INTELLECTUAL PROPERTY OFFICE

Changing Business Models in the Creative Industries: The cases of Television, Computer Games and Music

This is an independent report commissioned by the Intellectual Property Office (IPO). This work was supported by the Economic and Social Research Council (grant number RES-173-27-0219)

Dr. Nicola Searle

October 2011

Intellectual Property Office is an operating name of the Patent Office

2011/4

Dr. Nicola Searle

July, 27, 2011

Report for the UK Intellectual Property Office

Acknowledgements: I would like to express my gratitude to the Economics, Research & Evidence Team at the UK Intellectual Property Office. They were excellent fellowship hosts and their expertise contributed greatly to the project's success. I would like to thank my case study firms for their generous participation in the research. Without their participation, this kind of research would not be possible. I would also like to thank my university, the University of Abertay Dundee.

This research is an ESRC, AHRC and IPO funded research project in the form of a placement fellowship. The fellowship places the researcher (Dr. Searle) in the Economics, Research and Evidence Team at IPO offices in London. This work was supported by the Economic and Social Research Council [grant number RES-173-27-0219.] It occurred in conjunction with the Scottish Funding Council funded Moving Targets project.

Table of Contents

Executive Summary

Overview

This research examines the business model response to the change from analogue to digital in the creative industries. Looking at both traditional and emerging business models, the project focuses on three sectors: television, computer games and music. A series of six case studies, two from each sector, provide illustrative cases of the business model response to challenges to enforcement of copyright and the advent of digital technologies.

This paper reports on the findings of qualitative research into business models comprising six case studies from 25 semi-structured interviews, participant observation and literature sources. The research incorporates a literature review to establish the business model methodology and analyse the current state of research. The research findings show that the creative industries are in a state of business model experimentation and that the roles of intermediaries are changing. Furthermore, the evidence suggests that the Intellectual Property (IP) framework may be secondary to other influences on business models.

Key Themes

The six business model case studies provide a snapshot of the current state of business models in three key creative sectors and suggest four emerging themes. These four themes are: IP; high rates of change; sectoral differences in models; and the changing role of intermediaries.

IP

Surprisingly, the research does not indicate that the case study firms felt that their business models developed and changed because of challenges to enforcement of IP. A common attitude was that piracy would always occur and should be minimised, but that it was more important to focus on creating new content. The business models respond instead to reduced sales of physical product, which is correlated with increased copyright piracy. Licensing of content, which is based on IP rights, was repeatedly cited as an important feature in the development of content. While IP is not perceived by the case study participants as an important influence on the structure of business models, it does play a number of roles in governing the implementation of business models. For example, out-of-copyright material can be a key resource for these business models. Overall, the evidence suggests that case study participants view IP as a secondary influence on their business models.

High Rates of Change

Repeatedly emphasised by interviewees was the rapid pace of change of their business models. When asked about their business model, one interviewee mentioned 'it changes every three months.' Three of the case study firms did not exist ten years ago and all of the case studies had content producing business units that were less than five years old. Overall, this rapid change means further challenges and opportunities for the creative industries. It also suggests one very important point for both researchers and policy makers: data dates quickly. The three creative sectors surveyed in this research imply that the creative industries are far from reaching equilibrium in business models. Researchers and policy makers should expect further, rapid changes in business models as the technology evolves and content adapts.

Differences between sectors

A comparative analysis of the case studies reveals key differences between the sectors. Culture, file size, technology platforms, adaptive ability, consumption of content and delivery methods varied amongst the case studies. The evolution of digital media has already blurred the boundary between sectors as media begins to overlap. Collectively, this suggests that analysis of business models in the creative industries in one sector cannot be generalised to other sectors and thus, the successes of one sector may not translate to other sectors. The singularity of the digitally native games sector contrasts with the relatively traditional music and television sectors and may point the way to the future.

Changing role of intermediaries

The role of intermediaries in these industries is changing. A hot topic in creative industries has been the concept that new technologies and delivery platforms are enabling disintermediation in the digital markets. The case studies presented here evidence both disintermediation and intermediation. They do not support a dominating trend of disintermediation which would lead to an overall reduction in intermediaries. Indeed, examples such as the market dominance of iTunes in the music sector and the success of Facebook suggest that the digital era is creating fewer, more powerful intermediaries.

Overall, the research highlights the role of IP, the rapid rate of change in business models, the differences between the sectors and the role of intermediaries.

Methodology

As Osterwalder and Pigneur's (2010) note, "a business model describes the rationale and infrastructure of how an organization creates, delivers and captures value." This definition forms the basis of the business models analysis and is mapped onto the Osterwalder and Pigneur (2010) business model map. The map breaks the business models into nine parts: key partners; key activities; key resources; value proposition; customer relationships; channels; customer segments; revenue streams; and cost structure. The map structures the qualitative data gathering via interviews, participant observation and literature. The case study sectors are chosen using the Technology Strategy Board's (TSB) sector segmentation approach to select the three sectors with the highest combination of digital output and technology aided creative processes: computer games, music and television. The case study firms are selected via quota and snowball sampling via the Moving Targets[1] digital media project.

Case Studies: Computer Games

As a digitally native sector, computer games have rapidly embraced new technology and new formats. The sector is likely to be less affected by illegal copying due to the proprietary hardware associated with gaming, technical protection measures (TPM) and the online nature of many games. As games are an interactive process, the network effect driven by the subscription model and social interaction encourages users to play using legitimate copies.

The two case studies in computer games are Dynamo Games and YoYo Games.

Dynamo Games is a computer games developer founded in 2004. Based in Dundee, the 20-person firm produces sports and beauty games for Facebook and mobile devices. Dynamo bundles three games development business models: mobile games for publishers, mobile games sold via iTunes and online games for Facebook, which collectively allow them to capture different segments of the games market. These three models are further distinguished by technological and pricing differences. Potential online fraud is a concern, but the Digital Rights Management (DRM) of iTunes and specifics of Facebook games reduce concerns of unauthorised copying.

YoYo Games is a computer games toolmaker, developer and publisher founded in 2007. With offices in England and Scotland, the 8-person firm produces game development tools and games for computers and mobile devices. YoYo games bundles two interrelated business models: development tool and publishing. Its origins lie in the computer games development tool, Game Maker which allows amateurs to develop games, which are then published, rated and discussed on its community platform, www.yoyogames.com. The best of the amateur games are then selected by YoYo Games, further developed and then published.

1 Moving Targets is a digital media project with the Universities of Abertay, Edinburgh and Edinburgh College of Art. www.movingtargets.org.uk

Case Studies: Music

The music industry has been at the forefront in dealing with the changes arising from the shift from analogue to digital. The smaller file size of songs means that their digital distribution is relatively fast and easy. Unsurprisingly, the music industry has been the first industry to be heavily impacted by the change to digital. Traditionally, the music industry sold the bulk of their products to end-users by way of bundling multiple songs into an album. In the physical world, the sale of singles was largely unprofitable as there were economies of scale in album sales. However, the falling costs of distribution and reproduction have reduced this economy of scale and unmet demand for singles is now satisfied in the digital realm via licensed and unlicensed content. The fall in demand for bundled products has undermined the previously dominant album-based business model in the music industry.

The two case studies for music are Heist Records and Clash Music.

Heist Records is a music producer for games, a talent developer and music development company. The company functions as a sole trader, Ged Grimes, Managing Director, who works with a variety of other artists and media firms. Based in Dundee, Heist Records was founded in 2010 and builds on Grimes' 25 years in the music industry. Heist records incorporates three business models: that of a performing musician; artist representation and development; and music for games. Changes in the market structure of music, particularly those precipitated by the decline in sale of physical products, have heavily influenced the business model of Heist Records. No longer convinced that the traditional model, dependent on musicians signing to a major recording label and selling CDs, is the route to success, Heist Records seeks alternative route to markets via Computer Games and social media.

Clash Music is a media group based on an independent music magazine published on a monthly basis. Founded in 2004 in Dundee, Clash operates both in the music and publishing industries. Clash Music operates three primary business models all of which are based on the monthly magazine, Clash Music. The first model is music journalism which includes the magazine and website[2]. In its second business model, Clash develops marketing campaigns for brands by incorporating social media, ClashMusic.com and musical events. Finally, Clash works as a media partner and curator at music festivals. Collectively, these business models work together to form the media group Clash Music.

2 The printed magazine and the website could be considered separate models but are here combined in the interest of brevity.

Case Studies: Television

The digital distribution of television programmes widens the viewing possibilities for consumers. Television programmes are now digitally available for streaming or download in addition to traditional broadcast methods. This has been great news for consumers but these new business models are not straightforward. The advertising funding model for television is under strain as other media, including internet web sites, compete for advertising revenue.

The case studies for television are Tern TV and BBC.

Tern TV is a television and digital content producer with offices in Glasgow, Aberdeen, Belfast and London. Tern, with approximately 50 employees plus freelancers, focuses on lifestyle and factual content for television and storytelling for digital platforms. Tern has two primary business models: television production and digital content production. As a case study, Tern provides a prime example of the evolution of a traditional business model (television production) embracing new technologies and spawning a new business model (content for digital platforms.)

The BBC, with 24,000 employees, is a large player in the television sector and its publicly financed business model plays a unique role in shaping the sector. As a very large organisation, the BBC has roles in many parts of media by producing and commissioning sports, news and entertainment content for radio, television and online distribution. Unique elements in the BBC business model are its funding from license fees and its non-commercial mission to "inform, educate and entertain."[3] The non-profit, public service and free-at-point-of-consumption nature of the BBC presents a unique business model case study.

These case studies form the evidence base of the research findings.

