and pre-*

*designed systems"*, where the former *"create value by interacting with specific clients to solve specific problems"*, while the latter produces standardized goods or services through processes of mass production (Baden-Fuller and Mangematin, 2013).

- Monetization concerns pricing, *"systems determining timings of payments, and identifies the costs and methods of collecting revenues"*, as well as *"distinguishing between charging all users the same price…and negotiated prices"*. The core of monetization is thus pricing strategies and timing of payments.
- Value chain and linkages *"are the mechanisms the firm uses to deliver its product or service to the customers, or in the case of multisided platforms, to each of the customer groups".* It is thus an element that concerns the value delivery. In the traditional theory of transaction costs economics, this is done through one of two orthogonal governance mechanisms, hierarchical (vertical integration) or market based (horizontal) governance (Williamson, 1981). When dealing with multi-sided business models and the possibility of several separate value chains, the traditional view might fall short in sufficiently describing the dynamics in work. The authors have thus included a third mechanism, which they have labelled network governance in an attempt to describe the value chain and linkages in a more realistic way.

Baden-Fuller and Mangematin (2013) claims that the typology can offer valuable insight by providing *"a set of clear and alternative types of models"* that *"can be used to explain the various ways in which in various different contexts (industry and time) technologies (developed or yet to be developed) can be connected to fulfil customer needs and provide revenues".* Another key takeaway from their work is the numerous possibilities that opens up for different configurations of their elements customer engagement, monetization and value chain and linkages when a firm identifies its customer group as multisided. The business model can then serve different customer groups through both bus and taxi systems, with a number of different pricing strategies at different timings through a governance system that moves on a continuum between hierarchical, market based or network based mechanisms.

In a different point of view, Zott and Amit (2010) have aimed at developing an activity system perspective on the business model. They define *"the business model as depicting the content, structure and governance of transactions designed so to as to create value through the exploitation of business opportunities".* They explain the concept further by establishing, *"two sets of parameters of activity systems that capture the purposeful, firm-centric design of* *the activity system; design elements (content, structure and governance) that describe the architecture of an activity system, and design themes (novelty, lock-in, complementarities and efficiency) that describe the sources of value creation of the activity system."* The two parameters take aim at explaining how a company conducts its business, how value is delivered to the stakeholders and link it to a market. The architecture of the activities in design elements and design themes make way for an analysis and understanding of how the activities should be organized to create value for the focal firm. According to Zott & Amit, the activities are the most important elements of business model design, and they define them as *"the engagement of human, physical and/or capital resources of any part to the business model (the focal firm, end customers, vendors, etc.) to serve a specific purpose towards the fulfilment of the overall objective"* (2009). In this view, the business model is thus seen as an activity system where the linkages between and among the activities can contribute to explain the firm's embeddedness with its current and potential customers, suppliers and strategic partners.

The aforementioned design elements consist primarily of the activity system content. The content is the factual activities, including both those that are planned in advance and those that are executed and realized. Secondly, the activity structure refers to how the aforementioned activities are linked, sequenced and organized. An evaluation of the structure will need to include both core and support elements. Lastly, the activity system governance describes who performs the activities.

The design themes on the other hand are the system's dominant value creation drivers. *"Design themes are configurations of design elements, or the degree to which design elements are orchestrated and connected by distinct themes"*. The common design themes in an activity system are Novelty, lock-In, Complementarities and Efficiency (NICE). Novelty refers to new activities (content), new ways of linking the activities (structure) and/or new ways of governing the activities. Lock-in describes a situation where customers or strategic partners are locked into the business model by considerable switching costs or *"network externalities that derive from the structure, content and/or governance of the activity system"*. Complementarities refers to any situation where performing activities within the same system provides more value than performing them separately. Lastly, efficiency describes ways of reducing transaction costs through design of the activity systems that explicitly aims to do so. Efficiency-centred business models *"aims at reducing transaction costs for all transaction participants"*, not just for the focal firm (Zott and Amit, 2007).

In the same paper, the authors have identified efficiency-centred and novelty-centred, as two separate and critical themes of business model design. Although they do not consider them orthogonal, their results indicate that attempts *"to design both efficiency- and novelty-centred business models may be counterproductive"*.

Some of the appeal in Zott and Amit's framework lies in its simplicity and intuitiveness. The design themes and elements are easily recognizable and applicable, but herein lies some of the framework's weakness as well. It can be argued that the concepts they utilize are too general and broad, lack more specific definitions and fail to accentuate nuances. The same can be said about the four NICE themes. They are all easily recognizable and intuitive as value drivers in the business model, but no deeper explanation is being provided for the inclusion of exactly these four and the exclusion of others. The framework can thus come short in its usefulness in analysing business models satisfactory.

### 2.1.1 Defining business model innovation and its importance

The construct of business model innovation introduces an additional challenge in the literature and to researchers. Mainly because it can be understood in two different ways, as innovation through an established business model or innovation of the business model itself. From a technology perspective, the business model can be considered the link between innovation and technology management. It can thus serve a company with opportunities to commercialize on innovative technology and ideas (Zott, Amit and Massa, 2011). Chesbrough (2007) claims that technology has no value in and of itself, but has potential for realizing a commercial outcome when coupled with a suiting business model. In the context of innovation and technology, the business model can thus be essential in explaining firm performance and competitive advantage.

In *"Creating value through business model innovation"* (2012) Amit and Zott, sketch out three main ways that business model innovation can occur, through adding novel activities, by linking activities in novel ways or by changing *"one or more parties that perform any of the activities*". Amit and Zott (2001), have identified the aforementioned NICE as the key aspects of business model innovation, but as Chesbrough (2010) points out, these aspects *"may often conflict with the more traditional configurations of firm assets, whose managers are likely to resist experiments that might threaten their ongoing value to the company"*.

Chesbrough states that the concept of disruptive technology and innovation "call attention to similar barriers to business model experimentation". What prevent firms from experimenting *"is not their inability to conceive of the disruptive technology"*, but rather *"the conflict between the business model already established for the existing technology, and that which may be required to exploit the emerging, disruptive technology"*. According to Chesbrough, there are several factors that give rise to this conflict. *"Typically, the gross margins for the emerging are initially far below those of the established technology. The end customers may differ, as may the necessary distribution channels"*. As a result, *"the firm allocates its capital to the most profitable uses, the established technology will be disproportionately favoured and the disruptive technology starved of resources"*.

Chesbrough also points out a different, cognitive barrier to business model experimentation in the same article, namely *"the success of established business models strongly influences the information that subsequently gets routed into or filtered out of corporate decision processes"*. The approach is based on Prahad and Bettis' (1995) notion of a *"dominant logic"* which serves as an understanding of how value is created and subsequently captured. The *"logic aids the firm in assessing what information is important, and it will seek information that fits with this logic and eschew that which conflicts with it"*. The dominant logic can help firms to operate in chaotic environments, but following it to a great extent can also inhibit business model experimentation and consequently missing out on *"potentially valuable uses of their technology when they do not fit obviously with their current business model"*.

Chesbrough (2010) upholds the importance of leading change for changing business models. Responsibility for conducting business model experimentation is seldom a pre-designated task for any position within a firm. *"Functional heads will lack the authority over the whole organization"* and experimentation will *"require testing aspects of and interactions between operations, engineering, marketing, sales and finance"*. Authority over the whole organization will also be required as experimentation may induce conflicts within or between the aforementioned functions. In small companies, CEOs who also are owners or partners in the firm *"may be ideally suited to the task"*. A problem however might be that the CEOs came to their position through the current business model, and thus are inhibited by the aforementioned dominant logic.

## 2.2 Section summary

In this chapter I have presented some of the most well-known and established theoretical frameworks for business models and business model innovation. Baden-Fuller and Mangematin's typology for business model configurations and Zott and Amit's activity based perspective on business models, as well as the latter's NICE-framework lay the foundation for the construction and synthesis of an overarching model for business model classification that will be presented in next section.

# 3. Model

From the literature review, it seems to be evident that the work and literature on the business model concept and business model innovation is somewhat fragmented, and agreement on definitions and common and overarching frameworks seem to be lacking. That being said, the concepts and components from the literature is to a great extent not in direct conflict with each other and the inclusion of one does not necessitate the exclusion of another to make a sensible whole. Generally, the aforementioned concepts, ideas and components in the reviewed literature seem intuitive and possibly mutually complementary to each other. In the following section I aim at connecting the business model components to an overarching model. My model is based on *"The conceptual, general business model framework"* by Bergh & Kahrs (2015), but have been simplified and amended substantially in order to be more suitable and relevant for the indie sector of the recorded music industry. The purpose of this model is to facilitate a descriptive analysis of the indie labels' business models which highlights the main variable components that the labels can change or manipulate to innovate and thus achieve a competitive advantage in their markets. The model also aims to facilitate a description of the factors that drive innovation processes and factors that might complicate or even prevent these processes from happening or turning out successful.

In *"Business Models, Business Strategy and Innovation"* (2010), Teece claims that *"whenever a business enterprise is established, it either explicitly or implicitly employs a business model describing the design or architecture of the value creation, delivery and capture mechanisms it employs"*. My model will be employing these three dimensions, value creation, value delivery and value capture, to further categorize all the main variable components of indie labels' business models. These three dimensions will be split into sub-dimensions with the variable business model components underneath them in the model's hierarchy.

## 3.1 Value creation

The first business model dimension in my model, is split into two sub-dimensions, customer engagement and NICE design themes. The former is based on the customer engagement element from Baden-Fuller and Mangematin's (2013) typology for business model configurations, while the latter draws heavily on Zott and Amit's (2010) activity system perspective of the business model, and the NICE design themes.

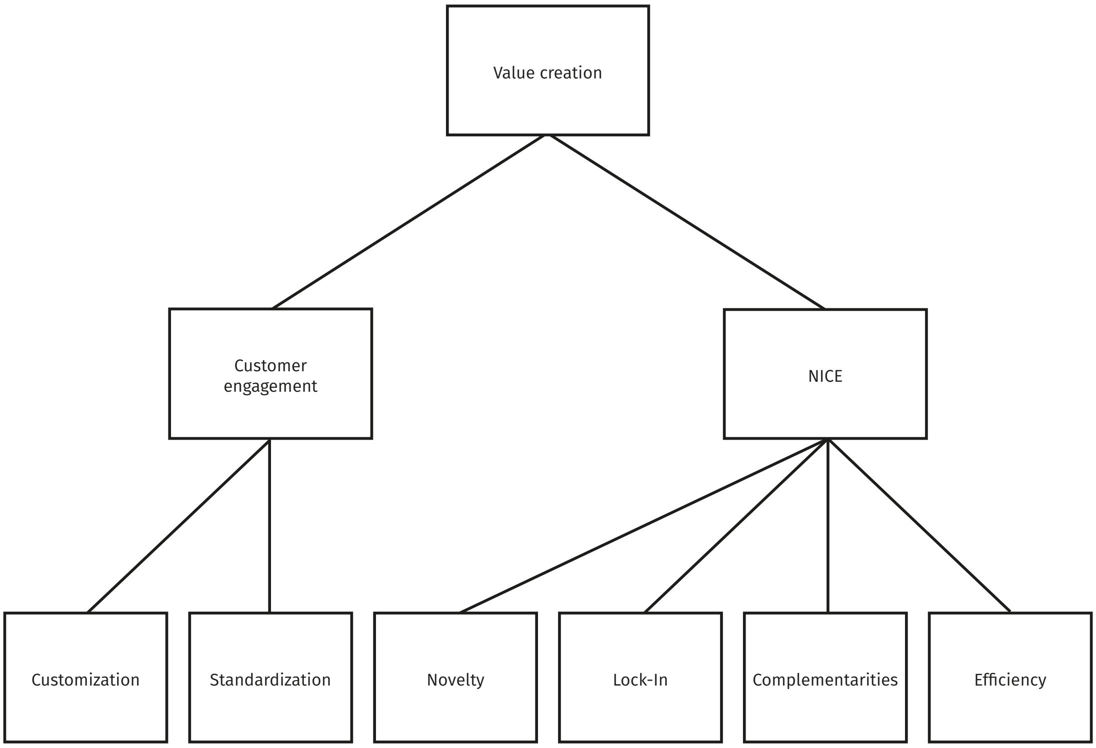


*Figure 1: Value creation*

### 3.1.1 Customer engagement

What Baden-Fuller and Mangematin refer to as customer engagement, is often labelled the value proposition in other frameworks and models. The difference in terms aside, the essence of them is approximately the same as they both refer to the marketing position of the firm. Customer engagement is based on the benefits, costs and value the firm delivers to its customers, and in the literature review it was pointed out that the distinction between project based and pre-designed systems is a well-established distinction in the existing literature. The two different systems are often labelled taxi and bus systems. In a taxi system, the firm interacts with specific clients to tailor solutions to their specific needs, while in a bus system the firm offers highly standardized solutions to their clients through methods of mass production.

