



Contents lists available at ScienceDirect

Journal of Business Research



A rewarding experience? Exploring how crowdfunding is affecting music industry business models

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ARTICLE INFO

Article history:

Received 22 January 2016

Received in revised form 24 July 2016

Accepted 27 July 2016

Available online xxxx

Keywords:

Rewards-based crowdfunding

Business model

Music industry

Financial model

User-centric

Innovation

ABSTRACT

This paper provides an exploratory study of how rewards-based crowdfunding affects business model development for music industry artists, labels and live sector companies. The empirical methodology incorporated a qualitative, semi-structured, three-stage interview design with fifty seven senior executives from industry crowdfunding platforms and three stakeholder groups. The results and analysis cover new research ground and provide conceptual models to develop theoretical foundations for further research in this field. The findings indicate that the financial model benefits of crowdfunding for independent artists are dependent on fan base demographic variables relating to age group and genre due to sustained apprehension from younger audiences. Furthermore, major labels are now considering a more user-centric financial model as an innovation strategy, and the impact of crowdfunding on their marketing model may already be initiating its development in terms of creativity, strength and artist relations.

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1. Introduction

This paper will explore the nature of how rewards-based crowdfunding affects business model (BM) development in the music industry (including both recorded and live music sectors). In this industry over 90% of organisations are comprised of fewer than 250 employees and changes in the innovation and BM landscape have been driven as much by start-ups as by the global corporations (IFPI, 2013). With regard to BMs, Bourreau, Gensollen, and Moreau (2012) have expressed that “[v]ery few papers have taken a broader view, to analyse the effects of digitization on [music industry] business models” (p. 416). Lysonski and Durvasula (2008) have also stressed the need for more research into the music industry that would establish the practicability of different BMs. The recurring themes in these academic calls for research appear to be the need for a new industry-level BM or a combination of firm- or sector-level BMs for the music industry, with other scholars supporting these ideas as a means of pursuing ideals such as sustainable revenue (Parry, Bustinza, & Vendrell-Herrero, 2014; Sirkeci & Magnúsdóttir, 2011) or the provision of attractive alternative options to illegal file-sharing (Papies, Eggers, & Wlömert, 2011).

Dewenter, Haucap, and Wenzel (2012) have demonstrated in their research findings that music industry BMs which are integrated with

consumer involvement through file sharing can result in both recorded and live sector benefits in terms of profitability and product variety. Consequently, they call for future research to further explore what they describe as ‘richer models’ for the industry. The current paper will endeavour to contribute to the contemporary academic research in this field by empirically exploring the development of new music industry BMs that are integrated with consumer involvement via rewards-based crowdfunding.

Crowdfunding is a type of crowdsourcing in which an individual or enterprise seeks to accumulate the funds for a project or venture by reaching out to the general public and requesting individual donations that contribute towards a target financial goal. Unlike equity-based crowdfunding in which contributors essentially become stakeholders through angel investment and equity procurement, rewards-based crowdfunding is more commonplace, simplistic and popular with consumers, at least partly on account of the exposure gained by celebrity ventures, in addition to the proliferation of prominent platform websites. For instance, the Kickstarter platform (www.kickstarter.com) describes itself on its official website as a global community of over ten million people worldwide who have funded creative projects advertised through the website. The platform provides step-by-step guidance for building one’s project, obtaining feedback, launching the venture, tracking the funding progress and then facilitating the allocation of ‘rewards’ once the financial target has been accomplished. With the nature of rewards-based crowdfunding, these ‘rewards’ to investors may take the form of discounted products/services relating to

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the crowdfunded venture or entry into a draw to win a valuable item (such as limited edition merchandise or signed memorabilia) or an experience related to the venture.

Rewards-based crowdfunding is growing in the variety of sectors to which it is applied (e.g., music, sports, video games, education, retail) (Agrawal, Catalini, & Goldfarb, 2011). In fact, statistics on the Kickstarter website illustrate that the sector reach of crowdfunding now extends to more obscure industries such as crafts, fashion, food and publishing. As each industry exhibits a potentially new range of available rewards for willing consumers, the possibilities of the platform are only limited by the imagination and the attention spans of the contributors. However, as the rewards-based system has been in existence since Marillion's 1997 album and crowdfunding revenue figures are still continuing to rise, the indications are that this will remain a high growth sector for the foreseeable future. Like most technologically-driven industry sectors, the crowdfunding domain is an oligopolistic market that is dominated by a few key players. Aside from the aforementioned Kickstarter, the platforms GoFundMe and Indiegogo are also ranked in the top 3 of rewards-based crowdfunding platforms according to the www.crowdfunding.com website (based on independent traffic data from digital analytics companies Alexa and Compete).