3 About the BBC, http://www.bbc.co.uk/aboutthebbc/purpose/public_purposes/

Introduction

In the digital era, creative content is freed from physical constraints. The marginal costs of distribution and production have decreased and consumer appetite for content has changed. However, these changes both challenge and generate opportunities for the creative industries. New business models may be a business solution to the challenge of long-term innovation and production in the creative industries. Traditional business models evolved in an era of physical restrictions and pre-internet consumer behaviour. These business models suffer in the digital era as consumer behaviour changes and content is digitally distributed. At present, traditional business models are still profitable and new business models have yet to prove themselves. This research investigates the dynamics at play in the evolution of business models in the creative industries.

This study of computer games, music and television examines the dynamics of business models in the creative industries. Two case studies per sector illustrate the changing business model. This paper reports on the findings of qualitative research into business models stemming from 25 semi-structured interviews, participant observation and literature sources. For policy makers and researchers, the findings are important. The evidence suggests that IP is a secondary influence on business models; the pace of change in business models is very rapid; important differences between the business models of each sector exist, and the role of intermediaries is changing.

Context

The advent of the Internet and digital technologies has set off a rapid change in the markets for content in the creative industries. As cds replaced vinyl records[4], the digital era has introduced disruptive technologies that force changes in existing business models and generate opportunities for new business models.[5] These changes are reflected in varying consumer behaviour, shifting market power, and the development of new products, new production and distribution methods. This period of creative destruction has prompted discussions of possible disintermediation in the value chain and changes in the role of the consumer.

The Internet and digital content generate new distribution methods and new forms of production in the creative industries. Schumpeter (1939) develops a theory of creative destruction to describe the innovation stemming from these disruptive technologies. Computer games, for example, are a new product that grew from the application of board games and book-based role-playing games to computers. This change generates new products for consumers, new markets for businesses and can lead to economic growth. However, the process can also be destructive in that the success of these innovations can lead to the destruction of existing competitors. As new technologies develop, existing technologies can become obsolete and the business models reliant on those existing technologies come under threat.

Consumer behaviour has adapted to the new forms of consumption available for digital content and appears to have outpaced the business model response of content creators. As new products develop and the catalogue of available digital content increases, consumers are increasingly purchasing content digitally in lieu of bricks-and-mortar shopping.[6] This is coupled with copyright piracy as consumers use unlicensed sources of copyright-protected digital content. Numerous studies examine the causes and impact of this change in consumer behaviour.[7] For business models, the impact of the change in consumer behaviour is characterised by two main themes: opportunities and increased competition. The opportunities can be seen in the potential for success of business models tailored to this behaviour. At the same time, competition, in the form of both piracy and new business models, challenges existing models.

4 Ghosemajumder et al (2002).

5 Sobel (2003).

6 Ghosemajumder et al (2002)

7 Including recent works by Chaudhry et al (2011), the KTN Beacon 10 Report (2011), the Hargreaves Review (2011), and Andersen and Frenz (2010).

During this time of change, as barriers to entry alter and new opportunities appear, market power is shifting. With the fall of high street behemoths[8] such as Woolworths, and the rise of online retailers such as iTunes and Amazon, it is apparent that the incumbents for retailers for creative content are changing.[9] These emerging bargaining positions provide further challenges and opportunities for business models. Indeed, these challenges and opportunities form the key research question which asks how business models are changing in the current environment.

This paper seeks to understand these changes from a business models perspective. How are businesses responding to these new opportunities and threats? As the digital era removes physical restrictions to distribution of content, thus weakening enforcement of copyright, how do business models respond? This paper will also examine debates including the role of User Generated Content (UGC), disintermediation and End-User License Agreements (EULA). The next section presents an overview of the business model methodology and the qualitative case study methodology used in the research. Section 5 introduces the market context of the case study sectors. Sections 6 through 8 present and analyze the case studies, followed by Section 9 which examines EULAs in popular online services. Section 10 provides further analysis and explores the issues raised in the case studies. Finally, Section 11 concludes.

8 Jones (2010) details the changing role of high street retailers.

9 Porter (2008)

Overview of Methodology

This section provides an overview of the methodological frameworks applied in the research. A full description of the methodology and literature can be found in Appendix 2.

Business Models

The concept of business models is a relatively new and evolving research area. The preferred definition of the business models, for this study, is Osterwalder and Pigneur's (2010) definition: "A business model describes the rationale and infrastructure of how an organization creates, delivers and captures value."

Using the business model as a unit of analysis, the business models examined in this research are mapped out. This method of business model representation provides a standardised view of the model and allows for analysis between models. In this research project, the preferred business model representation is the Osterwalder and Pigneur (2010) nine element model. As Chesbrough (2010) notes, "one promising approach is to construct maps of business models, to clarify the processes underlying them, which then allows them to becomes a source of experiments considering alternate combinations of the processes."[10] Chesbrough suggests the Osterwalder's model as an example; Osterwalder and Pigneur (2010) develop this nine element model as shown in Figure 6.

10 Chesbrough (2010), p. 359

Figure 1: Osterwalder and Pigneur (2010) Business Model Map

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

motivations for partnerships:
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

categories
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

types of resources
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

characteristics
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

examples
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

channel phases:
1. Awareness
   How do we raise awareness about our company's products and services?
2. Evaluation
   How do we help customers evaluate our organization's Value Proposition?
3. Purchase
   How do we allow customers to purchase specific products and services?
4. Delivery
   How do we deliver a Value Proposition to customers?
5. After sales
   How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

is your business more:
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

sample characteristics:
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

types:
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

dynamic pricing
Negotiation(bargaining)
Yield Management
Real-time-Market

www.businessmodelgeneration.com

The elements of model can be broken down as follows. *Key partners* identify the key outside suppliers and partners of the business. *Key activities* are the core activities the business engages in to produce its service or good. *Key resources* identify the important physical, intellectual, human or financial resources for the business. *Value proposition* describes the resources and/or goods the company offers its customers. *Customer relationships* describe the type of relationship the business has with its customers. *Channels* define the communication, distribution and sales channels of the goods and services. *Customer segments* identify the groups of people or organisations that comprise the customer base. *Revenue streams* describe the revenue flows and pricing structure of the model. Finally, *cost structure* represents the costs underlying the running of the business; these range from cost-driven, like the Easyjet budget model, to value-driven, such as a luxury hotel.

For the case studies, the nine element model is developed to represent the business models found within the case study firm. Accompanying each business model is a graphical description of the model.

Case Study Methodology

The case study methodology addresses three key points: selection of the Creative Industry sectors, selection of the case study firms and data collection.

The selection of television, computer games and music as the focal sectors of this study are based on the Technology Strategy Board's (TSB) sector segmentation approach. The TSB approach identifies 13 creative industries sectors and groups them based on the level of technology in innovation in the sector and the nature of the sector's output. This classification selects television, computer games and music as the sectors with the highest combination of technology and digital output. Thus, these sectors are chosen as being most relevant to the IP and digital technology research goals.

The case study firms are chosen to form a representative sample with sufficient variation to encompass a variety of business models. The individual firms are identified via the non-probability sampling method of quota sampling.[11] To capture the diversity of the three sectors, two case studies per sector are analysed. Data collection is along a triangulation approach that includes semi-structured interviews with key employees, participant observation and literature sources. The semi-structured interviews were drafted around the Osterwalder and Pigneur (2010) business model framework. The questions are designed to illustrate the structure of the business model in question and examine tensions surrounding the role of digital, UGC and copyright. The interviews provided the bulk of the qualitative data.

For further detail on the existing literature and research methodology, please see Appendix 2.

11 For more details on these methods, see the Statpac overview of methods available at http://www.statpac.com/surveys/sampling.htm

Introductions to the Case Studies

The next three sections detail the six illustrative case studies as evidence of the business model response to these new market paradigms. Each case study is presented with an overview of the firm's business model, which is then broken down into the business model parts. This structure follows Casadesus-Masanell and Ricart's (2010) anatomy of business models that recognises that different groups comprise the aggregate business model. The Osterwalder and Pigneur (2010) business model representation is used through the case studies.

The study of business models in the creative industries lies within the larger context of the creative industries markets. To understand the business model response to changes, an examination of the shifting market power, consumer behaviour and bargaining power of the industry is required. Furthermore, these changes are sector specific. While the creative industries as a whole face some similar challenges, the peculiarities of each sub-sector or industry require further examination.[12] In the next section, the case studies of each sector are prefaced by an overview of the market context of the sector.

12 Both these points, the importance of context and the differences between sectors, were confirmed in the researcher workshop.

Case Studies: Computer Games

Context: Computer Games

The computer games business has remained relatively quiet in the IP policy debate on the shift to digital.[13] This may be due to the fact that the industry is 'digitally native' in that computer games business began with computers. As a digitally native sector, computer games have rapidly embraced new technology and new formats. The games sector itself can be divided by the platforms in which the games are based. These include arcades, consoles, handheld, mobile, online and personal computers. The relatively new sectors of mobile and online gaming have seen the dramatic growth in the new genre of social networking games.[14] This growth has occurred despite challenges to revenue streams from illegal copying of games. The sector is likely less affected by illegal copying due to the proprietary hardware associated with gaming, TPM[15] and the online nature of many games. As games are an interactive process, the network effect driven by the subscription model and social interaction encourages users to play using legitimate copies. However, games are not immune from copyright infringement and the industry continues to face problems such as chipped[16] consoles which allow pirated games to be played.