The two business model components beneath customer engagement in the model hierarchy is coherent with the distinction in the literature, and are thus customization and standardization. The words customization and standardization are almost perfect antonyms to each other, and as business model components they should be regarded as mutually exclusive.

### 3.1.2 NICE design themes

In Zott and Amit's activity system perspective on the business model, the design themes NICE (novelty, lock-in, complementarities and efficiency) describe the sources of value creation. According to the authors, the design themes should be regarded as configurations of design elements. It can thus be argued that the themes are a broader set of value creating features that can be applied to other components of the business model instead of specific business model components by themselves. On another note, the authors claim that the design elements are the dominant value creation drivers in an activity system, which would be a strong argument for categorizing them as a separate sub-dimension within the value creation dimension. In my model I have chosen to treat them as the latter, which admittedly also makes the model more manageable to my purpose. The business model components are thus novelty, lock-in, complementarities and efficiency. As mentioned in the literature review, Zott and Amit has identified efficiency- and novelty-centred as two different and separate themes of business model design. Their results indicated that attempts to design business models that emphasized both of these design elements might be counterproductive, but the authors also made clear that they do not consider the two design elements orthogonal. In my model none of the four NICE design elements will be treated as exclusive, but rather as possibly complementary business model components. Any strengthening of one of them may positively affect the offering of the business model. Lock-in is to be treated with caution though as it may increase the perceived risk of prospective customers if they can observe the lock-in mechanism and future consequences at the time of purchase.

## 3.2 Value delivery

Value delivery is the second business model dimension in my model, and concerns the firm's value chain and its governance. The dimension is split into two sub dimensions, the value chain and governance. The value chain dimension will be based on Zott and Amit's design elements content and structure as well as Baden-Fuller and Mangematin's element value chain and linkages from their aforementioned four-part typology. The sub dimension governance will be solely based on Zott and Amit's third and last design element which they also have labelled governance.

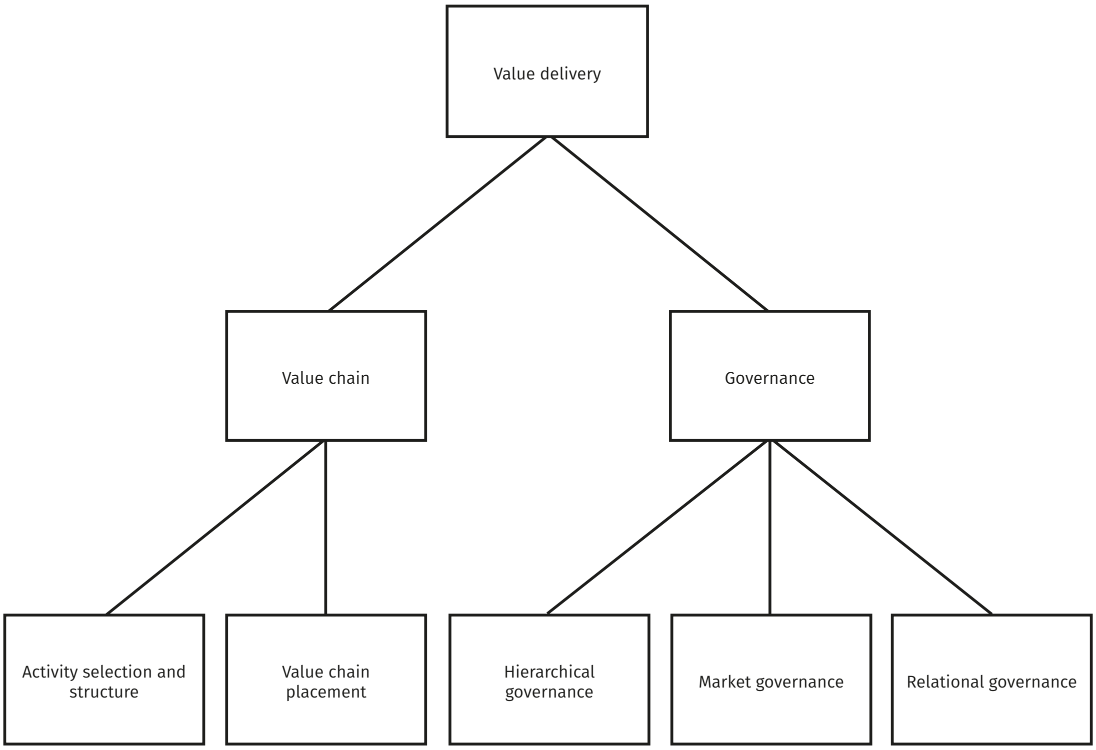


*Figure 2: Value delivery*

### 3.2.1 Value chain

The value chain dimension is in turn split into two components, Activity selection and structure and value chain placement. In Baden-Fuller and Mangematin's four-part typology, one of the four elements described is value chain and linkages, which they define as *"the mechanisms the firm uses to deliver its product or service to the customers"*. This description encompasses the substance of the business model component activity selection and structure. In Zott and Amit's activity system perspective, the design element content is the factual activities, both those that are planned in advance and the ones that are actually realized. Broadly, the firm's activities can be split into two types, core or primary activities and support activities. Generally, the core activities refer to the activities that contribute to the direct transformation of inputs into outputs, while the support activities refer to those activities which contribute to heightening the perceived quality of the core activities or making them more efficient. In creating, adjusting or innovating a business model, the selection and relative prioritization is thus of the utmost importance. De-selection of activities is also an option. Activities can be removed from the firm's value chain entirely, or placed within another firm in the focal firm's ecosystem. When activities have been chosen and prioritized, those activities need to be linked, sequenced and organized. These processes are what Zott and Amit refer to as the activity structure. An evaluation of a business model will thus need to include an analysis of the activity structure, including both core and support elements.

The second value chain component in my model is the value chain placement. This component aims to describe and illuminate external factors, conditions and/or relationships in the value chain that goes beyond the internal activities that the component activity selection and structure aims to describe. The value chain placement component deals with the firm's value chain positioning within its ecosystem. In contrast to the component activity selection and structure, the value chain placement component is to a great extent a consequence of the activities that take place outside the firm. Broadly, it is a question of whether the firm positions itself downstream, midstream or upstream. Awareness of one's own positioning within your own ecosystem or competitive market has value in of itself. But when creating, adjusting or innovating one's business model it should be regarded as an absolute necessity. In the process of evaluating and deciding on a change in value chain placement, an analysis drawing on Porter's five forces framework might prove itself useful. As the framework is much cited and well-known, I will limit my explanation of it to describing it as a framework for qualitative evaluation of a firm's strategic positioning that aims at laying out an industry's competitive structure. The five forces consist of three forces derived from horizontal competition: the threats from established rivals, new entrants and substitutes, as well as two forces from vertical competition: the relative bargaining powers of suppliers and buyers (Porter, 1979). I will use Porter's five forces model as an investigative tool to help explain the rationales behind the indie labels' value chain placements and innovations in their business models.

### 3.2.2 Governance

In Zott and Amit's activity system perspective, governance is considered a design element which aims to describe who it is that performs the activities. Innovating a business model through governance innovation will thus need to include changing who performs one or several of the activities. Governance is a recurring component in the business model literature, and is often linked to the theories of transaction cost economics (TCE). In traditional TCE, there are two main governance mechanisms, vertical integration or market governance. In more recent contributions to the literature, a third mechanism either labelled network governance (Baden-Fuller and Haefliger, 2013) or relational governance (Haugland and Methlie, 2015) has been added to the traditional hierarchy-market framework. A key takeaway from this hybrid TCE framework with three alternative governance mechanisms is that trust and contracts should not be considered substitutes, but rather as complementarities. Formal contracts and trust-based mechanisms are each suited for different times, situations and purposes, and in some cases they can complement each other by stimulating and incentivizing long term relations through the increased costs associated with breach of trust.

For the sake of simplification, the three governance mechanisms are being placed in my model as three discrete business model components under the sub-dimension governance. This also illustrates that they are variables that can be chosen, changed and rejected in the creation or innovation of a business model. It should be pointed out however that they should be considered as extremities of continuums, and that many governance solutions will find its place somewhere in between these extremities where the different mechanisms can complement each other.

## 3.3 Value capture

Value capture is the third and last business model dimension in my model. The concept of value capture is closely connected to the firm's revenue model. In the literature review, there are two main elements that speak directly to the revenue model, and both are from Baden-Fuller and Mangematin's four-part typology for business model configurations, namely customer identification and monetization. These two elements will serve as the last two sub-dimensions in my model for describing the variable components the labels can change or manipulate in order to innovate their business models.

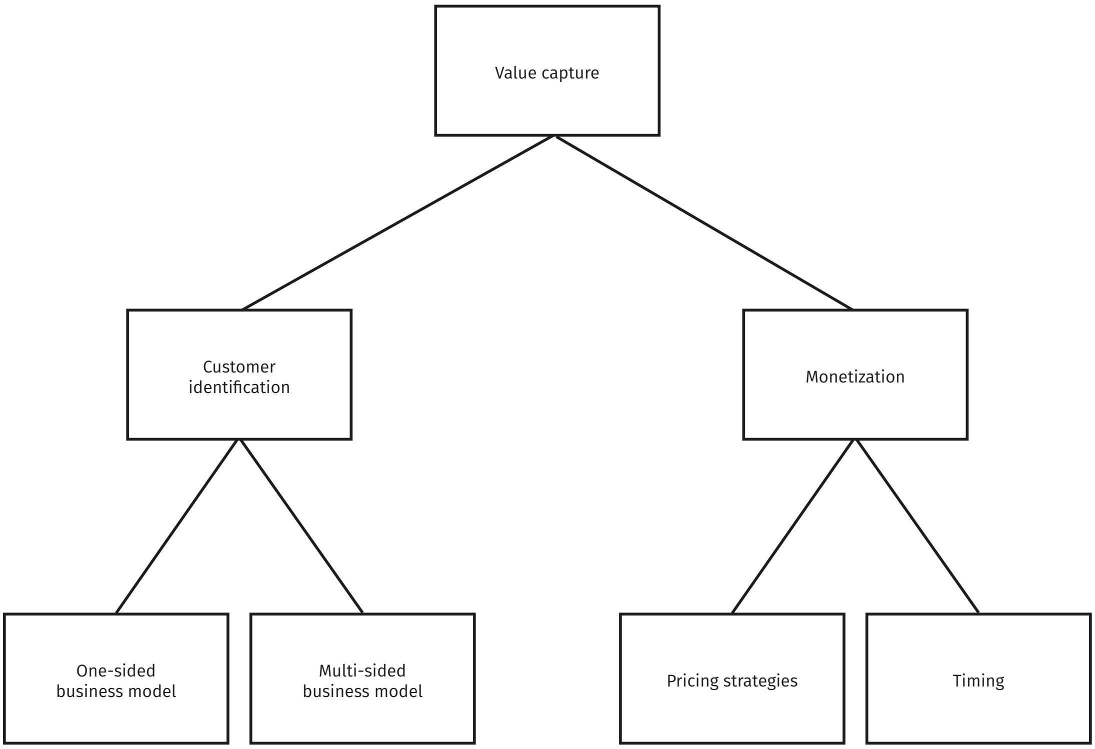


*Figure 3: Value capture*

### 3.3.1 Customer identification

According to Baden-Fuller and Mangematin, customer identification is the process of identifying the firm's user and customer groups. In a one-sided business model, these will be the same, and therefore is customer identification also about clarifying if business model is one- or multi-sided, i.e. whether or not it is the users who are paying for the product or service, or if there is another customer group who is paying for the service while the core offering is provided for free (or to a considerably reduced price). The schoolbook examples are search engines and newspapers who provide their core offering to customers who do not pay (in full) for the services/product rendered, while advertisers are the ones picking up the bill. In the case of the indie label sector, it is a question of who the firms consider their customers. It is possible that the labels consider the artists as their customers instead of the end customer. In such a view, it is the artist who pays a percentage fee of the revenue generated from streaming (and potentially other sources of income) to access the labels' distribution channels, and other services such as administration, PR and marketing, radio-plugging, financial services and many more if you are to include operations who also offer a broader set of music business services to their clients, such as management, live booking, studio recording and merchandising to name a few. In the case of streaming services, the users are paying a premium for the music they consume, but the premium stays the same independently of how much music they consume or which music they consume. The only way the label can capture a larger share of the income derived from user premiums, is by increasing their relative share of the total number of streams within a streaming service. In a situation where you cannot increase the amount of money the end customer is paying for your product, do you choose to focus on capturing a larger share of this amount, or do you focus on attracting more artists with higher streaming numbers, and maybe additionally get them to sign up and pay for several of the services that you offer?