Zheng, Li, Wu, and Xu (2014) recently advised that crowdfunding has developed into a prevalent practice within the music industry on account of fan involvement in the creative side of music production. This statement is compounded with official statistics on the Kickstarter website that indicate that 46,251 music crowdfunding projects have been launched through their platform since 2009. In spite of this, few studies have specifically focussed on how this growing phenomenon is shaping the business modelling of key stakeholders within the industry. As a direct result of this, there have been recent suggestions that there exists a lack of clarity of how exactly crowdfunding might 'change the game' for new ventures that seek financing. The current study will address this gap in research and knowledge by investigating how rewards-based crowdfunding is affecting both new and established industry players in order to determine the practical implications of these new BM developments across different industry sectors.

The paper will be structured as follows. Section 2 will provide a brief overview of how a BM is conceptualised and constructed. It will then review the academic literature in relation to the contemporary challenges associated with music industry BMs and the emergence of new models within the industry. The literature on music crowdfunding will then be reviewed from the context of BM implications. The theoretical development of the paper will then be stated in which research questions will be proposed. Section 3 will present the research methodology in which the methodological position and design are stated and the data analysis approach is justified and detailed. Section 4 will present the results and analysis of the three interview stages in terms of how they correlate to the research questions and the existing literature. Section 5 will then draw logical conclusions from the findings and demonstrate the contribution of the current study to theory, practice and future research.

2. Literature review

2.1. Defining a business model

Zott and Amit (2010) define a BM from an entrepreneurial management perspective as "a template of how a firm conducts business, how it delivers value to stakeholders [...] and how it links factor and product markets" (p. 222). This definition perceives the BM both in terms of its organisational application as well as its functions; Demil and Lecocq (2010) conceptualise it instead from a more philosophical perspective by suggesting that it constitutes the way in which an organisation operates with sustainability in mind. They later elaborate on this statement by claiming that it is also a snapshot of a given moment in time for the organisation. However, Cavalcante, Kesting, and Ulhøi

(2011) advise against the snapshot approach as a static representation of the BM and argue for the importance of BM change through the identification of its boundaries and mechanisms. Al-Debei and Avison (2010) also define the BM with time-frame considerations by suggesting that it can be conceived as an abstract representation of organisational arrangements – designed and developed both presently and in the future. Doz and Kosonen (2010) provide a way of observing the dichotomous dimensions of the BM concept by acknowledging the prospect of defining it in terms of either an objective or subjective approach. From the objective perspective they define it as a set of structured and interdependent operational relationships with both internal organisational units and external stakeholders. From a subjective point of view they define it as the representation of the mechanisms through which these relationships are implemented in the external environment.

It is perhaps the objective perspective of the BM concept that is most readily accepted throughout the extant literature, with Mason and Spring (2011) proposing that this conceptualisation of the BM represents a 'truth' by describing how the business works. However, if the subjective perception of the BM relates to its actuality in implementing this business know-how in practice then would it not be logically accepted in the literature as the most influential approach for business practitioners? George and Bock (2011) have demonstrated opposition to this standpoint by arguing that "[u]nderstanding BMs as a form of subjective and often retroactively adjudicated narration does not match practitioner language" (p. 98). However, their arguments may perhaps be influenced by their academic backgrounds and do not necessarily represent the true practitioner viewpoint on this issue.

With the above discussion in mind, below is a summary of some potential defining characteristics that may be inclusive of a generic BM:

- It is a visual means consisting of a template, description or representation (Al-Debei & Avison, 2010; Doz & Kosonen, 2010; Sandberg, Kihlén, & Abrahamsson, 2011; Shafer, Smith, & Linder, 2005; Zott & Amit, 2010);
- Its firm-related objectives include conceptualisation, summarising and understanding (Al-Debei & Avison, 2010; McGrath, 2010);
- It incorporates the complex network of internal and external component relationships (Chesbrough, 2006; Demil & Lecocq, 2010; Doz & Kosonen, 2010);
- It considers the firm from the context of both the present and future tense (Al-Debei & Avison, 2010; Doganova & Eyquem-Renault, 2009); and
- It ascertains the firm's potential in relation to value goal opportunities through strategic implementation (George & Bock, 2011; Kallio, Tinnila, & Tseng, 2006; Shafer et al., 2005; Zott & Amit, 2010).

The next sub-section will take this working definition of a generic BM and apply it to the chosen industry context in order to review the current BM landscape of the music industry, what are the current associated challenges and which types of BMs are the most appropriate to the current study.

2.2. Current business models in the music industry

The majority of the management literature that discusses redistribution of music industry BMs has concentrated on revenue models, with suggestions that this aspect depends on a number of variables including network support approaches (Generator, 2011) or the quality of copyright protection (Teece, 2010). However, it is advisable that it is dependent on the preferences of the consumer, as it has been noted in the literature that consumer payment inclinations over time are leaning more towards tiered imbursement plans (from freemium to premium) for streaming and subscription models and less towards the a-la-carte download-to-own revenue model. Hence, revenue streams are diversifying to incorporate other sectors of the industry such as live events, as

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