The retail games market is undergoing changes as debates in games industry trade media evidence. Like music, the bricks-and-mortar retail sector dedicated to games sales is suffering from reduced sales.[17] This is likely due to a combination of increased competition from supermarkets, online retail stores, digital sales, piracy and online games. A response by games retailers has been to focus on more profitable pre-owned sales in which the retailer buys used copies from customers and re-sells them to other customers. Pre-owned copies are also used to sell new titles via a practise of trading in the pre-owned copies for credit.[18]

13 For example, submissions by games related companies to the 2011 Hargreaves review are noticeably few. The full list of Submissions received is available at http://www.ipo.gov.uk/ipreview/ipreview-c4e.htm

14 Worldwide revenues for social networking games, defined as games which run on social networks such as Facebook, was predicted to reach US$1.3 billion in 2010 which is nearly double its 2009 estimate and six times the 2008 estimate. This is according to Lazard Capital Markets analyst Colin Sebastian as noted in the Gamasutra article, "Analyst: Social Game Revenues To Hit $1.3B In 2010" by Eric Caolli (February 1, 2010) available from http://www.gamasutra.com/view/news/27035/Analyst_Social_Game_Revenues_To_Hit_13B_In_2010.php

15 Indeed, the TPM engaged by the games industry is fairly groundbreaking and includes cutting off access to subscribers using "chipped" machines (Lettice, John (November 19, 2002) "MS accused of banning mod chip Xbox from Live service," The Record, Accessed November 10, 2010 from http://www.theregister.co.uk/2002/11/19/ms_accused_of_banning_mod/), and blasting vuvuzelas over the audio tracks of hacked versions (see Parfitt, Ben (December 3, 2010) "Ubisoft's New Anti-Piracy Weapon," MCV, accessed January 15, 2011 from http://www.mcvuk.com/news/42098/Ubisofts-new-anti-piracy-weapon).

16 A games console which has been modified to bypass TPM.

17 As an example, the GAME retail chain, which specialises in computer games, has seen falling profits for years. (see Reuters (January 13, 2011) "1-Game Group Christmas sales fall 2.1 pct," accessed January 16, 2011 from http://www.reuters.com/article/idUSLDE70C07Q20110113) HMV, a multi-media retailer, saw a 12% drop in computer games sales in 2010 (see BBC News (December 9, 2010), "HMV shares fall sharply as losses widen," Accessed January 17, 2011 from http://www.bbc.co.uk/news/business-11956003)

18 GAME argues that up to 60% of new sales incorporate this practice of trading in a pre-owned game. (see Batchelor, James (January 24, 2011), "Game: Trade-in Drives 60% of new games sales," accessed January 30, 2011 from http://www.mcvuk.com/news/42669/GAME-Trade-in-drives-60-of-new-game-sales)

The publishing industry has responded by arguing that the sale of used games violates the EULA of the original sale. This may become a more important policy issue as it represents a conflict between contract law (the EULA) and IP law (the principle of exhaustion of rights.)

The following two sections present case studies in the Computer Games sector: Dynamo Games and YoYo Games.

Dynamo Games

Dynamo Games is a computer games developer founded in 2004. Based in Dundee, the 20-person firm produces sports and beauty games for Facebook and mobile devices.

Overview

Dynamo bundles three games development business models: mobile games for publishers; mobile games sold via iTunes; and online games for Facebook. Founded in 2004, Dynamo began with three partners who adapted the 1990s Championship Manager game for mobile phones. They successfully distributed the game via a publisher and went on to receive numerous game awards. Building on their initial success, Dynamo continues to publish games for mobile devices through publishers. More recently, Dynamo has expanded to self-publishing games via iTunes and Facebook. iTunes is perceived to have streamlined the purchasing process and offers more favourable rates than earlier mobile telephone platforms. Dynamo's earlier games were primarily licenses of existing brands but their more recent games include original franchises.

IP plays its strongest role in the business model through the licensing of existing brands or development of Dynamo brands. Piracy of games is perceived to be declining due to online social gaming which reduces incentives to pirate due to its server-based, free-to-play and socially interactive nature. Interviews with other case studies suggest that iTunes DRM are reasonably effective. A common attitude was "copying will always happen; but if they want to pirate enough, they will find a way to do it. They wouldn't pay anyway." A larger concern is the theft of digital assets in terms of theft of in-game currencies.[19]

19 This recently happened to Zynga, the makers of Farmville, when a player stole $12M work of virtual poker chips. See Magrino, Tom (March 24, 2011), "Hacker given two years after making off with virtual currency valued at $12 million by social-gaming kingpin." GameSpot UK, accessed March 25, 2011 from http://uk.gamespot.com/news/6305366.html

Business Model: Developing Mobile Games for Publishers

The founding of Dynamo is based on the traditional publisher-developer business model. Similar to the console development sector, the mobile games[20] sector in 2004 was based on proprietary hardware and technology (e.g. the handset) and a tightly controlled publishing platform. Publishers held a position of strength as a key gatekeeper between handset users and developers. While Dynamo's first prototype, the mobile adaptation of Championship Manager, was self-financed, later games for mobile publishers are commissioned works. In this work-for-hire / commissioning, scheme, Dynamo is typically paid development costs and a royalty on sales of the end product. These games are adaptations of existing franchises owned by other entities and therefore Dynamo does not hold a stake in the IPR.

In the early days of Dynamo, the bulk of funding stemmed from advances for mobile game development for publishers. The share of royalty payments from sales was not favourable to developers who received only a small royalty; this sentiment was repeated by other interviewees. Indeed, Wisniewski and Morton (2005) note that, "As the market continues to grow, advances and royalties paid to developers, on average, have been steady. In some cases royalty percentages appear to be getting into the high single digits."[21] At the time, the value chain of games for mobile phones could involve the developer, the publisher, the mobile network operator and the handset manufacturer. Developers like Dynamo operate at the lower end of the chain and often did not control the IPR.

Dynamo continues to produce mobile games for publishers and has developed 13 versions of Championship Manager.[22] The mobile games for publisher business model was fundamental in the founding of Dynamo. Indeed, the firm received many awards, including a Scottish BAFTA, and established its reputation via its work with publishers.

20 Mobile games are defined by Ha et al (2007), as games played on Personal Digital Assistants (PDA), cellular phones or portable games devices.

21 Wisniewski and Morton (2005), p. 52.

22 Dynamo website, available at http://www.dynamogames.com/newsite/index.php?option=com_content&view=article&id=31&Itemid=37

DYNAMO: DEVELOPING MOBILE GAMES FOR PUBLISHERS				
Key Partners Publishers Technological Platforms	**Key Activities** Developing Game Meeting Key Deadlines **Key Resources** Human Financial and licensing rescources from publisher	**Value Proposition** Entertainment (fun leisure activity, stress release)	**Customer Relationships** Personal assistance **Channels** Existing Relationships Games for iPhone, mobile, PSP	**Customer Segments** Publishers (direct) Players (indirect)
Cost Structure Value (based on contract with publisher) Operating costs			**Revenue Streams** Work for hire plus royalties	

Business Model: Self-publishing Mobile Games

Dynamo's second business model is that of self-publishing games. In this case, Dynamo develops the game without the financial, commercial and editorial support of a publisher. This presents a fundamental shift in the business model where Dynamo has control of many more elements of its business model.

The term "self-publishing" in this case can be somewhat misleading as Dynamo still works with an external publishing platform, the Apple-owned iTunes App Store. However, the key point is that Dynamo no longer works with a traditional publisher and instead works with iTunes. Each game is still subjected to an iTunes approval process which, "insure(s) that applications are reliable, perform as expected, and are free of explicit and offensive material."[23] This represents a departure from the more traditional role of publishers in which the publisher has a higher level of editorial control and assumes a greater degree of business risk. Under the iTunes model, Dynamo has both more editorial control and is responsible for the success of the game.

One key shift in the self-publishing is the control over pricing. Publishers typically dictate the price of a game. However, the iTunes model allows Dynamo to judge the market and price the game. Dynamo uses the common freemium[24] model in which users obtain a limited

23 Further details on the approval process from the Apple Appstore Developer Guidelines at http://developer.apple.com/appstore/guidelines.html

24 As defined by Beuscart and Mellet (2008), Freemium (free + premium) is "the use of the service is free, but users may pay to accede to advanced functionalities." P. 167

version of the game for free or pay for an expanded version. Dynamo also noted that the advent of iTunes has precipitated a fall in prices. Where mobile games in the mid-2000s were priced around £5 and relatively cheap compared to console games, the iTunes market has now reduced the price point to roughly £0.59 to £2.99. Dynamo noted that the low price on iTunes is made up by the higher volume of sales.

A key shift in the iTunes business model is the role of IP. The lack of a commissioning publisher means that Dynamo is responsible for sourcing its content. Dynamo does so through two means: one, generating their own content and franchises and two, licensing existing content from others. For example, Dynamo licenses the game show Crystal Maze content from Chatsworth Enterprises for a mobile game. Dynamo also generates its own content in the form of the Dizzy Drops game. When working with its own content, Dynamo has the advantage of holding the IP rights and the possibility of future revenue stemming from the brand. At the same time, Dynamo is also responsible for developing and marketing that content.

Illegal copying of these mobile games is not a large concern for Dynamo. Interviewees noted that copying is bound to happen and that a larger concern is the copying of the game concept by competitors. Dynamo relies on the DRM within the iTunes store to prevent the illegal copying of games. Furthermore, interviewees noted that, 'for an iPhone game, it's only £0.59 for a copy. Piracy really isn't an issue.' The ease, speed and pricing of the iTunes store are considered sufficiently attractive to keep key consumers. The rest, 'wouldn't pay anyway.'

<table>
<tr><th colspan="5">DYNAMO: DEVELOPING MOBILE GAMES FOR SELF-PUBLISHING VIA IPHONE
(iTunes sales)</th></tr>
<tr>
<td rowspan="2">Key Partners

iTunes

iPhone</td>
<td>Key Activities

Developing game</td>
<td rowspan="2">Value Proposition

Entertainment (fun, leisure activity, stress release)

Community</td>
<td>Customer Relationships

Communities

Self-Service</td>
<td rowspan="2">Customer Segments

Players (iPhone owners)</td>
</tr>
<tr>
<td>Key Resources

Human
Self-financing
IP (brands)</td>
<td>Channels

iTunes</td>
</tr>
<tr>
<td colspan="2">Cost Structure

Value focused

Operating costs</td>
<td colspan="3">Revenue Streams

Sale of game (free "lite" version plus paid for full version) after 30% iTunes royalty</td>
</tr>
</table>

Business Model: Self-publishing Online (Facebook) Games

Dynamo's most recent business model development is self-publishing in the online platform of Facebook. Like the iTunes business model, Dynamo's Facebook games are subject to an approval process by Facebook. However, the business model differs significantly in terms of pricing, technological structure, and IP concerns.