The two business model components under the sub-dimension customer identification will thus be one-sided and multi-sided business models. From the discussion above it entails that these two components are mutually exclusive. Although the choice of one- or multi-sided business models is to a great extent a question of mind-set in the context of indie labels, it will have major implications for the options available in designing or innovating business models. This will become evident in the following chapter about monetization.

### 3.3.2 Monetization

Monetization is the last sub-dimension in my model and involves the options related to prizing when designing a new or innovating an existing business model. The design elements for monetization in my model are the pricing options, namely pricing strategies and timing. The rationale behind different pricing strategies is generally to maximize profit for one product or service, maximize profit from all your offerings, to enter a new market, increase market share within a market or defend yourself from new entrants within an existing market (Gregson, 2008). Timing simply refers to when the money generated from the sale of the product or service is being collected.

The relevance of these constructs for business model innovation is largely dependent of the result of the customer identification process discussed above. If the firm considers the end consumer as the customer, the firm would be very limited in its power to exert influence over the monetization design elements. The price for a streaming subscription is set by the streaming services, but even in the physical market for recorded music the pricing of products is very homogenous. Deviations from the established standard price are rare, and generally needs to be justified by additional offerings in the form of limitations on availability, additional content or elaborate design for it to by accepted by distributors, retailers and end consumers. Both in the case of streaming/digital and physical sales, payments to indie labels are made through retrospective royalty statements from the respective distributors. Thus, the variables regarding pricing strategies and timing are almost non-existing when considering the end consumer as the labels' customer. It should be pointed out however that major labels and associations and networks representing indie labels' interests can have the power to influence the design elements, but that goes beyond the variable a single firm has when designing or innovating its business model.

If one on the other hand opens up for there being other customers than the end consumer, more options for pricing strategies and timing are available. Although there are more or less established standards for royalty rates of different income streams that are considered fair and just within the industry, the contracts between indie labels and artists generally have severable negotiable terms, which in this view would constitute negotiable prices. Under the section about customer identification, it was mentioned that the artist might agree to pay a percentage from other income streams than the ones that would traditionally be directly generated from the services of a record label. If so, this opens up for more options regarding the timing of payments. Without going into too much detail, this enables the labels to diversify their risk and make sure that they receive payment for their services and/or recoup initial investments from other income streams than streaming and within a shorter timeframe then streaming income generally would permit.

The business model components under the monetization sub-dimension will thus be pricing strategies and timing. From the discussion above, it entails that these are to be considered highly complementary and mutually compatible. In the process of designing or innovating business models, these components have to be evaluated and decided upon in relation to each other, to make sure that they form a coherent and complementary whole.

## 3.4 Section summary

In this section I have presented the main variable business model components, and structured them in sub-dimensions and overarching dimensions to facilitate a descriptive analysis of the indie labels' business models and how these have changed or innovated through the streaming revolution. In structuring the overarching business model similar to Teece (2010) to have three main dimensions, value creation, value delivery and value capture, the model breaks down these general concepts into more specific and narrow concepts as one moves down in the four-level hierarchy. The complete model for the analysis is shown below in figure 4.

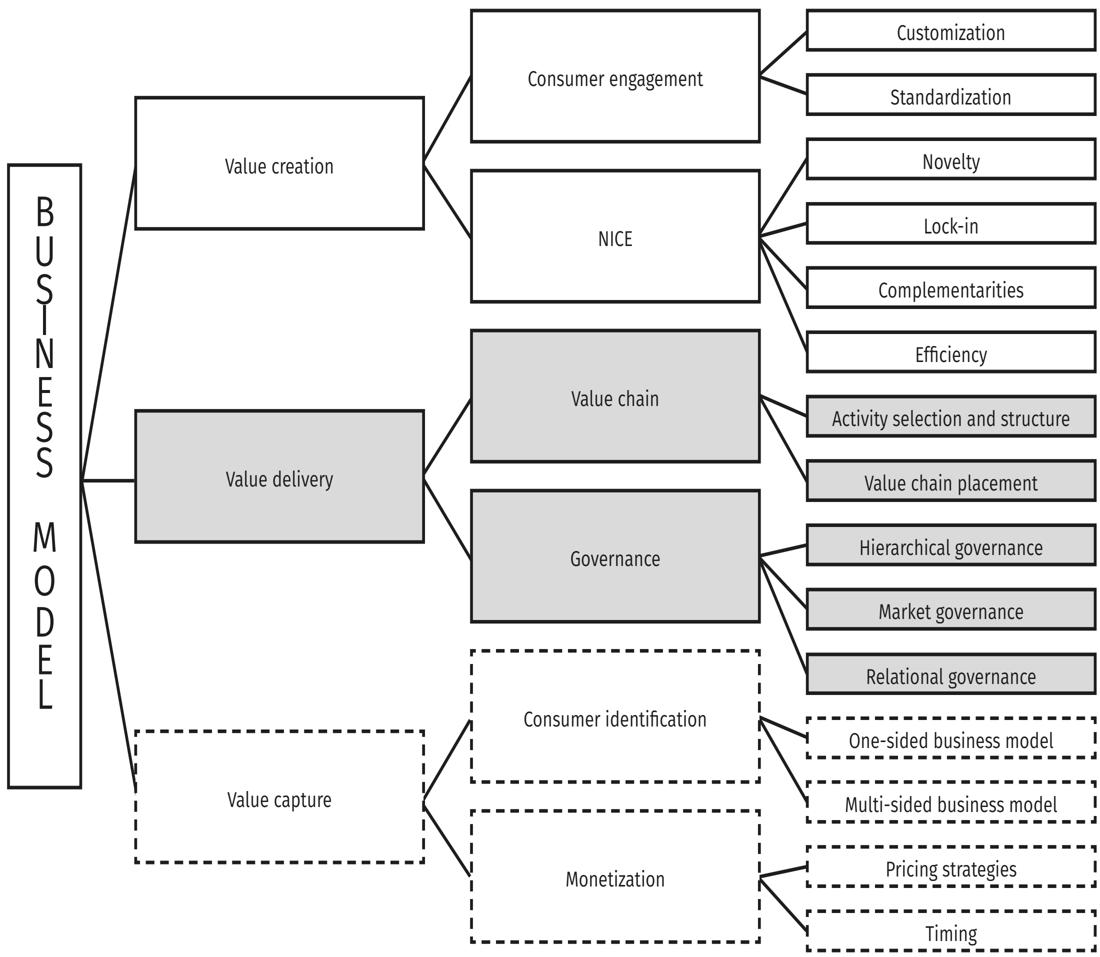


*Figure 4: Overarching model for business model components*

# 4. Methodology

This chapter will present the methodology chosen for the study. The section will start out with explaining the underlying rationales for the choice of research approach and design, continue with a description of the sampling technique, how the data was collected and analysed, before closing with chapter about the reliability and validity of the findings.

## 4.1 Research approach

Due to the limited amount of pre-existing research on how the shift towards a streaming economy has spurred changes or innovations in the record label sector of the music industry, the aim of my research is to test the applicability of the theoretical frameworks presented in section 2 and developed into a coherent, overarching model in section 3, on a specific industry setting, namely the indie sector of the industry for recorded music.

By going from theory to data, and not the other way around, the study will thus have a deductive approach. By coming to grips with how the streaming revolution has changed the competitive environment for Norwegian indie labels, I will try to answer the research question on how this disruptive change has caused changes in the business models and strategy for the record labels. Although the approach implies that patterns and relationships will be identified through the data collection, this does not exclude the utilization of pre-existing theory on business models and business model innovation. Hopefully, the results of the study can contribute to generate hypotheses and insight for further research, and thus be a precursor to research projects of an explanatory nature.

## 4.2 Research design

From the very purpose of the study, the nature of the research question and the very limited amount of existing research, it follows that the design of my study will be descriptive through its use of theory and qualitative data. Descriptive designs are considered the most valuable approach when the purpose of the study is to be a forerunner to more explanatory research

(Saunders et al., 2012). Regarding research strategy, the time horizon of the study and methodology, I have chosen to undertake a multiple case study, collecting cross-sectional, qualitative data through interviews. In the following chapters, the rationale underlying these choices will be elaborated on.

### 4.2.1 Research strategy

The research strategy will be a multiple-case study on a group of Norwegian indie labels, where each label will be a separate unit of analysis. The rationale behind this choice lies within the research question, as I am trying to answer how different indie labels have adapted to and tried to exploit the potential of the streaming revolution as a disruptive innovation. Case studies as a strategy is fitting for this purpose, as one gets to explore each company within its own context (Saunders et al., 2012), and thus hopefully get an in-depth understanding of the choices the companies have made in response to exogenous change.

A considerable limitation to this choice of the research strategy is the very limited generalizability of the findings. That being said, generalizability is not the purpose of the study. Hopefully, the findings from the study can lay the groundwork for hypotheses generation, and thus be the basis for more generalizable studies in the future.

### 4.2.2 Methodological choice

The study will use a qualitative method, specifically through the use of face-to face, semi-structured interviews with one respondent from each company. The choice of a qualitative method is not self-explanatory due to the deductive nature of the study, but when aiming to test existing theoretical perspectives on a phenomenon, the method has been proven itself useful and is not uncommon (Saunders et al., 2012). From the nature and purpose of the study and research question, it entails that an experiment would not be fitting, as the main purpose of the study does not include hypotheses testing. Archival research would be more fitting to the research question, but because there is no tradition for keeping detailed, administrative records in the companies examined, this method was deemed unsuitable as well. A survey on the other hand could have proven useful and would easily enable comparisons between the respondents. However, the sheer complexity of the research question and the theoretical foundation for the thesis was expected to demand explanation and discussion with the respondents, which is not possible with a survey. Semi-structured interviews were thus chosen, as it would enable me to experience the respondent's perception of questions, and to explain and follow up where needed. The choice of method was deemed to be most suitable in providing a basis for more in-depth understanding of the competitive environment and the implications of drastic, exogenous change that other methods such as surveys or quantitative methods, could not fulfil to the same extent (Saunders et al., 2012).

### 4.2.3 Time horizon

The study was cross-sectional as the data was collected at a one specific point in time displaying a specific situation. A point in time and a situation where the shift towards a streaming economy has come a long way, but at the same time represents a fairly new phenomenon that the record labels are still trying to adapt to. The alternative, a longitudinal study would not be suitable to employ for this study at this time, mainly because it is likely to assume that the consequences of the streaming revolution already have manifested themselves, and the strategic changes or innovations caused by it have already been implemented or are in the midst of the process of being implemented. In addition to this, a longitudinal study would not be well suited to the time constraints of a master thesis.

## 4.3 Context

As mentioned in the introduction to the thesis, the recorded music industry is usually divided in two sub-groups; the major labels (Universal, Sony and Waner Music), which are part of large international media groups and the so-called independent labels or indies, which are small in comparison and often localized. The relative market share and presence of these two sub-groups and what kind of music they choose to work with can differ considerably from territory to territory. Some markets are almost completely dominated by the majors, while others might a numerous amount of indie labels, and sometimes strong and international indies which can compete directly with the majors. In Norway, the indies have had a market share of about 15 % depending on how it is calculated. IFPI's statistics for the first six months of 2016, give the three majors Universal, Sony and Warner Music a market share of 33 %, 32 % and 22 % respectively, while the remaining 13 % is accounted to different indie players (IFPI, 2016). It is worth taking note that indies who have their distribution through a major player are counted as part of the majors in these statistics. For radio, the situation is quite similar. FONO, an industry organization which organizes most Norwegian indies have had a market share of neighbouring rights income from radio at 13-15 % for the past three years (FONO, 2017). The correct number for the indie sector as a whole is somewhat higher, as not all indies are members of FONO.

To broaden the perspective of the indie sector's role in the Norwegian markets beyond sheer market shares, it is important to take into account that the major's dominance in the Norwegian market is substantially based on their representation of international artists and their catalogue. The five largest national radio stations reported last year that Norwegian music constituted from 32-44 % of the music they play (FONO, 2017). If one were to exclude international catalogue from calculations, the Norwegian indies would have a market share on the radio somewhere between 30-40 % depending on the method of calculation. An additional perspective can be sought by looking at the winners of the Norwegian Grammy awards, Spellemannprisen. Of the 26 prizes that were awarded at this year's award ceremony, only six of them were awarded to artists represented by a major (Aftenposten, 2017). This demonstrates that even though the majors certainly dominate the Norwegian market for recorded music in sheer market share, the indie sector plays an important role, especially in releasing Norwegian music within a wide variety of genres.

## 4.4 Sampling

The sampling technique was of a non-probability nature, purposive and heterogeneous. Through this technique I sought to obtain a high degree of variation, and thus it would enable me to describe and explain the key themes that could be observed (Saunders et al., 2012). The fact that a relatively small sample often will contain cases that are completely different, is according to Patton (2002) a strength, as the patterns *"that do emerge are likely to be of particular interest and value and represent the key themes"*. To ensure maximum variation, Patton suggests that the diverse characteristics and thus my sample selection criteria should be identified prior to the selection of the sample.

The first step of the sampling process was to get an as extensive overview over the players in the Norwegian indie label sector. I made a complete list over members of the two Norwegian record label industry organizations, FONO and IFPI. A total of 170 companies were reviewed. Major labels, distribution companies and labels set-up by artists with the sole aim of releasing the artist's own material were removed from the sampling pool first. Secondly, I removed all companies that were not run on a professional basis. The criteria for being characterized as professionally run was that the company had to have at least one full time employee, and the number of annual releases had to exceed 10.

From the remaining pool, I sought to obtain variation on characteristics such company size, number of releases annually, genre, export's share of total sales, companies that base their releases on license agreements vs. master/in-house production companies, and lastly whether or not the company was operating exclusively as a record label or if it was a part of an entity which also is involved in other aspects of the music industry (management, booking, publishing etc).

To enable a structured analysis, I took aim at finding four companies that could fit within a 2-by-2 sampling matrix. In the matrix, the vertical dimension is whether the company has vertically integrated either upstream or downstream activities. The horizontal dimension I have labelled "Album focus". It refers to whether the company has a history in the pre-streaming age or not and if they have a release plan that is centred around releasing records within a traditional album format. This does not imply that they do not take an active part in the streaming world or have adjusted their business model to adapt to the streaming world. The companies who do not have an album focus can also release albums and physical products from time to time, but

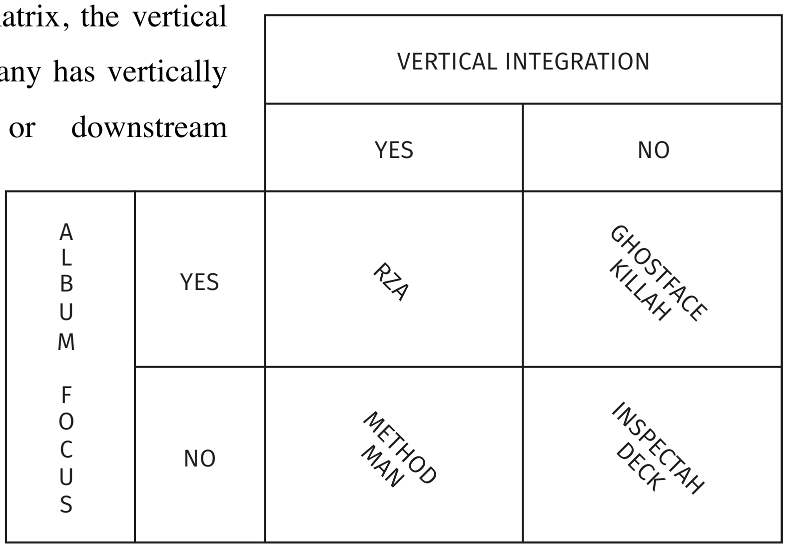


Figure 5: Sampling matrix

their release plan is too a much greater extent centred around frequent single releases and within genres where the album format traditionally and currently does not hold a dominating position as the preferred format. In the figure the four respondents are placed within the 2-by-2 matrix. The respondents' companies have been given fictional names that pay tribute to members in the legendary hip-hop group Wu-Tang Clan, and for the remainder of the thesis I will refer to the companies by these names.

## 4.5 Data collection

The basis of the study was primary data collected through semi-structured, individual interviews with one person from top management or an employee in charge of strategic implementation in the company. For RZA, Inspected Deck and Ghostface Killah, the respondent was the companies' managing director, while it was the head of the label division for Method Man.

The use of semi-structured interviews was chosen as it gave the freedom of leaving out questions that were irrelevant due to the organizational context, but also gave the freedom of adding additional questions as particular points of interest came up during the interviews (Saunders et al., 2012).

The interviews were recorded, as it gave a thorough documentation of the interview for the following transcription process and freed me from not spending too much time taking notes as this could easily divert my attention during the interviews.

An interview had been developed in advance (Appendix 1). Generally, the approach can be labelled "broad-to-specific", as it starts out with general, open-ended questions in order not the lead the interviewee into a specific track. The aim was to obtain the interviewees perspective on the challenges they have faced caused by exogenous change and how they have adapted to the change through innovation or changes in strategy. Their answers would serve as a foundation to go into the specifics on each theme, but could also open up for other key themes or key questions in the interview guide.

## 4.6 Data analysis

After conducting the semi-structured interviews, the first act in the process towards an analysis was to transcribe the interviews from the recordings. The transcription process enabled me to re-familiarize with the data and also to re-start the processing of the data. Moving into the analysis, it was important to establish a stringent and rigorous technique for moving back and forth between description and interpretation to ensure validity and reliability in the results. The technique of template analysis was chosen where one develops *"a coding template which summarizes themes identified by the researcher as important in a data set"* (King, 2014).

I started out with labelling the transcriptions with a priori codes, which identified themes that I expected to find in the interviews. Too a great extent, these themes corresponded to the design elements and themes from the overarching model from section 3. These codes were then modified or dispensed with as the analysis progressed, and new themes were added to include other relevant material in the data set.

In the following, I looked at each unit of analysis isolated, before looking at them in groups based on the two dimensions in the 2-by-2 matrix. Lastly I had one final analysis process, where all the units of analysis together were looked at together. Based on the results from these processes, I tried to identify patterns in how the different record companies have made strategy changes and adapted to the exogenous change caused by the streaming revolution.

## 4.7 Reliability and validity

In evaluating the quality of my research design, an evaluation of the reliability and validity of the findings, as well as to which extent I have managed to overcome interviewer and interviewee bias will be of great importance.

Reliability refers to whether the same results would occur if the study were to be reproduced with the same research design, data collection techniques and analytic tools and procedures. A cross-sectional study employing semi-structured interviews is not necessarily meant to be repeatable as its purpose can be said to *"reflect reality at the time it was collected"* (Saunders et. al, 2012). I have tried to overcome this issue by retaining notes relating to the *"research* *design, the reasons underpinning the choice of strategy and methods, and the data obtained"* (Saunders et. al, 2012). Thus, the records can be referred to and enable other researchers to re-analyse the data.

Validity in the use of semi-structured interviews refers to the extent the researcher is able to understand the respondent's intended meaning in his/her answers. This can be ensured by a variety of techniques, such as clarifying the exact meaning of questions, to probe for meanings, exploring responses and themes from several angles as well as rephrasing answers if the respondent's true intention behind an answer is ambiguous in any way.

Interviewer and interviewee bias refers to bias caused by the tone or non-verbal behaviour by the interviewer and bias caused by the interviewee's perceptions about the interviewer respectively. There is a range of techniques and measures to overcome such challenges that should be considered for each individual interviewee and setting. Making my own behaviour as objective as possible in the communication with the interviewee both before and during the interview was deemed to be a productive measure to undertake.

It is also worth mentioning that I am a partner in one of Norway's leading management agencies MADE, and serve as the managing director of a sub-company called EDDA Music which is a record label group with a publishing entity and a recording studio, and thus a considerable player in the Norwegian indie sector. All the respondents were familiar with my position, and it is certainly possible that they might show restraint and not be completely honest and open in some of their answers in order to protect trade secrets. I tried to overcome this by talking openly about the situation at the beginning of the interviews, and urging the respondents to decline to answer on this basis rather than not answering the questions exhaustively by withholding information that could be deemed relevant.

# 5. Results

Before moving into the results I will give a brief presentation of each of the companies, and describe them according to how they fit within the sampling matrix as well as the other sampling characteristics.

## 5.1 The four companies

Method Man is a seven-year-old company, founded as a label and management with three full-time employees, two part-time and one intern. They also run a studio complex where they manage the producers and handle the booking for a concert venue. Genre-wise they are focused within pop and electronic music, and have a catalogue of about 60-70 releases where few have been released in a physical format. The respondent from Method Man was the head of the label department.

Inspectah Deck is also a label and management who manages producers as well as artists, but their operations have not vertically integrated the studios. The company was founded three years ago, have four employees and two interns. The company has a catalogue of about 30 releases within mainly urban, pop and electronic music. As with Method Man, a small minority have been released in a physical format. The respondent from Inspectah Deck was the managing director.

RZA started out as a record label in 2008 and have since released over 100 albums with additional digital single releases. The label has its roots in a record store with experience within distribution, something the company still does today. There are five employees in the company which releases music within punk/hardcore/metal, but also indie rock and other niche genres. About 50 % of the label's revenue comes from physical products. The respondent was the managing director.

Ghostface Killah released its first record in 2009, and today has a catalogue of about 50 albums with additional single and EP releases mainly within the genres of pop, rock and indie. The company has a policy of releasing all albums in all relevant formats, i.e. vinyl, MC, CD and digital, and their physical products have a 50 % revenue share. The company has two full time employees and five part-time employees in the UK and USA.

## 5.2 Interview results

In this section I will present the main results from the semi-structured interviews following a structure which adheres to the sub-dimensions in the second level of my four-level overarching model for descriptive analysis of business models. The interviews were conducted and transcribed in Norwegian. In the presentation of the results I have chosen to include a number of quotes from the respondents. When translating the quotes, the emphasis has been put on conveying the respondents' true meaning and intentions, rather than translating the quotes literally.

### 5.2.1 Customer engagement

The respondents' answers on whether their customer engagement took place through standardized or customized solutions varied. Inspectah Deck answered a definite no with the reasoning that since they are a management company, they aim to find the best solution for the artist from where it is in its career, what they need and what kind of record deal would be within reach. Thus the record label set-up for the artist is not dependent on how Inspectah Deck chooses to work as a record label, but the other way around, how they work is dependent on the artist's situation. The respondent from Method Man answered that he considered their customer engagement as highly customized, but in the discussion that ensued, he came to realize that most of the work processes they execute from one artist to another was very similar. *"It is the same hurdles that you have to pass*." It is worth noting that although the work processes were very similar, there was no official standard for the processes within the company. It had more or less evolved into the current state. Ghostface Killah's answers tended more towards standardized set-up, especially regarding the communication with the artists to ensure that the collaboration is going smoothly. Lastly, the respondent from RZA stated that they had specifically aimed towards standardizing their processes, and in his opinion they had to a great extent succeeded in doing so. *"Suddenly, we became record industry."*

### 5.2.2 NICE design themes

All the respondents answered *novelty* when asked whether their business model should be considered novelty- or efficiency-centred. RZA thought that artists seek to collaborate with them because they want to be a part of a certain label identity that they represent. *"They are concerned with the label's reputation and they want to be associated with something that is good."* RZA also put emphasis on understanding the artists and communicating with them on their premises. That being said, RZA has taken steps to improve their efficiency, through their own computer software for royalty accounting and general work flow routines. According to the respondent from Ghostface Killah, one of the things that make them novel within the Norwegian indie label scene, is their set-up with employees in the UK and USA. As a consequence, they aim to develop creative ideas for promotion stunts, social media content etc. for their artists which they can execute at home, but might also have an effect in a global market. Method Man's respondent was very clear that their novel factors were the best industry network combined with very good A&R knowhow. A&R stands for artists and repertoire, and is a division within most record labels and music publishing companies that handles talent scouting as well as overseeing the artistic development of the talent. When asked if Method Man had any efficiency-centred design elements, the answer was a definite no. Inspectah Deck's respondent accentuated their long-term philosophy for all working relationships, whether artists or others as a key factor for promoting efficiency. In their view. a well-established working relationship leads to high degrees of trust, which in turn can enable quick decision making processes. Although admitting to not following how other Norwegian indie labels structure their set-up too closely, the respondent considered their novel elements to mainly be their collaboration with a major label distribution partner, where they in the respondent's view had a special structure where they receive advances which Inspectah Deck in turn allocates to music production, music video production, promotion and marketing etc. in the way they see best fit.