Dynamo currently has two Facebook games: Soccer Tycoon and Beauty Town. Soccer Tycoon is a self-funded venture which builds on Dynamo's existing expertise in football-based games. Channel 4 commissioned Dynamo to produce Beauty Town, a game based on Channel 4's fashion and beauty programmes which "promotes a positive body image and casts the player as the beauty industry's top entrepreneur."[25] The funding for Beauty Town comes from the Scottish Digital Media IP fund which combines private sector funding (in this case, Channel 4) with public sector funding from Creative Scotland and Scottish Enterprise.

The pricing of Dynamo's Facebook games is fundamentally a free-to-play game with paid-for in-game content and actions. Facebook users access the game for free while in-game premium content must be paid for. For example, Dynamo's Soccer Tycoon game allows you to purchase premium virtual stadiums and special training for your team. Like other popular Facebook games, such as Farmville, content in Soccer Tycoon is divided into two groups: content that is earned through game play and paid-for content. Similar to iTunes, Facebook keeps 30% of sales revenues and the developer retains 70%.

The technological structure of Facebook games represents a departure from Dynamo's previous mobile-based games. Facebook games operate on a server and are not available as downloadable content. The game only exists via the Facebook interface in constant communication with the server. A recent, key development is servers is the introduction of cloud-based servers which means that developers like Dynamo do not have high, up-front costs of buying a server but instead have a pay-as-you-go model. This allows for greater flexibility and scalability of online gaming as servers adapt in real time to demand for the game.[26]

The social media nature of Facebook means that Dynamo's online Facebook games benefit from the network effect.[27] Soccer Tycoon players, for example, benefit when more of their friends are also playing the game. The game has built-in socially interactive features which enhance game play.

25 From a September 3, 2010 Creative Scotland press release, "Support for Dundee's Digital Sector," accessed June 13, 2011 from http://www.creativescotland.com/news/support-for-dundees-digital-sector

26 As Klems et al (2009) note, cloud computing offers "on-demand provisioning of scalable and reliable compute services, along with a cost model that charges consumers based on actual service usage." P. 1

27 The network effect is commonly defined as the increased utility from a good a service that stems from increased use of the good or service. For example, the more people use Facebook, the more value it has to users.

The combination of free-to-play, server-based games and the network effect significantly reduce incentives for copyright infringement. In order for a player to copy Soccer Tycoon, the player would have to set up their own server and persuade their friends to play on the copy. Given that the game is largely free-to-play, the significant costs of copying the game will outweigh the benefits for most users. Thus, Dynamo reports piracy of their online games as being of very little concern.

A larger concern for Dynamo, however, is that of fraud. As noted above, the recent high-profile theft of Zynga's virtual currency demonstrates the potential negative effects of online fraud. In the Zynga case, a player hacked into Zynga's servers and stole $12M worth of online currency and proceeded to sell the currency to other players. The effects of fraud could damage Dynamo's brand image, game play and financial success. From an IP perspective, the damages to brands may be more of a concern than the copy of copyrighted content. Dynamo's perception of this threat is not unwarranted as an Alexa report[28] shows "hack soccer tycoon facebook" as the eighth most popular search term for Dynamo's website.

DYNAMO: DEVELOPING SOCIAL GAMES FOR SELF PUBLISHING VIA FACEBOOK

<table>
<tr>
<td rowspan="2">Key Partners

Facebook

Servers</td>
<td>Key Activities

Developing game</td>
<td rowspan="2">Value Proposition

Entertainment (fun, leisure activity, stress release)

Community

UGC (self expression, intrinsic motivation, social recognition)</td>
<td>Customer Relationships

Communities

Self-Service

Co-creation (UGC)</td>
<td rowspan="2">Customer Segments

Players (Facebook members)</td>
</tr>
<tr>
<td>Key Resources

Human

Self-financing + Channel 4 funding

IP (brands)</td>
<td>Channels

Facebook</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Cost focused

Operating + Variable costs with servers</td>
<td colspan="2">Revenue Streams

Free to play plus in-game purchases (30% royalty to Facebook)</td>
</tr>
</table>

28 The Alexa (online source of website statistics) report for dynamogames.com; viewed May 5, 2010 from http://www.alexa.com/siteinfo/dynamogames.com.

The bundling of Dynamo Games' three business models allows them to capture different segments of the games market: publishers, consumers of iPhone and Facebook users. These three models are further distinguished by technological and pricing differences. However, Dynamo does not report significant concerns with respect to copyright infringement. Potential online fraud is a concern, but the DRM of iTunes and specifics of Facebook games reduce concerns of unauthorised copying.

YoYo Games

YoYo Games is a computer games toolmaker, developer and publisher founded in 2007. With offices in both England and Scotland, the 8-person firm produces game development tools and games for computers and mobile devices.

Overview

YoYo games bundles two interrelated business models into its business: development tool[29] and publishing. Its origins lie in the computer games development tool, Game Maker. Developed in 1999, Game Maker allows amateurs to develop games, which are then published, rated and discussed on its community platform, www.yoyogames.com. The best of the amateur games are then selected by YoYo Games, further developed and then published.

User Generated Content (UGC) via the Game Make community is a key element of the YoYo Games business model. In any business model, UGC can present a number of IP challenges including the monitoring of copyright compliance within the UGC and unclear ownership. YoYo monitors its GameMaker community for infringing content. More interestingly, YoYo Games takes UGC further by licensing the user-generated games. YoYo Games is managing the challenges of UGC and successfully publishing games.

Over the last year, YoYo Games has moved to new premises and expanded its employee base. This expansion phase has been funded in part by a Scottish Development International and a Regional Selective Assistance grant of £220,000 to support the creation of 24 new jobs.[30]

29 The development tool could be further decomposed into two business models: the tool itself, and the subsequent community. For brevity, we conflate these two parts into one aggregate model.

30 As noted in Scottish Development International press release, 03/11/2010, "YoYo Games joins Dundee's vibrant games industry," accessed June 10, 2011 from http://www.sdi.co.uk/news/2010/11/2010-11-02-yoyo-games-joins-dundees-vibrant-gaming-industry.aspx

Business Model: Game Development Tool

YoYo Games began in the acquisition of the Game Maker tool, developed by a professor, in 2007. Game Maker is a software program that allows users to develop computer games. Game Maker is aimed at developers with limited programming experience and reports that its million users are mostly between the ages of 12 and 25, and based in English speaking countries. The Game Maker user community is centred on this age group and includes school children, teachers, parents and amateur developers. Users can share and discuss their games via the online community at yoyogames.com. YoYo Games reports over 110,000 games were uploaded from 2007 to 2010 and an average of 100 new games are added each day. Game Maker can be purchased through YoYo's online store and is available in a limited version for free or a complete version for USD $25.31

Collectively, the Game Maker tool and its online community act as a talent incubator for YoYo. Users upload games and others can rate, comment and provide feedback for the game. This allows for the community to self-filter the best games which both identifies the best games and provides recognition for talented developers. The online forums offer further information on Game Maker, provide an avenue for feedback to YoYo and develop a sense of community amongst users. The management of the online community is a key activity and YoYo Games has a dedicated staff member for the community.

From an IP perspective, the largest challenge to this model is illegal copying of the Game Maker software. Despite a free, "lite" version of Game Maker, YoYo still records significant levels of unpaid copies of the full version.[32] The firm reports that only 10% of new users have paid-for copies. However, YoYo is not convinced that the other 90% are necessarily aware of the illegality of their copies and notes that file sharing reaches an audience that Game Make might not otherwise have. As a response, YoYo is trying to make payment easier and have made technological changes to make piracy more difficult. One interviewee noted, 'It doesn't keep us awake at night… If we could figure out a nice way to stop it, we would.'

Another IP concern is that of infringing content within the online Game Maker community. YoYo reports regularly removing infringing content which often consists of infringing characters or music. Indeed, copyright is debated within the Game Maker online community and is addressed in member forums and official YoYo Games communications via its blog.

31 Prices as of May 9, 2011 and available from http://store.yoyogames.com/

32 The firm can track these unpaid copies as registrations of copies exceed sales of the copies.

<table>
<tr><th colspan="5">YOYO GAMES: DEVELOPING AND SELLING GAME DEVELOPMENT TOOL</th></tr>
<tr><td rowspan="2">Key Partners

The Gaming Community

Technological platforms</td><td>Key Activities

Developing game

Selling tool</td><td rowspan="2">Value Proposition

Entertainment

Creative Expression (realisation of aspirations, potential to earn money)</td><td>Customer Relationships

Communities

Self-Service

Co-creation (UGC)</td><td rowspan="2">Customer Segments

Aspiring Developers

Educators</td></tr>
<tr><td>Key Resources

Human

Software (Game Maker)</td><td>Channels

Online Sales

Educational Communities</td></tr>
<tr><td colspan="2">Cost Structure

Cost focused (relatively inexpensive tool)

Operating costs</td><td colspan="3">Revenue Streams

Sales of copies (free and premium)</td></tr>
</table>

Business Model: Publishing

YoYo's second business model is that of publishing Game Maker user generated games on paid-for platforms. YoYo identifies popular games in the Game Maker community and selects some for commercial development. In this model, the Game Maker community acts as a filtering agent to identify the best games. The developers (users) of Game Maker license their work to YoYo who then further develops and markets the game on a number of commercial platforms. YoYo published its first game in October 2010 and, as of the beginning of June 2011, had 45 games available for sale.[33]

Much of YoYo's publishing is similar to that of other self-publishing developers who distribute online. YoYo works with Apple in order to get approval to sell its games for iPad and iPhone via the iTunes store. YoYo also sells games for Android phones via Android markets, and Playstation Portable (PSP) via the Sony website. However, the fundamental difference in YoYo's business model is the underlying Game Maker community and UGC. Unlike traditional developers, YoYo does not generate its own games, instead it further develops the existing games of its community.