Although the respondents admitted to having design elements in their business model that could be considered lock-in elements, the elements had not been put there to lock customers or other collaborators in their business model, but rather served a different purpose. With the exception of Ghostface Killah, the three other respondents specifically stated that their ideal situation would be to work with artists on a long-term basis, but they were not interested in contractually obliging the artists to do so, as the working relationship and the ensuing results would be damaged if there was a strong sense on the artist side that they had been caught or locked-in within the current collaboration. As a management agency, Inspectah Deck has so-called sun set-clauses in their management contracts. This is a well-established standard within the management sector of the music industry which ensures the agency their industry standard 20 % commission for a period of 6 - 36 months if the artist chooses to terminate their management contract. Inspectah Deck's respondent emphasized that he did not consider the sun set-clause in their contracts as a measure taken by their company to protect them exclusively, but also something that would benefit the artist to ensure a smooth transition of tasks and responsibilities. The respondent also mentioned that they had considered not having written contracts with their artists at all, and rather finding solutions to problems and conflicts on a case by case basis.

Method Man on the other hand do not operate with sun-set clauses, but with a business model that encompasses management, record label and recording studios, the respondent admits that there might be an unintentional lock-in effect in working with the same artists on several business areas. That being said, they are generally positive to a situation where an artist signed to their management is presented with a good offer from a good label and thus preferable to what they are able to offer through Method Man. The same goes for RZA, which explicitly see themselves as a stepping stone label. Although they try to signal that they are in it for the long run through the duration set in their contracts, they also make use of exit clauses which enables the artist to move on to a bigger and more preferable foreign label if the opportunity should arise, and which has happened on several occasions. Ghostface Killah's main lock-in element is the inclusion of album options in all of their record deals with artists. But the stepping stone view presented by Method Man and RZA, was also voiced from Ghostface Killah's respondent despite the fact that they have established a set-up in other territories. *"Even though we work seriously towards the US market, if a very big American label comes along and which obviously can help the band, I can absolutely be up for third party licensing. I'm always band and artist first."*

Complementarity elements for record labels are mainly the inclusion of other business areas within the music industry, either through vertical integration in upstream or downstream activities or through a broadening of the scope of operations. This can include the production of the music in a studio or production of physical copies to distribution, promotion and marketing activities and third party exploitation of the rights through e.g. synchronisation with

TV, film or advertising. RZA has integrated extensively through establishing their own distribution company which also handles production of physical copies and merchandise. They have their own physical store and also run web based stores for the labels and artist they work with either on the distribution or merchandise side. Ghostface Killah on the other hand has limited its vertical expansion somewhat, and besides handling merchandise for some of their artist, they do some third party exploitation through signing publishing rights for some of the material they release. In addition, the company promotes their own club shows and have taken part in starting a festival.

Method Man and Inspectah Deck are both management companies where they also manage producers in addition to artists, as well as producers who have an ambition to have their own artist careers. Although they do not own the recording studio facilities themselves, Method Man has a set-up where they control the rental of studio spaces and have exclusive agreements with the producers, which should qualify as having integrated the music production as a part of their business model. Although not signing publishing rights, both companies work towards synch licensing, and in Method Man's case they have a close-knit working relationship to parts of the Norwegian movie and TV production industry, which from time to time can present early openings for synch possibilities. Method Man is also in charge of the booking to a concert venue, while Inspectah Deck host their own club nights under an established brand.

### 5.2.3 Activity selection and structure

When asked which are the main activities RZA performs, the answer was *"planning"*. *"Structuring a time line for what is going to happen and making sure that it is being done. What is going to happen? Which activities? By whom?"* They have chosen not to take much part of the A&R activities and the recording process. *"I want to work with artists that have clearly defined artistic ambitions. I have no interest in interfering and having them make single edits and such. I leave all of that to the artists, and keep my fingers crossed that the result is something I can work with."* In addition to take part in strategic discussions, RZA handles all promotion and marketing the local territories. Sometimes they are involved in financing the recording process and have recently hired a person part time to make video content. All graphic design work and international promotion and marketing have been outsourced.

Ghostface Killah states that the activities being conducted from the company's side varies a lot from artist to artist. *"For some it took over a year from when I started working with them until we released anything at all. At first, I try to strip it of elements that I do not like, and then try to include what should be there, how it should develop. Get the right kind of producer, help them out with a lot of the stuff that a manager should be doing, and try to shape it in a way that at least resembles what I think it should look like moving forward. And other times you just are being presented with a record that is ready, and then you just need to get the wheels turning"*. After the album is finished, Ghostface Killah accentuates the planning process for when the material should be presented to radio and press in different territories, as well as additional activities the label can perform to secure placements or reviews in key media channels. The respondent also put an emphasis on contributing to build a more extensive industry set-up around the artist, e.g. by helping them acquire booking agents for the territories which they have chosen to focus on. Besides press promotion for the Scandinavian territory, all other press and radio promotion as well as marketing is being outsourced to a set of people and agencies that they have established a functioning, collaborative relationship with.

For Inspectah Deck the work starts with the making of the music. They often start with a general meeting where an overall discussion about what the artist envisions with their release in broad strokes. *"We talk about everything, image, the visual, musical and lyrical presentation of the artist"*. The next step is to plan who they are going to collaborate with, who is going to the visual presentation, who is going to make the music video, the artwork, and what the budget situation looks like. In addition, promotion is an activity that is generally being outsourced to other parties.

Method Man's process is quite similar. The respondent emphasized the initial process with getting to know the talent by setting up several song writing and recording sessions with different producers and songwriters to test out different qualities of the talent. This process often takes a lot of time until they decide that they have something that works and that is ready to be released. Furthermore, Method Man handles all promotion and marketing for local territories, while they outsource these activities to other parties when there is a specific focus on other territories.

### 5.2.4 Value chain placement

When asked who they consider their competitors, Ghostface Killah's respondent firmly stated "*no one*". *"When it comes to other labels, I try to be available, help them and exchange information"*. Although it happens that they are competing against other labels in signing an artist, the respondent states that there is no real competition. *"There are so many great acts that we could be working with… it's not a defeat if an artist is of the opinion that they can get more out of working with someone else"*.

Some of the same sentiment is reflected from the answer from RZA's respondent which states that they compete with their best friends and collaborators. *"The market is so big, that if another label gets publicity or a placement on a playlist, I don't think it's negative for me. It's not that kind of competition, more the other way around. Those things can lead the attention towards a general scene, the Oslo scene or something like that"*. The respondent specifically mentioned their relationship to another strong industry player and potential competitor, *"our collaboration has become so close-knit that we look upon each other as colleagues*", before giving a more general description of the competitive situation in the industry: *"There is a culture nowadays where we complement each other very well. But I've also been wondering, what will happen if the competition gets fiercer? That one player runs off with another's artist? That's kind of the worst thing that could happen. But regarding market access or the largest marketing budgets, I think that because we work so much with digital marketing, it's not other Norwegian labels that stand in our way, but more the general state of the media"*.

Method Man's respondent on the other hand mentioned specific indie companies as their competitors within the Norwegian market. They have moved from competing against smaller indie labels to competing with the biggest indie players in the Norwegian industry. Regarding competition for the right artists, the respondent stated that a many artists come directly to them, and since they often start working with artists really early on in their careers, there is very little fierce competition for attracting talent.

The respondent from Inspectah Deck also mentioned a couple of companies as their competitors, but unlike Method Man focused on other management agencies instead of record labels. That being said, there was also a general sentiment that they do not really compete with anybody: *"I don't think there are that many others that do the same thing we do. Maybe we have a different focus on a couple of things that the others don't focus on... We don't follow* *closely what other players do, and there's probably both positives and negatives related to that. You can probably learn a lot by just keeping track of what others are doing, but if you go your own way, you can see things in a completely different perspective, which can enable you to be a pioneer in what you do".*

### 5.2.5 Governance

Both RZA and Method Man have given their employees clearly defined tasks and distinct roles. That being said, the respondents stated that there was no hierarchical structure of governance within their companies. The information flow is network based, and they all step in and out task tasks and roles to help each other when needed. For the activities that they have outsourced they are being conducted through a set of more or less established and repeating collaborations.

Inspectah Deck also rejects a hierarchical governance method for their operations. Although the company started out with a flat structure, distinct roles and tasks have developed for the employees as their individual qualities have become clearer. Inspectah Deck has a stated ambition to contribute to enabling their suppliers to make a living of what they are doing. *"These are people who have helped us over time. They are our friends, have been loyal to us and have qualities that can be employed some way or another"*. Ghostface Killah's respondent answered similarly to the others regarding clearly defined tasks and roles to their employees and how the outsourced activities are being governed. But what sets them apart is the fact that they have set up a completely separate business entity for the US market in order to avoid double taxation.

### 5.2.6 Customer identification

The question of who the labels consider their customers produced a range of different answers from the respondents. Ghostface Killah saw this as varying a lot from artist to artist, and thus presented a view where the end consumer or listener is the customer. When asked whether the artists could be considered their customers, the answer was: *"I don't think of the artists as my customers. I think of them as family."* Inspectah Deck also viewed the end consumers as their customers, and when asked the same question, replied that the artists were to be considered their bosses. Although their artists attract somewhat separate audiences, the respondent was able to pin point boys and girls from the age of 16 to 35 as a general definition of who their customers are.

Method Man on the other hand saw their artists as their customers at first. When asked if it could be the end consumer, the respondent agreed to this, and saw it as a question whether or not he defined Method Man as a management or a record company" RZA also saw the artists (or their managements) as their consumers. When asked whether it could be the end consumer, the answer was the following: *"Not from a label perspective. Although we do market our releases a lot directly to the end consumer, I've never thought that I would take some of another indie label's customers. I would rather think that maybe some of the people who like another label's stuff, also might like my stuff. So if we could collaborate around a split label night, both parties might benefit. I don't think you can tag a person and say "now you're mine". You have to kind of ingratiate yourself, so it's a subtle process. You can't achieve it by competing, but by being in the marketplace with the most interesting product."*

### 5.2.7 Pricing strategies

Although there are individual variations, RZA base their releases on licensing deals where the profits are split 50/50 between the record label and the artists after the label's expenses have been recouped. In addition, they claim 100 % of the master tape's neighbouring rights (income generated from radio play). Ghostface Killah's model is also based around the standard 50/50 indie deal, but the respondent emphasized that which costs that are considered recoupable from the label's point of view varies a lot from case to case. Even though Method Man owns the master rights and thus do not focus on licensing deals, they also base their deals around the 50/50 model with 100 % of the neighbouring rights. The respondent from Inspectah Deck could not give a conclusive answer on the profit model in their contracts, as they do several different types of deals, licensing to Inspectah Deck and distribution through a major label partner as the two main variations. For license deals the master tape's neighbouring rights income can be split, while that is not the case for releases under the distribution agreement.

### 5.2.8 Timing

When asked of the duration of their contracts, the respondent from RZA stated that he experiences that artists nowadays are more open to sign contracts with longer durations than before. *"Before, when things were more orientated around a physical product, the money came back rather quickly, and you could do a three-year license deal and be done with it. But with how things are now, there is more of an understanding on the artist side that it takes a long time to build things. It can take a while before you see streaming income, from when you do the marketing effort until you see the streaming income. And with the kind of music we work with that does not have the greatest streaming income, a lot of the marketing effort has promotional value that results in increased merchandise sales, increased fees for live performances etc. So you're contributing a lot to the value chain around the artist, but our risk is still the same as before. We pay studio costs, we pay for marketing and PR and everything. And at the same time, there's less competition. The majors are not in the scene and throwing money after artists, so I would guess if you're a record label at a certain level, you can set the premises for your deals to a greater extent than what you could when we started out, at the end of a golden age."* RZA's deals are thus generally 10 years + with even longer terms depending on what costs they cover.

The respondent from Method Man stated that the duration of their contracts could be anything from 1 to 10 years, but seldom over 10. The respondent stated that the duration is one of the contractual elements that are most subject to negotiations. *"Due to asymmetrical information about the timeline of income, this can lead to tiresome and weird discussions with the artists."* Inspectah Deck's respondent put their duration mainly within 7-10 years, while Ghostface Killah's respondent stated that although the duration of the licensing periods was more or less the same from artist to artist, he was not willing to disclose how many years that could be seen as a standard for Ghostface Killah.

An important factor in whether or not long durations are important to include in the contracts, is the existence of a long-tail income stream. Ghostface Killah claims to experience this long tail. The releases that work initially seem to stabilize at a certain level and do produce a long tail. While those who don't work in the start obviously continue to not generate streams. Inspectah Deck gives the same impression, and have faith in the long tail theory. Some of the same experience is also stated from Method Man's respondent: *"I think what we are doing now will become more important in two-year's time, than what we did two years ago, because* *that was released when Spotify was less established. And in my opinion the life span of those releases is shorter than what it is like today… I guess there is some critical point you can reach where the streaming numbers decrease much slower over time than what they do before you reach that critical point."* The respondent from RZA touches upon the same topic: *"In real life it is hits that generate money. It's extremely ephemeral, the digital market. One week you are on a playlist with 5 million followers because Spotify decided so, and the next week you are nothing. So you can go from 3 million plays on Wednesday and Thursday, and then on Monday you've got zero. That's not even a caricature. Those enormous shifts can happen."* From their involvement in physical distribution, they see the listening patterns from streaming moving over to the world of physical sales. *"We sell way less catalogue than before. We sell a lot of new releases and less catalogue compared to what it was like before. And it feels like that is the way streaming works as well. Someone else might experience it differently, but our streaming income is to a great extent generated from new releases."*

### 5.2.9 Business model experimentation

When asked if the companies consciously experimented with their business model, the answers varied. RZA has experienced substantially with their business model, and the respondent stated that in the past they have re-created their business model every 30th month or so. *"We have a good culture for testing things out. We try a lot of new stuff all the time…. I need to see things in the works. Let some artists try it out, offer it to someone, get a bunch of complaints, and then just leave it be*". The respondent also states that there has been a change in how they experiment, and that they have moved from thinking that they were going to do everything by themselves, to think more in the lines of what they can add to an existing model or collaboration. When they integrated vertically with an operation for physical distribution, it was on the basis of dissatisfaction with their current distribution set-up and a general sense that there was a lot of movement in the industry. *"We thought that if we are able to produce royalty statements in an efficient manner and with a high frequency and also keep the communication efficient…. then this might be a really good thing. And so we developed the system together with the guy who developed our webstores"*.

Inspectah Deck's respondent stated that the path to their current business model has been laden with trials and errors, but points out that some of what you might consider errors today might have been the best option at the time of the decision. Inspectah Deck also have their own business development manager in order to fulfil their goal of specialising all their activities. If something in the industry set-up around an artist is not working in a satisfactory manner, they make use of their business development manager to consider and evaluate if there is something they could to themselves from within the company to solve the matter.

Method Man also pointed out that there are a lot of coincidences that has paved the way to where the company is today. Experimentation and expansion of the business model have mainly happened through an evaluation of the available resources and competencies within the company and finding out how to better exploit them. This was the start of their own booking agency department that lasted for three months before the person in charge was headhunted by another booking agency. With the loss of the employee, they chose not to proceed with booking operations.

The respondents were also asked whether they had experienced path dependency or inertia as obstacles for business model innovation and experimentation, either through colleagues or the artists they have worked with. RZA's respondent stated that the effects of path dependency are something that he thinks about every day. *"Everything we do is marked by the fact that we once were a record store, and we have this scene and steady stream of people popping by. Everything is built on that foundation. I don't think we've ever had an idea that does not originally come from the store, a customer or someone we collaborate with…So everything is very defined by what we already are doing. I think of it as finding new ways to make old stuff work. Compared to Spotify which I think of as having its roots within illegal downloading or digital culture…they don't have any record store background or record culture background necessarily. Music to them is just something that moves and exists in some way or another. So we will gladly accept technology, but we dress it up within an old tradition. Like a continuity of the old tradition".*

Inspectah Deck's respondent stated that they had experienced path dependency and inertia: *"In discussions it might come up. People have a perception of how things should be because that is how it always has been done. But that's not necessarily the best way, and then it's just about who is making the best case for their argument in order for us to say yes to something that has not been done before."* Ghostface Killah on the other hand saw inertia mainly as a question of whether or not the artists were willing to engage in communication with their fans through social media, something that has been presented as a key success factor in the industry for a while, while Method Man saw most inertia in artists that have a tendency to romanticize physical formats.

### 5.2.10 The listening patterns in streaming

The respondents were asked whether the listening patterns in streaming had influenced what kind of artists they choose to work with. Ghostface Killah's respondent stated affirmatively that this was not the case. *"I'm probably a bit reactionary in that sense. There's no doubt that the listening patterns change. People don't consume albums as albums, but as four tracks that they like. I might drop tracks continuously but I like the fact that it results in a complete album. But I'm way more determined with the artists that the albums should be short…remove 3-4 tracks and release them as an EP in six months."* RZA had a different take on it, and stated that they do not make these decisions based on genres, but might do it on the characteristics of the music. *"You can have a post metal band that is very streaming friendly because there are no sharp edges and you can have it on in the background and jump in and out of it….and you can have another post metal band that is way sharper around the edges, which makes it unsuited for listening on small speakers. Within the same genre, there are things that work and things that don't. We take a close look at it, and are very concerned with it when we make our marketing plans. Is there any point in trying to build a gigantic following for this band, or should we spend our resources elsewhere?"* The respondent also stated that they have chosen to work with artists because they already have proven that there is a market for them within streaming, but also made the case for bands with low streaming numbers. They could be interesting profile-wise, have good physical sales or be interesting people to work with.

Although they did not have experience with working in the record industry before the streaming revolution, the respondents from Inspectah Deck and Method Man were asked the same questions. While Method Man's respondent stated that general trends would influence their choices, Inspectah Deck refused that the listening patterns would influence them consciously in their choices, but went on saying: *"You want the kind of artists that will work, but that doesn't exist yet"*.

The respondents were also asked how the increased timeline for income generation caused by streaming had changed the way they run their operations or how they invest in artists. Ghostface Killah admitted to dropping otherwise profitable projects, due to the increased capital requirements that come with a prolonged time for recoupment of costs. *"As a small company without enormous resources, you basically have to license more than what you did before… you cannot recoup the costs within three months like you used to, so you need to think at least one year ahead"*. The answer from RZA went into a different direction: *"When streaming started to pick up, two years ago maybe, it became relevant to talk about the label covering a greater share of the expenses, because there simply is more business to it. Compared to 2008 which was the year when the backbone of the industry snapped. Illegal download was at its worst, and Spotify came along with a free service. How much are you going to get paid? Who knows? With both those things at the same time, it felt like a period where the demands being put forward towards the label and their contracts were not that big. And thus, there was a demand for a label which could come in and do some stuff, but now when it's more of an economy, a healthy economy, there are more legitimate demands to the labels for investments up-front if they are going to acquire rights"*.

## 5.3 Section summary

The main findings from the interviews have been summarized in the table below. The respondents have answered very similarly on most of the business model components, but the table also clearly shows on which components and dimensions they are different from each other. These similarities and differences will lay the foundation for the discussion of the results in the following section.

*Table 1: Main findings*

| | | Method Man | Ghostface Killah | RZA | Inspectah Deck |
|---|---|---|---|---|---|
| Value creation | Customer engagement | High degree of customization as well as some standardization | Mainly standardized | Specifically aimed at customization | Customized. No standardization |
| | Novelty | Yes | Yes | Yes | Yes |
| | Lock-in | Yes | Yes | Yes | Yes |
| | Complimentarities | Potential complimentarities | Potential complimentarities | Potential complimentarities | Potential complimentarities |
| | Effienciency | No unambiguous design elements | No unambiguous design elements | No unambiguous design elements | No unambiguous design elements |
| Value delivery | Activity selection and structure | Strategic planning and A&R is core. Marketing and promotion is generally outsourced for international markets. | Strategic planning and A&R is core. Some marketing and promotion is done in-house, while much of it is outsourced. | Strategic planning is core. Very little A&R. Some marketing and promotion is done in-house, while much of it is outsourced. | Strategic planning is core. A&R, marketing and promotion is generally outsourced. |
| | Value chain placement | Midstream and some upstream | Midstream | Upstream, midstream and downstream | Midstream |
| | Governance | Relational, with elements of hierachical. | Relational | Relational, with elements of hierachical. | Relational |
| Value capture | Customer identification | Two-sided | One-sided | Two-sided | One-sided |
| | Pricing strategies | Industry standard | Industry standard | Industry standard | Industry standard |
| | Timing | 1-10 years | Declined to answer | 10-15+ years | 7-10 years |

# 6. Discussion

The ensuing discussion of the results is structured according to the dimensions of business models which is situated at the third level in the overarching model for descriptive analysis of business models. This has been done to aggregate the detailed results of section five into a bigger whole, and will thus enable a more structured and comprehensive analysis of the respondents' business models and strategy adaptations or innovations in accordance with the theoretical framework presented in sections 2 and 3.

## 6.1 Value creation

Going into a discussion of the respondents' view on customer engagement, it is worth taking note that it could be argued that their answers are biased from being within the indie sector of the recording industry. Within some parts of the sector there is a long-standing distrust in how the majors go about their business. Some of it is rooted in the perception that since they are big, international entertainment companies with numerous employees, they have an established bureaucracy within the firms that does not make room for customization in how they work with their artists. Thus, it may be regarded as part of the indies' identity, that they arrange their work processes in order to adapt to the artists' needs. It can be argued this sentiment became evident in a couple of the interviews, where some of the respondents at first focused on how they try to find solutions and processes that fits the artist and his/her/their needs, before they moved over to talking about how they have structured some processes, especially communication, with the rationale that this was also done to satisfy the artists' needs. As described in the results section, respondents varied substantially in how much they focused on standardizing their work processes, but the main take away regarding customer engagement seems to be that the mutual exclusiveness of the choice between customization and standardization that was presented in the literature review and the model does not seem to apply for the respondents. Customization in how they work with their artists does not seem to exclude that important and substantial parts of their offerings and solutions are being standardized.

It can also be argued that some of the same sentiment might also influence how the respondent answered on whether they would consider their business model efficiency- or novelty-centred.

All the respondents answered the latter, and although they might have efficiency oriented design elements in their business models, these elements cannot be considered to be in the centre of their operations and in any major way being central to their *raison d'être*. The respondents mainly emphasized their label identity, A&R competencies or industry network as what made them interesting collaborative partners for an artist. This is in accordance with Zott and Amit's (2010) view of these design elements as the dominant value creation drivers in an activity system. From the viewpoint of a new indie label starting up, the focus on novelty oriented design elements make sense as it will have completely different prerequisites compared to a major or a big indie company in competing with said companies on efficiency-oriented parameters. Thus, it can be argued that focusing your business model on novelty elements which other players might have a hard time imitating, would be the rational choice.

Moving into the question of lock-in elements, there was a general attitude that although it could be argued that some of the provisions in the respondents' artist contracts and general set-up could be viewed as lock-in elements, lock-in was not the rationale for why they were in place, and that the mechanisms rather served a different purpose. Once again, this can be seen as an antithesis to the major label's business models. Numerous stories abound about how artists are being kept within the major's grip against their will. Thus, blatantly admitting to have some of the same provisions included in an indie company's business model, could damage their image as well as their self-image of being *artist friendly*. This cautious attitude about lock-in mechanisms is in accordance with was stated about such mechanisms by Zott and Amit (2010) in the literature review. While a strengthening of any of the three other NICE design elements is regarded to have a potential positive effect on the offering of the business model, lock-in should be treated with caution as it can increase the perceived risk of prospective customers if they can observe the mechanism and its future, potential consequences. The respondent from Inspectah Deck argued that their sun-set clause (which secures them their commission in a set period if the artist chooses to terminate the collaboration), was a provision that was put there also for the artists' sake to ensure that their careers would not take damage from a termination. The inclusion of option clauses in the contracts was also being defended as a way of signalling the intention of a long-term collaboration with the artists. Once again their image as artist friendly was putting on display as the respondents specifically mentioned their own willingness to let artists move on to bigger labels if the option presented itself, and thus hold a view of themselves as a potential stepping stone for the artists by including exit clauses in their contracts. The definition of lock-in from the literature review was a situation where customers or strategic partners are locked in the business model by considerable switching costs or network externalities. All the respondents have instituted mechanisms that at least too some extent serve this purpose, although it may be explained and justified with a completely different rationale.