33 Data based on count of games for sale via the YoYo Games Store, http://store.yoyogames.com/, as of June 6, 2011.

Having identified a potential game for commercial publication, YoYo polishes the game and converts it into the appropriate format. They then take the game through the publishing process and, finally, market and manage sales of the game. By starting with an existing product, the Game Maker UGC, YoYo can publish more frequently than a traditional developer. YoYo is more traditional in its pricing, and sells free, ad-supported versions and paid-for, ad-free versions of its games.

IP influences appear in two forms in YoYo's business model: licensing and infringement of existing games. YoYo does not own the original IP of its games; instead it licenses the content from the user. This is akin to the licensing practices of other developers (e.g. the previous Dynamo example); however, in this case YoYo is licensing the game, concept and brand. As the brand is relatively undeveloped, and the game and concept may still need work, YoYo takes on the business risk of bringing the game to market, but at the same time does not own the underlying IP. Revenues from sales are shared with the user/developer of the game. While this model presents some risks, the licensing practice is likely in line with the community culture and UGC focus of the Game Maker community.

One IP concern that YoYo Games has is that of copying of its games. As one interviewee noted, even free games are sometimes illegally copied as a pirated copy will bring Internet traffic, and potential advertising revenue, to a site hosting the copy. Furthermore, some Game Maker users have developed decompiling software[34] which could translate YoYo's published games back into a Game Maker format and potentially result in illegal copying of the games. This presents both a challenge for the commercial success of YoYo's games and for YoYo's relationship with its Game Maker community.

34 A decompiler is a software that will translate another software back to its source code; this can circumvent DRM which means that the software may then be illegally distributed.

<table>
<tr><th colspan="5">YOYO GAMES: PUBLISHING USER GENERATED GAMES</th></tr>
<tr>
<td rowspan="2">Key Partners

The Game Maker Community and users

Technological platforms

Technological platforms

Online sales platforms (iTunes, Android markets)</td>
<td>Key Activities

Developing games

Marketing</td>
<td rowspan="2">Value Proposition

Entertainment

(fun, occupation during free time)</td>
<td>Customer Relationships

Communities

Co-creation</td>
<td rowspan="2">Customer Segments

Computer, iPhone, iPad, Android handset owners</td>
</tr>
<tr>
<td>Key Resources

Human

Software (Game Maker)</td>
<td>Channels

Online Sales</td>
</tr>
<tr>
<td colspan="2">Cost Structure

Cost focused

Operating costs</td>
<td colspan="3">Revenue Streams

Sales of copies (ad-supported and premium)</td>
</tr>
</table>

Overall, YoYo Games presents an application of UGC in the games sector in two, interrelated business models. Sales of Game Maker, and the ensuing community and content, combine with a publishing platform for the YoYo Games business model. The combination of these two models provides a route to market for budding developers and a source of content for YoYo Games. YoYo Games is very conscious of IP but has only limited ability to prevent illegal copying. One YoYo Games interviewee put it as such, 'We'd like a pirated copy to almost work, but not fully. That way it serves as an ad for the legitimate copy.'

Case Studies: Music

Context: Music

The music industry has been at the forefront in dealing with the changes arising from the shift from analogue to digital. The smaller file size of songs means that their digital distribution is relatively fast and easy. Unsurprisingly, the music industry has been the first industry to be heavily impacted by the change to digital.

Traditionally, the music industry sold the bulk of their products to end-users by way of bundling multiple songs into an album. In the physical world, the sale of singles was largely unprofitable as there were economies of scale in album sales. However, the falling costs of distribution and reproduction have reduced this economy of scale and unmet demand for singles can now be satisfied in the digital realm.[35] The fall in demand for bundled products has undermined the previously dominant album-based business model in the music industry.[36]

In terms of IP policy, the scale of copyright infringement is cause for concern. One challenge is that one of the first popular music digital distribution models, Napster in 1999, was unlicensed.[37] The subsequent transition to legal models, on the part of both consumers and producers, has been problematic. The music industry continues to compete with free, unlicensed downloads. This is a huge challenge to the existing models and suggests that a fundamental shift in the business models and market positions of incumbents is inevitable. Indeed, this change has allowed companies like Apple, which launched iTunes in 2000, to gain market share and claim 80%[38] of the digital market in Britain and 27%[39] of all music sales in the US in 2010.

Porter (2008) aptly describes the market changes leading to the success of iTunes:

> The labels tried for years to develop technical platforms for digital distributions themselves, but major companies hesitated to sell their music through a platform owned by a rival. Into this vacuum stepped Apple with its iTunes music store, launched in 2003 to support its iPod music player. By permitting the creation of a powerful new gatekeeper, the major labels allowed industry structure to shift against them.

Porter (2008), p. 36-37

35 Amberg and Schroder (2007) examine consumer expectations in the digital world and the bundling/unbundling of audio tracks.

36 Elberse (2010) examines the interaction between bundled and unbundled audio tracks and finds "that revenues decrease significantly as digital downloading becomes more prevalent." P. 1.

37 Ghosemajumder (2002).

38 Smith, Tony (September 7, 2005), "Apple touts iTunes' UK 80% market share," The Register, accessed January 21, 2011 from http://www.theregister.co.uk/2005/09/07/apple_responds_to_rivals/

39 Schramm, Mike (May 24, 2010), "iTunes share of the US music market swells to 26.7%," Tuaw, Accessed January 25, 2011 from http://www.tuaw.com/2010/05/24/itunes-share-of-the-us-music-market-swells-to-26-7/

Apple's success in this instance, and the overall concentration of digital music services, is under criticism[40].

The music market appears to place increasing emphasis on sales of live music via concert tickets. As Krueger (2005) notes, the growth in concert ticket prices increased 82% from 1996 to 2003 in the U.S. compared to a Consumer Price Index growth rate of 17% over the same period. While similar data is not available for the UK, anecdotal evidence suggests that event prices in the UK follow a similar and continuing pattern.[41] Krueger suggests that the increase in ticket prices is due to "the erosion of complementarities between concerts and album sales because of file sharing and CD copying."[42] However, Krueger also notes that while ticket prices continue to increase, the number of ticket sold decreased over the period in question. Hence, we cannot assume that increased ticket prices results in increased revenue for the music industry.

However, a challenge to the changes in the market can be found in the licensing practices of the music industry. This is a hotly debated topic as the music industry insists they are supportive of start-ups and the start-ups insist the opposite.[43] New business models, such as subscription services like Spotify, continue to struggle to license content in new markets.[44] The challenge is that the producers of music argue that these licensing services are unprofitable for artists and Spotify (advertising and subscription) and Last.fm (advertising) are struggling to make a profit.[45,46] They continue to compete against unlicensed and free services.

The next two sections present case studies from the Music sector: Heist Records and Clash Music.

40 The artist John Bon Jovi criticised Apple CEO Steve Jobs for "killing the music industry" in an interview. Matyszczyk, Chris (March 15, 2011), "Jon Bon Jovi: Steve Jobs killed the music business," Cnet News, Accessed March 17, 2011 from more: http://news.cnet.com/8301-17852_3-20043351-71.html#ixzz1PQwmfijK http://news.cnet.com/8301-17852_3-20043351-71.html

41 BBC covered this in 2006 with Robert Plummer's April 20, 2006 article "Winners take all in rockonomics," Accessed May 15, 2011 from http://news.bbc.co.uk/1/hi/business/4896262.stm The Guardian has covered this topic multiple times. See Jones, Rupert (March 13, 2010), "Ticket Inflation – The New Rock and Roll," accessed May 15, 2011 from http://www.guardian.co.uk/money/2010/mar/13/ticket-price-inflation-rock-n-roll and (March 5, 2010), "Lady Gaga ticket prices leave fans goggle-eyed," access May 15, 2011 from http://www.guardian.co.uk/money/2010/mar/05/lady-gaga-ticket-prices?intcmp=239

42 Krueger (2005), p. 1.

43 This is based primarily on anecdotal evidence as the licensing practices of the industry are largely confidential.

44 The US launch of the Spotify service has been delayed due to problems with licensing content. See Johnston, Maura (December 8, 2010), "
Spotify's U.S. Launch Delayed Again," The Rolling Stone, Accessed March 25, 2011 from http://www.rollingstone.com/culture/news/17389/240563

45 Music Ally (October 28, 2010), "Spotify reveals €30m payout to rightsholders in 2010," Accessed March 27, 2011 from http://musically.com/blog/2010/10/28/spotify-reveals-e30m-payout-to-rightsholders-in-2010/

46 Sweney, Mark (December 3, 2010), "Last.fm Moves Closer to Profit," The Guardian, Accssed March 28, 2011 from http://www.guardian.co.uk/media/2010/dec/03/lastfm-protit-2009-figures

Heist Records

Heist Records is a music producer for games, a talent developer and music development company. The company functions as a sole trader, Ged Grimes, Managing Director, who works with a variety of other artists and media firms. Based in Dundee, Heist Records was founded in 2010 and builds on Grimes' 25 years in the music industry.

Overview

Heist records incorporates three business models: that of a performing musician; artist representation and development; and music for games. The development of Heist Records has its origins in the traditional recording industry. Grimes began his career as a member of the Meet Danny Wilson band in the 1980s. The band was signed to a major label, did the rounds of performances, tours and albums, and had a success with its first album. Since the 1980s, Grimes, via Heist Records[47], has branched out into developing music for computer games and developing new artists, while he remains an active performing musician.

Changes in the market structure of music, particularly those precipitated by the decline in sale of physical products, have heavily influenced the business model of Heist Records. No longer convinced that the traditional model, dependent on musicians signing to a major recording label and selling CDs, is the route to success, Heist Records seeks alternative route to markets via Computer Games and social media. Indeed, the decline in CDs sales and increase in unpaid-for copying of music files, and Heist's business model response, is an exemplary case of changing business models in the creative industries.

Business Model: Musician

The first, and longest-running, business model of Heist Records is that of performing musician. The history of Heist Records begins with that of its Managing Director, Ged Grimes. In the 1980s, Grimes was part of Meet Danny Wilson whose debut album was on the Billboard 200 chart for 16 weeks in 1987[48]. As Grimes notes, the model in the 1980s was a simple path in which the key to success for a musician was signing to a major record label that would then develop, manage, market and distribute the musician and their works. However, as sales of recorded music have dropped off, Heist Records has focused on revenues from live performances. For example, Grimes performs as the bassist in the band Simple Minds. Further revenue stems from licensing music for commercial uses (e.g. television advertisements), a practice called syncing[49].

47 Grimes also owned Jacks Hoose music, the predecessor to Heist Records.

48 Billboard information from http://m.billboard.com/album/danny-wilson/meet-danny-wilson/5171#/album/danny-wilson/meet-danny-wilson/5171

49 Syncing, or synchronization licenses, is defined as "a license to use music in 'timed synchronization' with visual images." As defined by Passman (2001) p. 263.

Heist Records cites the changing marketplace of the music industry, as discussed earlier, as a key force in its changing business model. Echoing a sentiment expressed by other interviewees, Heist Records does not see a long-term future in revenue from sales of recorded music. As the role of radio stations, physical product and file sharing changes, Heist Records has focused on live performances. Copyright is at the centre of these changes given that file sharing and illegal copying of music tracks is cited as a key factor in the decline of music sales. Heist Records, a small, flexible organisation, can adapt its business model quickly in response.

<table>
<tr><th colspan="5">HEIST RECORDS: PERFORMING MUSICIAN</th></tr>
<tr><td rowspan="2">Key Partners

Bandmates

Event promoters and venues</td><td>Key Activities

Writing music

Performing</td><td rowspan="2">Value Proposition

Entertainment(fun, leisure activity, stress release)

Community

Status</td><td>Customer Relationships

Community</td><td rowspan="2">Customer Segments

Fans

Niche Market</td></tr>
<tr><td>Key Resources

Human

Songs</td><td>Channels

Facebook

Word-of-mouth</td></tr>
<tr><td colspan="2">Cost Structure

Value focused

Operating</td><td colspan="3">Revenue Streams

Fees from gigs

Licensing music for syncing</td></tr>
</table>

Business Model: Working with Talent

In its second model, Heist Records also represents and develops new talent. Working with Scottish acts, Heist Records develops new acts through garnering fans, distributing their music to radio stations, licensing music for computer games and other promotion and development activities. A key part of developing new talent is fostering a connection between artists and talent. This connection can be built up through the free distribution of music to build awareness of an artist. Heist Records sees that connection as a way to build up an audience with the long-term goal of earning revenue from audiences. However, exactly how that transition will occur remains unclear, both for Heist Records and others in the industry.

Social media, specifically MySpace and Facebook, are key external partners in Heist Record's talent development model. Tracks for artists working with Heist can be streamed via MySpace and gigs are promoted via Facebook. Heist uses social media to connect with potential audiences and build up a fan base. While these efforts may not be directly revenue generating, the long-term goal is to build up sufficient demand for the artist that gigs and sales of merchandise or recordings can be profitable.

However, how to charge audiences for music remains a challenge for Heist Records. Assuming that sales of record music continue their decline, Heist does not count on selling music as a long-term form of revenue. As Grimes notes, 'Where and when to charge for music remains a question. The internet gives fans a direct experience with artists. It's back to grass roots where you're selling merchandise and playing to a group of fans.'

<table>
<tr><th colspan="5">HEIST RECORDS: REPRESENTING AND INCUBATING TALENT</th></tr>
<tr><td rowspan="2">Key Partners

Talent (new artists)

Social Media (Facebook, MySpace)</td><td>Key Activities

Producing

Managing</td><td rowspan="2">Value Proposition

Entertainment (fun, leisure activity, stress release)</td><td>Customer Relationships

Community</td><td rowspan="2">Customer Segments

Fans

Niche Market</td></tr>
<tr><td>Key Resources

Human

Songs</td><td>Channels

Facebook

Word-of-mouth</td></tr>
<tr><td colspan="3">Cost Structure

Value focused

Operating + Variable costs with servers</td><td colspan="2">Revenue Streams

Fees and royalties from gigs</td></tr>
</table>

Business Model: Music for Games

Finally, Heist Record develops music for games. In the late 1990s, Grimes began creating music for computer games.[50] The games industry provides Heist Records with a new route to market and new ways to build audiences. Music plays a central role in computer games and, other recording artists, including Lady Gaga[51] and Nick Jonas[52], license or write for computer games. As Zehnder and Lipscomb (2006) note, music provides communication, a narrative, a heightened sense of immersion and serves as an emotional signifier in the computer game.

Heist Records builds on the previous success of Grimes' music for computer games which includes music for the Matrix computer games. Grimes also created music for computer games under the pseudonym of a band, which was so successful it sparks inquiries as to tour dates for the fictional band. Grimes also notes that Japan has been ahead of the curve in terms of the development of the computer games music industry. Soundtracks for computer games, similar to those of films, have been popular with Japanese consumers since the late 1990s.

However, the meeting of the music industry and the computer games industry has experienced some cultural challenges. In the music industry, contractual norms surrounding the management and ownership of music rights are well established (see Passman (2006) for further details.) As noted earlier, the practice of providing music for games could be consider a synchronization right where the musician would license the music as opposed to transferring ownership of the music. However, the computer games industry, as a relatively young industry, is still evolving its contractual norms. As noted by interviewees, publishers or games developers may expect to own the copyright of content outright, rather than license the content.

This cultural clash over rights can prove a barrier to trade. Musicians may view their music as a separate, valuable item of content independent of the game. This music may also provide an additional stream of revenue through performance or additional licensing, both of which would require the musician owning some rights to the music. The game publisher or developer, however, may want the music to be only associated with the game. Hence, negotiations over rights, and payment for such rights, can be challenging. Heist Records further notes that works in which copyright has been transferred can become orphaned if a games company or publisher goes bankrupt. As digital media evolves, more conflicts of IP cultural may appear.

50 In an article from 2003, Grimes reports receiving public support from Scottish Enterprise to facilitate meetings with Japanese games companies including the setting up of meetings and the provision of an interpreter. From Pearse, Justin (17/03/2003) "Fine and Dundee," New Media Age, Accessed June 12, 2011 from http://www.mad.co.uk/Main/Regions/Scotland/Creative/Articles/4d4909ce21d94d219468a4a3335f1305/Fine-and-Dundee.html

51 Lady Gaga and Zynga create "Gagaville" as reported in Barnett, Emma (May 11, 2011), "Farmville Creates Lady Gaga Spinoff," The Telegraph, Accessed May 15, 2011 from http://www.telegraph.co.uk/technology/8506778/Farmville-creates-Lady-Gaga-spinoff.html

52 Nick Jonas composes songs for Wizard 101, See Kessler, Sarah (May 11, 2011), "11, 2011), "Nick Jonas Composes Soundtrack for Online Game," Mashable, Accessed May 20, 2011 from http://mashable.com/2011/05/11/nick-jonas-wizard-101-composer/

HEIST RECORDS: CREATING MUSIC FOR GAMES				
Key Partners Game developers	**Key Activities** Writing Recording **Key Resources** Human Songs	**Value Proposition** Enhancing game play (within game) Entertainment	**Customer Relationships** Personal Assistance **Channels** Word-of-mouth Existing relationships	**Customer Segments** Publishers or Game Developer (direct) Players (indirect)
Cost Structure Cost focused (budget determined by game)			**Revenue Streams** Fees Potential residual sales	

The example of Heist Records provides a synopsis of the evolution of the music industry over the last three decades. As the traditional, record label, CD sales-driven market changes, music firms like Heist Records seek alternate revenue sources and adapt their business model. Heist's combination of live music, artist development and music for computer games likely represents a transitive model as business models in the creative industries evolve.

CLASH

Clash Music

Clash Music is a media group based on an independent music magazine published on a monthly basis. Founded in 2004 in Dundee, Clash operates both in the music and publishing industries by publishing a music magazine, a companion website, creating music related digital projects and curating music events. Clash currently has 13 full-time employees in addition to a collection of freelancers.

Overview

Clash Music operates three primary business models all of which are based on the monthly magazine, Clash Music. The first model is music journalism which includes the magazine and website[53]. Nationally distributed, Clash Music focuses on music with additional content covering fashion and films. Its ad-supported website, ClashMusic.com, has snippets of content, with full content available for a fee. In its second business model, Clash develops marketing campaigns for brands by incorporating social media, ClashMusic.com and musical events. Finally, Clash works as a media partner and curator at music festivals. Collectively, these business models work together to form the media group Clash Music.

From an IP perspective, Clash cites its biggest challenges as the practice of content aggregators copying online content onto other websites. This diverts online traffic away from Clash and its advertisers. To date, Clash has found the management of UGC too resource intensive to maintain as a part of its business model but may incorporate it in the future. Clash Music, with its evolving and multi-media nature, represents an example of the possible future of music media business models.

Business Model: Clash Music - Music Journalism

Clash's original business model is based on its music journalism via a print magazine. Tapping into the music industry, Clash develops interviews, reviews and editorials on the music industry which is supplemented by related content in film and fashion. Recognizing the importance of digital content, and faced with an overall decline in print magazines, Clash developed a companion website in 2007, which now has over 400k unique visitors per month. Noting that 'it was music that first brought people online,' Clash sees digital as a key part of its future and currently offers digital subscriptions with aspirations to broaden its digital presence. To expand its digital presence, Clash received a £230k Regional Selective Assistance investment grant from the Scottish Government in 2008.[54]

Clash serves as a key outlet for providing information on bands to audiences. In addition this music marketing and advertising role, Clash Music occasionally serves as a distribution model. Early on in the print magazine's history, Clash distributed free c.d.s with print editions. In the digital era, Clash now offers free downloads of music which can be run in promotions with existing brands. These promotions help Clash increase its circulation and are typically licensed through the collecting society PRS for Music.