Regarding complementarity elements, it was mentioned in the results section that this mainly occurs through the inclusion of other business areas within the music industry. For two of the companies this was the selection criteria in the sampling process, as two of them have integrated vertically through upstream and downstream activities, one of them through production and distribution of physical records and the other through recording studios and thereby music production. For RZA who also has a record store as a part of their business, this creates an obvious advantage as they can have a lot of stock, get the releases early in stock, and sell distribution stock directly to customers with a considerable cost advantage. For Method Man, the close-knit relationships with the recording studios and the producers create an advantage that can lower the production costs and make the artist development stage easier, because they can spend numerous hours of otherwise expensive studio time testing out their artists with different producers and styles until they find the right match to go forward with. This can contribute to substantiate the strong A&R function which the respondent emphasized as one of their strengths. Similar to Inspectah Deck, Method Man is also an artist management agency. Although it does not have to be the case, it can be argued that performing the management and record company functions within the same company can provide more value than performing them separately as they often can be overlapping in their roles, especially when it comes to the A&R process and the general image building, promotion and marketing of the artist. Other complementarity elements that were presented by the respondents included concert promotion/club nights, merchandise handling and a close-knit working relationship with the TV and film industry for the purpose of synch licensing. Although it is plausible that these activities can be complimentary, no such direct relationship was uncovered during the interviews. It is possible that the inclusion of other business areas, either by vertical integration or scope integration has happened out of sheer necessity due to the prolonged timeline of the income stream, and not because performing the different activities within the same system provides more value than performing them separately. Thus, the proposed complementarities should be regarded as potential complementarities.

Before moving into the next section, a note on efficiency is called for. It is worth taking notice that all the complementarity elements have a potential for reducing transaction cost between all parties. But it is also plausible that they in reality are only benefiting one party. Either way, any such reduction of transaction costs needs to take place through the design of an activity system that explicitly aims to do so, for it to be labelled as an efficiency element. From the respondents' answers, any such intent cannot be ascribed to them, and thus there are no unambiguous efficiency design elements in the four companies' business models.

## 6.2 Value delivery

Although the respondents' answers on which activities they perform themselves and which they outsource varies to some extent, all the respondents focused extensively on the planning and budgeting process itself as a major and core activity. Their answers differ a lot regarding whether or not they are included in the A&R or recording processes, and how much they outsource of their promotion and marketing activities in different territories. But for all other aspects, their answers are considerably similar. Spending time with the artist to find out whether or not the artist and the company is a good fit seems to be of great importance, and the companies involve themselves strategically by setting up a timeline for the production and release of the music, and adhering to it. If you were to disregard their individual strengths and weaknesses (which probably play a determinant role in which processes they decide to get involved in), it can make sense that strategic planning and budgeting is left as an indie label's core activities. The recording or promotion/marketing processes can easily be outsourced to players in the industry which are specialized within these areas. Budgeting and strategic planning require more of a general oversight and an in-depth knowledge of the record industry itself, while distribution channels and an extensive industry network enables you to lay and execute the right release plan. The respondents thus have more or less the same core activities, while the support activities within A&R, promotion/marketing and third party exploitation of their rights varies in whether they are being outsourced or executed by the companies themselves. This is in accordance with Zott & Amit's (2010) view of the business model as an activity system where the linkages between and among the activities can contribute to explain the firm's embeddedness with its customers, suppliers and strategic partners.

Regarding the value chain placement of the focal companies, by being record companies, they are by default positioned mainly as midstream in the value chain. Due to RZA's downstream vertical integration, they have also positioned themselves downstream and has thus become a supplier for many of its potential competitors. Method Man's upstream integration on the other hand mainly serves their own operations, and only to a very small extent does this part of their operation make them a supplier to their competitors.

In the value chain of the recording industry, the management should be regarded as an extension of the artist. However, it is interesting that unlike the others, Inspectah Deck mentioned other management agencies, and not record labels (major or indie) when they were asked who their competitors were. Even though this does not set their value chain placement a part from the others, it gives an insight into how the company positions itself strategically and competitively. It is also interesting that none of the respondents mentioned the major labels as competitors. The interviews do not give an answer to why this is the case. For some it might be this way because they operate within genres or scenes that are closed off to, or not interesting for the major labels, while for the two companies which also act as management companies, it can also be because they work closely with major players, either on specific artist projects or by using their distribution set-up. However, the answer could also be found within the generally low level of fierce competition within the indie sector of the industry. The respondents either reject the notion of competition completely, pay no or little attention to competitors or emphasize the high degree of collaboration and collegiality within the industry.

The governance systems in the companies are also quite similar in many aspects. The respondents mainly emphasized flat, non-horizontal structures of governance, where the communication is network-based, and the employees are for most purposes generalists who step in and out of roles and task in order to fulfil the company's needs from day to day. For small companies with highly motivated employees, such a structure can be appropriate. It can be argued that this can make the organization highly flexible and adaptable to change. Several of the respondents talk about a developmental process where the employees become more specialized as time passes and the organization grows and new employees are being hired to support activity positions with clearly defined tasks and roles. This could be looked at as a process of bureaucratization, where the increasingly challenging administration of the organization caused by growth, is being coped with by instituting rules and procedures.

None of the respondents mentioned anything that could fall within the confines of market governance, and besides the parts of the value chain that two companies have vertically integrated, all of the companies use more or less established suppliers/collaborators for the support activities that do not take place within the firms. It can be argued that the governance mainly is relational or network based. However, vertical integration, market governance or network governance should be seen as extremities of continuums, and the choice of hierarchical design elements does not exclude the inclusion of more relational based elements. Thus, the governance system in all four companies should be looked upon as mainly relational, with elements of vertical integration for two of them.

## 6.3 Value capture

The question of customer identification was anticipated to be a field where the respondents could hold very different views. It was expected that some would regard the artists as their customers, while others would consider the listener and thus the end consumer as the customer. The divide was expected to go between those who also have a management operation and those who do not have one, and thus have operations that resemble a traditional record label pre-streaming. The industry standard for a management's monetization is to take a 20 % cut of the artist's gross income, and since the agency delivers its services directly to the artist for all other purposes, it is common to view the artists as the customers of a management agency. A traditional record label would look at the artist relationship from a completely different angle, and especially so for one that has its roots in a pre-streaming market. Pre-streaming, a record label's main source of revenue would be based on the number of physical copies sold through their distributor to record stores, less the distributor's distribution fee. The artist would then receive a royalty of the sales when all costs had been recouped. In the traditional view, the end consumer would be considered the customer, while the artist would be a supplier. With the streaming revolution, the whole monetization model was turned around for the record labels. The end consumers now pay a monthly subscription fee. All of the income is pooled, and after the streaming services have taking their share, the subscription fee pool is distributed back to the labels relative to their number of streams over the total number of streams. Although the record labels still have the possibility to market directly to the consumers in the streaming era, my hypothesis was that one would see a tendency towards a view where the artist also could be considered the customer. In this view, the record label would be a supplier of label services, where it delivers the results of its core activities and selected support activities, either performed in-house or outsourced.

Two of the respondents, Ghostface Killah and Method Man (one from each side of the management divide in the sampling matrix) kept within the expected view, which means that RZA and Inspectah Deck did not. This means that the two vertically integrated companies, both had an artist-centric customer view. While this was unexpected, they both showed understanding for the opposing view. They just did not hold it themselves. What was really interesting though, is how Ghostface Killah and Inspectah Deck answered the question. Both of them started out by trying to define the customer segments their artists appealed to, and when asked whether the artist could be viewed as the customer, outright refused such a view and referred to the artists respectively as their family and bosses. My purpose for making the distinction between an end consumer- and artists-centric customer view, was to see if there could be made a case for some labels having a two-sided business model. If so, it could have implications for strategy development and business model innovation. To some extent, this does seem to be the case for RZA and Method Man. Although being a management cannot be said to be the decisive factor behind the artist-centric view, the fact that the results did not live up to my hypothesis, should not make them any less interesting.

Since the subscription fee for streaming services is set and most physical products have an established price standard, the companies only have a real choice of pricing strategies within an artist-centric customer view. Different pricing strategies are thus limited to the choice of different percentage cuts the artist is granted for different income streams in the artist contracts. The four companies that were interviewed were strikingly similar on this point. They all construct their deals around a 50/50 profit split with the artist for all income generated from streaming, physical and digital sales. In most cases they claim 100 % of the neighbouring rights being generated from the master side unless there are some special reasons for why this should not be the case. Although what they deliver in return may vary a lot from company to company (and from artist to artist within the same company), those choices cannot be said to be a part of their pricing strategies, no matter how relevant such choices are for the record companies' profits.

Regarding timing, there was a general tendency among the respondents that this was the parameter in the contracts where most artists would negotiate. Although Ghostface Killah's respondent declined to answer specifically on their standard durations, there seems however to be established a standard that centres around ± 10 years, and it is worth taking notice that RZA's respondent claimed that there was a generally towards artist being more open to signing contracts with longer duration. This development seems logical due to the pro-longed timeline for income generation caused by the streaming revolution. When asked to comment on the proposed long-tail theory, an interesting result from the interviews was that three of the respondents touched upon the topic of a threshold or critical point of success, where the long-tail theory seem to kick in, and that everything below this threshold would not experience the benefits of the long-tail. The argument seems logical, and there should be nothing surprising with the notion of initial success in the market leading to a long life of income generation, while most of the material that does not gain ground at first, most likely will never succeed. It is possible that RZA's respondent who described the streaming market as "extremely ephemeral" and expressed disillusion in the long-tail theory does not have to be in contradiction with what the other respondents stated. It just might be the case that even though they experience initial success in streaming numbers with some of their releases, they might not reach the threshold or critical point which triggers the long-tail effects.

# 7. Conclusions and implications

The concluding section will begin with a chapter summarizing and concluding the findings from the previous section, continue with two chapters on the theoretical and managerial implications of the findings before closing of with a chapter on the limitations of the study and potential directions for future research.

## 7.1 Discussion of the results

The major financial change caused by the streaming revolution is that the monetization of the product has been cut up into millions of pieces and spread out over a timeline which is indefinite as long as the current technology and payment model are in use. This has led to some developmental trends that I will briefly summarize. In a long-term perspective, a player can expand its rights periods to adapt to the pro-longed timeline for income generation, either by owning the master tapes and thus owning the rights in perpetuity or by expanding the licensing period in the contracts. Evidence of both trends have been found with the respondents.

In a more short-term perspective, a player within the indie sector of the industry for recorded music without considerable amounts of catalogue to rest on, the snapshot of the current situation is quite clear; there is not enough money to be made of recorded music in the short-term perspective. To solve the problem, the player has three options; 1) expand its area of operations by including other parts of an artist's value chain, 2) increase their own percentage cut of the income generated from the recorded music, and thus lowering the artist's royalty rate, or 3) increase the size of the catalogue without increasing your costs accordingly, and thus realize greater profits through scale effects. None of the respondents have shown any signs of moving in the direction of option 2) and 3), while option 1) is being used both by the firms who have chosen to integrate vertically or in scope by operating as e.g. management agencies. This can be summarized as a developmental trend where record label operations are being reduced to one of many tools in a toolbox for working within an artist's value chain. This collocation of different activities in the artist's value chain contribute to create potential complementarity gains, but to which extent these are actually realized is still unclear.

As a consequence of working with the artist on several business areas, this has led to a trend where the artist is regarded as a customer instead of or in addition to the end consumer. The access to the markets and distribution channels has been opened directly to the artists, and thus the value of the record company and its offerings have been re-evaluated. The result seems to be business models where the focus lies within executing core activities really well, while most support activities are being outsourced to a small set of suppliers which are being governed through network based systems. These core activities create value mainly through novelty oriented design elements such as competencies for A&R and strategic planning, which are deemed to be hard for competitors to imitate.

## 7.2 Theoretical implications

Overall, the theoretical frameworks presented in the section for literature review seem to be applicable to the music industry in general, as well as the indie sector of the recorded music industry in particular. Both Baden-Fuller and Mangematin's typology for business model configurations (2013) and Zott and Amit's activity system perspective (2010) have been proven useful for describing and explaining the numerous possible configurations of business model components that constitute the respondents' past, present and potential future business models. However, it is worth taking note that the customer engagement dimension does not seem to be as orthogonal as the literature presents it. All respondents described traits of both components, and showed no sign of thinking of the components as mutually exclusive, but rather thought of them as qualities independent of each other which can be part of the same value proposition.