53 The printed magazine and the website could be considered separate models but are combined here in the interest of brevity.

54 From Scottish Enterprise press release 12/09/2008, "Music Group secure investment grant," Accessed June 12, 2011 from http://www.scottish-enterprise.com/news/2008/09/music-group-secure-investment-grant.aspx

While the print edition of Clash does not face significant copying issues, the same cannot be said for the online edition. Scraping is the practice of aggregating content from other sites with the goal of achieving high rankings in search engines and driving traffic, and thus advertising revenue, to the aggregate site. Clash noted that scraping sites with Clash's content often ranked higher than the original (Clash) site. This damages Clash as it diverts traffic and advertising revenue away from Clash. However, the top search engine Google changed its search algorithm in February 2011 and this has reduced the rankings of scraper sites and content farms.[55] From an IP perspective, the practice of scraping is legally ambiguous as it may violate copyright if content is copied or deep linking[56] used and potentially violates the license agreements of the original site.[57]

A further IP issue for Clash Music was that of potential confusion with the music band, The Clash. The band has registered trademarks[58] for merchandise and recordings for "The Clash" and therefore, the coexistence of The Clash and Clash Music had the potential to cause consumer confusion. However, this has not emerged as a problem and significant differences in the branding of each trademark have reduced any potential confusion.

55 Bercovici, Jeff "Google Traffic to Demand Media Sites Down 40 Percent" in Forbes, April 25, 2011 access May 16, 2011 from http://blogs.forbes.com/jeffbercovici/2011/04/25/google-traffic-to-demand-media-sites-down-40-percent/

56 Linking which bypasses the site's home page (potentially bypasses a paywall.)

57 For further discussion on the legality of such practices, see the University of Stanford's library pages: http://fairuse.stanford.edu/Copyright_and_Fair_Use_Overview/chapter6/6-c.html

58 The U.S. trademark number 77409557.

CLASH MUSIC: CLASH MAGAZINE (MAGAZINE AND ONLINE)				
Key Partners Musicians Labels, PR Companies Advertisers Printers & Distributors	**Key Activities** Gaining access to artists Working to deadlines Engaging with readers **Key Resources** Staff and extended contributors	**Value Proposition** Current Information Entertainment	**Customer Relationships** Self-services Communities (Feedback via website) **Channels** Retail (print) Online (website, digital)	**Customer Segments** Advertisers Young (18-24) consumers
Cost Structure Balance of value and cost			**Revenue Streams** Print sales (retail and subscription) Advertising sales	

Business Model: Clash Events

A second key business model for Clash Music is that of event curation and media partnerships. In this model, Clash Music assists with event organising through the curation of stages at festivals (such as Rockness or South by Southwest) or monthly club nights. Clash further provides event promotion and media coverage through video cover and backstage interviews. In addition to reaching audiences at the event, the video and interview content is then made available online. This allows Clash to highlight areas of the magazine and helps the Clash brand resonate with readers and commercial clients. It also serves a means for Clash to cover events relevant to their readers and gain access to artists.

Clash's emphasis on its involvement with live music events further strengthens the general premise that the music industry is focusing more on sales of live music. In addition to further promoting the Clash brand, Clash's event organization diversifies its areas of expertise and establishes an event network for Clash to apply to other projects.

CLASH MUSIC: EVENTS				
Key Partners Event Organisers Brands Record Labels	**Key Activities** Organising Event Media Coverage **Key Resources** Clash Magazine	**Value Proposition** Entertainment Status	**Customer Relationships** Communities **Channels** Clash Magazine	**Customer Segments** Event Participants Brands
Cost Structure Balance of value and cost		**Revenue Streams** Vary Depending on contract		

Business Model: Clash Media - Brand Partnerships

Clash's final business model ties together its business models from music journalism and events. Under the Clash Media umbrella, Clash develops and implements promotional events and content for its brand clients. Clash Magazine helps Clash establish its expertise in music and knowledge of its demographic. The online website widens Clash's audience and provides easily quantifiable data on its readers. For example, music downloads may be offered in exchange for information from its readers. This audience knowledge and reach is combined with Clash Events to create tangible events. Clash Media merges these strengths to develop creative solutions for brands which include digital media, social media strategies and real-life events.

The Clash Media business model presents an example as to how music can be leveraged into other, revenue-generating activities. For the athletic brand Nike, Clash provided online content and organized a music event in which audiences, in line with the Nike's brand identity, ran from one venue to the next. All Saints, a fashion retailer, worked with Clash for data capture where potential customers were given discounts and music downloads in exchange. In examples such as these, music is at the core of the audience development and branding which leads to profit-making activities, as in, for example, the sale of Nike shoes. However, this does not guarantee that the content creators of music necessarily benefit from this.

Clash does not report any particular IP issues with its Clash Media efforts. The commercial focus of content and bespoke nature of this work likely reduces incentives to copy or otherwise infringe the IP generated over the course of these partnerships.

CLASH MUSIC: BRAND PARTNERSHIPS				
Key Partners Brands Record Labels	**Key Activities** Organising Event Media Coverage **Key Resources** Clash Magazine Clash Events	**Value Proposition** Brand promotion Access to key demographic	**Customer Relationships** Personal assistance **Channels** Clash Magazine Events	**Customer Segments** Niche - Brands
Cost Structure Balance of value and cost		**Revenue Streams** Vary Depending on contract		

Clash Music, with its business models of Clash Music, Clash Events and Clash Media, represents a business model based on audiences for music. The magazine and website provide marketing and publicity for music and occasionally a means of distribution. Clash Events offers physical means for audiences and musicians to connect. Finally, Clash Media takes the leverage with audiences of Clash and applies it to a commercial, promotional context. These business models have developed since 2004 and continue to evolve.

Case Studies: Television

Television

Throughout its development, the television industries have undergone significant changes due to disruptive technology. In the first half of the 20th century, silent films competed with live theatre, "talkies" were the death of silent films and television challenged cinemas. Later, the advent of videotapes and DVDs also presented challenges to existing business models. The internet is yet another challenge. While television and film are commercially intertwined, their business models can differ. Television, for example, is primarily advertising or license fee funded in the U.K. Film, however, is funded by private investment or special funds. Nonetheless, the two sectors have significant overlap in production and consumption.

The digital distribution of television programmes widens the viewing possibilities for consumers. Television programmes are now digitally available for streaming or download in addition to traditional broadcast methods. This has been great news for consumers but these new business models are not straightforward. 40 online television/film stores closed in Europe in 2009 and services like Film 4 on Demand (an online streaming rental service run by Film 4) have undergone multiple tweaks to their model.[59] However, the advertising funding model for television is under strain as other media, including internet web sites, compete for advertising revenue.

Related to the television market is film; television is typically the last window in the distribution strategy for film; however, advances in technology may change this position. The distribution model of films often relies on a window strategy. In this model, the timing of each window is important to capture audiences and price differentiate. The Internet poses a challenge in that online service and pirated copies of film compete with cinematic releases. At the same time, digital distribution offers new methods of distribution and access to new audiences. Like the music industry, this causes a shift in the market positions of incumbents as the industry adjusts to new market conditions. For example, the cinema chain Odeon's refused to show the Alice in Wonderland[60] (2010) movie due to Disney's decision to reduce the time between the cinematic release and the DVD release.[61] Disney sought to release the DVD to increase profits, satisfy customer demand and reduce piracy while Odeon saw the move to erode role of cinemas and improve the bargaining position of distributors.

59 As reported by Screen Digest, "Channel 4 Launches Film4 on Demand", November 5, 2010 available from http://www.screendigest.com/news/channel-4-launches-film4-on-demand/view.html

60 The Alice in Wonderland movie, shown in 3-D is another example of the industry's response to competition from pirated copies. The popularity of 3-D movies in 2010 is seen as an effort to entice moviegoers back into cinemas. Furthermore, 3-D movies are not easily pirated and the special effects are intended to provide a higher quality experience for the viewer.

61 BBC News (February 22, 2010), "Alice in Wonderland will not be shown in Odeon cinemas," Accessed February 10, 2011 from http://news.bbc.co.uk/1/hi/entertainment/8528820.stm

From an IP perspective, licensing content is a challenge. Television and film incorporate a number of other media and this can be a challenge for producers and broadcasters of material. Orphan works are also a challenge for companies with large archives of content as the cost of licensing this content outweighs the benefits. This is also a challenge for heritage institutions such as the British Library when they seek to digitise their archives. As a policy issue, the licensing of content without contactable copyright holders is a large concern for the television and film industry.[62]

The Communications Act of 2003 changed the fundamental distribution of rights for independent producers of television. According to the Act, 25% of production must be external. Furthermore, external producers now hold on to more residual rights to content than previously. As Fairbanks (2006) reports,

"Previously the broadcasters owned all rights to commissioned programmes profiting from any further uses whilst in return the production companies received a production fee (usually 10-15%). [Now there is] transparent purchase of non-first run rights; broadcasters now pay a licence fee for transmission of the programme and must negotiate separately for further rights."[63]

However, one downside of this shifting of rights is that there may be less up-front funding available for content production that previously relied on revenues stemming from residual rights.

Finally, it should be considered that consumer consumption of film and television differs from that of music and computer games. Unlike other media, film and television programmes are less likely to be consumed repeatedly. That is, the utility from consumption of film and television programmes decreases more sharply that other media.[64] Hence, while consumption of unlicensed content in music may lead to consumption of licensed content,[65] the same may not be true for film and television.

For the UK industry, access to funding for expensive coproduction may be more important than IP ownership. However, with rising bandwidths, the ability to download and stream movies and television productions legally and illegally will increase.

These final two sections present case studies from Television: Tern TV and BBC.