The respondents' answers regarding governance also contribute to support the view that was presented in the model section. Although they are being presented as three discrete components in the model, they are in reality extremes of continuums, and several of the respondents operate within a system which is placed somewhere in between and where the different mechanisms complement each other.

Lastly, it is worth pointing out that although the frameworks have proven successful in describing and explaining major and central parts of the respondents' business models, they fail to describe other central factors that substantially contribute to shape the business models.

The indie sector of industry is by nature fuelled with actors who are both very passionate and too some extent quite idealistic about their operations. By definition, they work with artists which generally are not of any interest to the major, commercial players. Their choice of artists and thus customers and how they choose to engage and negotiate with them is likely to affect their choice of business model components in a way that contributes to displace the profit motive.

## 7.3 Managerial implications

The managerial implications of the findings are to a great extent dependent on the chosen strategy for coping with the problem of diminished, short-term sales income described in chapter 7.1. If the choice of strategy is either vertical integration or scope integration, the most important managerial implication would be to make sure that the complementarities between different business areas that are envisioned are actually realized, and exploited to its maximums. It can be argued that an established collaborative relationship with an artist is in itself sufficient to achieve complementarities. But it is also possible that underestimating the requirements for competencies within new business areas or failure to standardize protocols for communication and interaction between employees responsible for different business areas, can neutralize potential efficiency gains. This would result in a failure to provide more value within the same activity system compared to performing activities in separate systems.

If the choice of strategy is to increase the size of the revenue generating catalogue without increasing costs accordingly, the managerial focus should lie within exploiting scale effects. Such a strategy is dependent on limiting the record label’s activities and responsibilities to a small set of core activities that are scalable, with standardized systems for performing them which enables learning and efficiency. This limitation needs to be explicitly expressed to the artists in order to control their expectations for the collaboration, and it might also be necessary to support the artist in finding other relevant and suiting collaborators for the activities that are not performed by the focal firm or the artist. Developing close-knit relationships with the industry players responsible for outsourced activities will be important for the success of the working relationship as a whole, but also to achieve the efficiencies one is trying to accomplish within the focal firm’s business model. In order to continue to provide value to the firm’s customers with such a strategy, it will be important to continuously improve one’s offering by negotiating more favourable agreements with distributors, suppliers and other third parties on the basis of the focal firm's size and the potential scale effects said distributors and suppliers can realize through a collaboration with the focal firm.

The factors influencing the monetization elements pricing strategies and timing are for the most part decided upon in the contracts between the artist and the record label. In the interviews it became evident that these factors are to a great extent set within the confines of what is considered to be an industry standard and thus fair for both parties. Some of the respondents expressed that there seems to be a shift in the artists' attitude towards acceptance of longer contract durations, and that this was rooted in an understanding of the consequences brought by a prolonged timeline for revenue generation. Arguing for a greater share of the income in favour of the record label as proposed as a potential strategy in chapter 7.1 is harder case to make than extending the contract duration. The artists are experiencing the same prolonged timeline for their own income generation, and such a measure would directly worsen the artists' situation. To acquire a greater share of the income generated, one would have to justify it through additional offerings or a higher quality of existing offerings, which is deemed hard to realize without raising costs accordingly.

## 7.4 Limitations and future research directions

As with all research, there are considerable limitations that must to be considered when interpreting the results. To start with, the sample consists only of Norwegian companies, and the research has been conducted within a Norwegian industry setting. Although there are a lot of similarities between different territories in the relative market share and dynamics between the major and indie players, there is no hiding that the Norwegian domestic market for recorded music is very small and that the competitive environment can be radically different in other territories. There are very few larger indie players in Norway with an international set-up and reach, and it is likely to assume that in territories where such indie players are present, it might alter the competitive environment between the indies and towards the majors substantially. The high degree of collegiality and low level of fierce competition between the indie players experienced in this research is also something that should not be assumed to be similar for other and larger territories.

The purpose and approach of the study was to test the applicability of the established theoretical frameworks for business models and business model innovation on the indie side of the Norwegian recorded music industry, and hopefully contribute to generate hypotheses and insight for further research. From the design of the study and the number of respondents, it entails that the generalizability of the findings should be considered to be low. Thus, it would be interesting to undertake more comprehensive research projects of an explanatory nature in the future, where causal relationships can be established or dismissed. It is also important to take notice that the time horizon of this study has been sectional. A more longitudinal study of the phenomenon could be more suitable to explore the long-term effects of the strategic changes and innovations in the industry.

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# Appendix

## Interview guide

Since the recorded interviews were executed in Norwegian, they were also transcribed an analysed in Norwegian. Thus, the interview guide is also presented the way it was made, in Norwegian.

### Innledning

- Kort presentasjon av meg selv og bakgrunnen for intervjuet og hvorfor intervjuobjektet er valgt.
- Kort forklaring av intervjuprosessen, presentasjon av studien og en forklaring på hvordan svarene vil blir brukt i oppgaven.
- Ber om at respondenten er så ærlig som mulig. Om det er noe du ikke ønsker å svare på fordi det er en forretningshemmelighet eller lignende, er det bedre at dere avslår å svare enn å gi et svar som ikke gir et riktig bilde av virkeligheten.
- I noen av spm er det mulig det fremkommer begreper fra teori som dere ikke har noe forhold til/ikke har tenkt over. Still gjerne spm om dette. Dersom du/dere ikke har et svar på noen spm, er det også bedre at dere svarer det, i stedet for å gi inntrykk av at dere har et gjennomtenkt forhold til spørsmålets tema.
- Dersom selskapet eksisterte før streaming, er det relevant ved alle spm om før- og nå-tilstand. Der hvor det er relevant, er jeg ute etter hva som har endret seg.
- Kan du gi en kort introduksjon til selskapet?
  - Hvem er dere?
  - Hvor mange er dere?
  - Hvor lenge har dere holdt på?
  - Er en sjangermessig avgrensning relevant?
  - Hvilke formater opererer dere med?
  - Omsetning?
  - Utenlandsandel
  - Streaming vs. fysiskandel
  - Antall utgivelser i året?
  - Størrelse på katalog

## Organisasjonsstruktur

- Hvordan er organisasjonsstrukturen?
    - Vertikal eller horisontal kommunikasjon, kontroll og autoritet?
        - Tydelig hierarkisk struktur, eller mer nettverksbasert?
    - Tydelige funksjonsstillinger?

## Konkurranse

- Hvem konkurrerer dere med?
- Konkurrerer dere med andre plateselskap om lytternes/medienes oppmerksomhet, eller konkurrerer dere om å tiltrekke dere de riktige artistene?
- Hvilke parametere opplever du at dere konkurrerer på?

## Profittmodell

- På tross av at artistkontraktene er forhandlet; kan man si noe om en generell profittmodell?
    - Andel av fysisk og digitalt salg, produsent-GRAMO, varighet av avtale?
    - Publishing (synch), live, merch, management?
    - Tar dere betalt for å søke støtte? Promo?
    - Driver dere studiovirksomhet?
    - Andre inntektsstrømmer?
    - Er finansiering og delvis risikotakning en del av tjenesten dere leverer; det være seg innspilling, trykk, merch, promo?
    - Når kommer pengene inn?

## Forretningsmodell

- Hvordan vil dere beskrive deres forretningsmodell?
    - Hvem er kundene deres?
    - Hvem betaler?

    - Blir plateselskapsvirksomheten direkte betalt for, eller er den et bi-produkt av noe annet?
- Customer engagement?
- Taxi eller buss, spesialdesignet eller masseproduksjon, standardization vs. customization
- Interessant mtp. hvorvidt forretningsmodellen er novelty- eller effektivitetsdrevet?
- Monetization?
- Ren cut av topp eller overskudd?
- Betaler alle det samme, eller er det forhandlingsbasert?
- Forhandles det på cuten eller andre dimensjoner (varighet, cut av andre inntektsstrømmer)?
- Hvor lenge tar dere betalt? Varighet på kontrakt?
- Tar dere først og fremst betalt for en annen tjeneste?
- Value chain and linkages?
- Vertikalt integrert vs. horisontale kontrakter?

## Aktivitetssystem

- Hvilke aktiviteter utfører dere?
    - Hvordan er sekvenseringen av disse og linkingen dem imellom?
    - Hvem utfører aktivitetene, og hvordan styres dette?
        - Hva er satt ut? Hvordan kontrolleres evt. dette?
- Novelty: Ligger det noe nytt i hvilke aktiviteter dere utfører, strukturen eller styringen av dem?
- Lock-in:
    - Finnes det noen lock-in mekanismer i modellen deres? Varighet på kontrakt?
    - Sun-set clause? Utbetaling av forskudd som tar lang tid å re-coupe?
    - Kopling med andre virksomhetsområder; merch, publishing, management, booking?
    - Har strategiske partnere insentiver for å vedlikeholde og forbedre relasjonen til dere?

    - Gjør dere noe spesielt for å skape et tillitsforhold til kundene?
        - Gjennomsiktige avregninger?
    - Finnes det noen nettverkseksternaliteter?
        - Mellom artistene som er signet til samme plateselskap?
- Komplementariteter?
    - Mot promo, distribusjon, eller andre typiske virksomheter i bransjen (merch, publishing, livemarkedet, management)
- Effektivitet? Er det ressurser eller kapabiliteter hos dere som gjør dere mer effektive? Igjen kopling mot andre virksomhetsområder?
    - Skalaeffekter gjennom store innkjøp, momsfordeler, strømlinjeforming av næringskjeden, markedsføring
    - Datasystemer? Spesielt flinke folk? Rekruttering?
- Ser dere modellen deres først og fremst som novelty- eller effektivitetssentrert, eller gir det lite mening?

## Endring/skapelse av forretningsmodell

- Hvordan har dere kommet fram til denne forretningsmodellen?
    - Sammenlignet med tiden før streamingrevolusjonen?
    - Eller har dere nettopp begynt med plateselskapsvirksomhet fordi dere ser muligheter etter streamingrevolusjonen?
- Har dere sett på en annen businessmodell og kopiert den?
    - Eller er det inkrementelle justeringer?
- Har dere tenkt ut ifra hvilke ressurser/kapabiliteter dere besitter, og så utformet forretningsmodellen ut ifra det, evt hentet inn det dere manglet?
    - Eller ble forretningsmodellen slik den er fordi man så en mulighet, og så har man hentet inn ressurser for å muliggjøre denne?
- Driver dere med bevisst eksperimentering med forretningsmodeller for å prøve ut nye strategier?
    - Er det forretningsmodeller dere har forkastet?
    - Hvem har vært ansvarlig for denne eksperimenteringen?
    - Hva har vært resultatet?
    - Har dere møtt noen hindringer i eksperimenteringen?

- Dersom endring av forretningsmodell har funnet sted; hva er det som har blitt endret?
  - Nye aktiviteter?
  - Nye måter å linke aktivitetene på?
  - Endring av hvem som utfører aktivitetene?
- I overgangen fra pre-streaming (eller andre virksomhetsområder); har dere slitt med stiavhengighet (at beslutningstagning er begrenset av de valgene man har gjort tidligere, selv om tidligere forhold ikke lenger er relevante. Eller treghet/inertia (manglende villighet til å tilpasse seg nye omgivelser)?
- Er verdien/betydning av plateselskapsdrift blitt redusert til en del av en større verktøykasse, hvor de ordentlige pengene tjenes på andre områder?
- Har overgangen til streaming påvirket hvilken musikk dere velger å jobber med sjangermessig, eller etter alderssegmenter? Spiller utenlandsandel noen rolle?
- Har streamingrevolusjonen avslørt en mismatch mellom hva plateselskapene leverer og hva kundene vil ha (i denne sammenheng er lytteren kunden)?

## Annet

- Er long tail-utgivelser en del av forretningsmodellen, altså mengder av mindre utgivelser som hver for seg har lavt salgsvolum, men som sammen utgjør betydelige inntekter?
  - Administrasjon av katalog?
- Hvilken betydning har inntektene fra "død" katalog? Andel?
- Har streaming endret hvordan dere investerer i artister?
  - Hvilke kostnader er man med å dekke, før og nå?
  - Størrelsen på budsjettene, før og nå?
- Hvilken betydning har den forlengede tidslinja for re-couping av kostnader for investeringsvalg/forretningsmodell?
- Er det avslutningsvis temaer du selv ønsker å fremme?
- Er det noe jeg har glemt?

Takke for intervjuet.