62 The Hargreaves Review of 2011 examines this issues more thoroughly.

63 Fairbanks (2006) p. 20

64 For example, the consumer's utility in listening to Simon and Garfunkel's "Bridge Over Troubled Water" the fifth time may not differ significantly from the first time. However, the utility from watching Hitchcock's "Psycho" the fifth time is likely to be proportionately less than the first time.

65 As discussed in Andersen, B. and Frenz, M. (2007)

Tern TV

Founded in the 1980s, Tern TV is a television and digital content producer with offices in Glasgow, Aberdeen, Belfast and London. Tern, with approximately 50 employees plus freelancers, focuses on lifestyle and factual content for television and storytelling for digital platforms.

Overview

Tern TV began as a television production company and has been producing lifestyle and factual content for television broadcasters for 25 years. In 2007, it founded Tern Digital, which specializes in digital and interactive content. Thus, Tern has two primary business models: television production and digital content production. As a case study, Tern provides a prime example of the evolution of a traditional business model (television production) embracing new technologies and spawning a new business model (content for digital platforms.) However, relatively constant throughout these changes has been the underlying funding of content development which remains primarily a commissioning model.[66] Tern also receives public funds and in 2010 was offered £400k from the Scottish Screen (now Creative Scotland) Digital Media IP fund.[67]

Tern holds onto IP rights in the majority of its commissioned work.[68] The ownership of this IP provides Tern with a bargaining tool in contract negotiations. Furthermore, Tern develops its own original content in most cases, as opposed to work-for-hire or tender driven deals. Tern also incorporates UGC in its digital content and notes that it appears to have declining importance for audiences. A final IP note is that brands can be key to the performance content, hence the success of Tern's complimentary digital content is tied in with the branding of the original content.

Business Model: Television Production

Tern's primary business model is that of television production under the name of Tern TV. Indeed, Tern TV began its life as a television production company in the 1980s and specialises in lifestyle and factual content. Some recent examples of Tern TV's productions include Beechgrove Garden[69] and Songs of Praise. In television production, Tern works with broadcasters including BBC, Channel 4, Discovery and Sky. Tern operates a fairly flexible structure in terms of human resources, freelancers are brought in and work is outsourced as and when needed.

66 The commissioning model involves the commissioner (the broadcaster) hiring the production company (Tern TV) to produces the content. It is akin to the publishing model in computer games.

67 As noted in the Scottish Screen's table of Investments in 2010, accessed June 12, 2011 from http://www.scottishscreen.com/content/sub_page.php?sub_id=213

68 This can be attributed to the terms of trade in the post-Communications Act of 2003 era.

69 A gardening show based in Aberdeen.

As an independent television production company, Tern operates under the terms of trade dictated by the Communications Act of 2003 (noted earlier.) This means that Tern holds onto IP rights for its commissioned work. From a bargaining perspective, the IP rights provide Tern with increase negotiating power. However, this means that Tern is now responsible for exploiting those residual rights which can entail pre-selling the content to foreign distributors or selling merchandising rights. For children's content, where Tern reports much of the unquantifiable value of IP can be in the pre-sales and merchandising, this may mean that the production fee is much lower and may cover only one quarter of production costs. This generates an increased risk profile for Tern in which they incur production costs with increased risk associated with downstream revenues.

<table>
<tr><th colspan="5">TERN TV: PRODUCING TELEVISION PROGRAMMES</th></tr>
<tr>
<td rowspan="2">Key Partners

Commissioning broadcasters

Technological platforms</td>
<td>Key Activities

Producing television programmes</td>
<td rowspan="2">Value Proposition

Entertainment

Information</td>
<td>Customer Relationships

Personal Assistance</td>
<td rowspan="2">Customer Segments

Broadcasters (e.g. Channel 4, BBC)

Audiences (indirect)</td>
</tr>
<tr>
<td>Key Resources

Production Personnel</td>
<td>Channels

Broadcast television

Online companion websites</td>
</tr>
<tr>
<td colspan="2">Cost Structure

Cost focused (working to external budget)</td>
<td colspan="3">Revenue Streams

Contract dependent (e.g. development fee, residual royalties, merchandising)</td>
</tr>
</table>

Business Model: Tern Digital - Multimedia Production

Tern's new business model is that of Tern Digital, which produces companion, multimedia and storytelling digital content. Under the Tern Digital umbrella, Tern works with games companies, television broadcasters, literary publishers, theatres and other contractors. Content produced includes websites, online communities, games and digital adaptations. This content is either complimentary[70], in that it is content designed to further enrich audiences' experiences with primary content (e.g. companion websites), or stand-alone content.

Two projects further illustrate the evolving business model of Tern Digital. The first is Slabovia which was commissioned by Channel 4 Education. The project is a combination of television and online content around the virtual world of Slabovia. Designed for a teenage audience, the project seeks to educate about science, philosophy and sex. The online component, which was produced by Tern, emphasizes UGC as a means to, "to help them [teens] discover new ways of approaching various educational topics such as conducting fun science experiments."[71] Tern reports that management of the online Slabovia community included rewarding participants for their UGC. However, Tern notes that the UGC in this case had a focused purpose but does not see UGC as a universally successful means of engaging audiences.

A second project is the Tern's new digital adaptations project. This involves taking existing stories and adapting to them to a digital, interactive platform; or, as Tern puts it, "reworking the world's greatest books as experiences on gaming platforms."[72] Its first example of this new format is a digital adaptation of John Buchan's novel, 39 Steps. The adaptation will include a mix of audio, visual, gaming and video content which can be used on platforms such as the iPad. A key resource in these adaptations is out-of-copyright novels[73] such as Crime & Punishment and Wuthering Heights.[74] Akin to a film adaptation of a novel, Tern's digital adaptations represent a new type of adaptation made possible by advances in digital technology.

Tern Digital, as a business model developing from Tern's original television production model, combines Tern's existing expertise with new technology platforms. As a television producer, Tern is skilled at storytelling, production processes and has existing relationships with commissioning bodies. Complimentary content and digital adaptations take these aspects, combine them with digital development techniques, and form new products and a new business model. IP remains key throughout this through either the licensing of existing brands or the appropriation of out-of-copyright works.

70 Sometimes referred to secondary.

71 From Channel 4's Education pages, accessed May 16, 2011 from http://www.channel4.com/learning/microsites/E/education/projects.html

72 Tern TV website, accessed May 16, 2011 from http://www.terntv.co.uk/digital.aspx

73 39 Steps was first published in 1915 and, therefore, its copyright period is over.

74 As noted in Farber, Alex (20, April, 2011) "Tern sets new course with 39 Steps game", Accessed April 23 from http://www.broadcastnow.co.uk/news/indies/tern-sets-new-course-with-39-steps-game/5026428.article

TERN DIGITAL: PRODUCING COMPLIMENTARY AND MULTIMEDIA DIGITAL CONTENT				
Key Partners Games companies Audio Houses Other Creative Industries	**Key Activities** Development **Key Resources** Development staff Out-of-copyright Works	**Value Proposition** Entertaining content Interactive experiences and information	**Customer Relationships** Self-service Communities **Channels** Internet PC and iPad	**Customer Segments** Multiplatform broadcasters (Channel 4, BBC) Games publishers
Cost Structure Balance (cost conscious but not to detriment of product)		**Revenue Streams** Dictated by publisher		

In terms of rights management and IP issues, Tern did not report significant concerns on the copying of its content as it assumes that some content will be copied by audiences. Furthermore, unlicensed distribution may lead to increased audiences for content. However, the copying of content creates an increased risk profile for Tern if it impacts revenues. Tern also reported that co-creation with other firms can be a challenge, not because of rights issues, but because of the high operating costs associated with multiple firms.

As a case study, Tern TV provides illustrate how existing business models (television production) can adapt and grow into new business models (digital content.) Throughout these business models is the fundamental activity of storytelling – either through the growth of a garden or the evolution of a fictional dictatorship.

BBC

BBC Vision and Future Media

The inclusion of BBC as a case study serves as a counterbalance to the preceding small and medium-sized case studies. The BBC, with 24,000 employees, is a very large player in the television sector and its publicly financed business model plays a unique role in shaping the sector.

Overview

As a very large organisation, the BBC has roles in many parts of media by producing and commissioning sports, news and entertainment content for radio, television and online distribution. For the purposes of this case study, we focus on its television commissioning and online aspects which are covered by a number of business units but primarily concentrated in BBC Vision and Future Media[75]. This case study will focus on the IP and digital issues surrounding the BBC's television commissioning and online roles. Froud et al (2009) and Doyle and Paterson (2008), respectively, provide further detail on the BBC business model as a whole, and public policy and UK television production.

Unique elements in the BBC business model are its funding from license fees and its non-commercial mission to "inform, educate and entertain.[76]" The license fees, currently set out in the Communications Act of 2003, are annual fees charged to owners of television sets and make up more than 70%[77] of the BBC revenues. Given that the BBC is a public service broadcaster, its vision is not profit focused and instead is geared towards being "the most creative organisation in the world."[78] The BBC spends roughly £1.9B on television content each year which makes it a very important figure in the UK television sector. The non-profit, public service and free-at-point-of-consumption nature of the BBC presents a unique business model case study.

Business Model: Broadcast Television

For its television business model, the BBC operates ten broadcast television channels which show a combination of licensed, commissioned and BBC original content. By the Communications Act of 2003, 25% of this content is commissioned from independent producers (e.g. Tern TV.) A large portion of the budget for content goes to acquiring rights for content owned by others. The BBC also places a heavy emphasis on quality but, given its fixed income, must insure that it manages both cost and value for its stakeholders. Indeed, the fact that the BBC has stakeholders, as opposed to shareholders, emphasizes its public service nature. The existence of the BBC lies within its Royal Charter and is further shaped by the UK regulatory framework. BBC services are free at the point of consumption but are supported by the television license fees paid by its UK viewers.

75 BBC corporate structure accessed May 18, 2011 from http://www.bbc.co.uk/aboutthebbc/running/bbcstructure/

76 About the BBC, http://www.bbc.co.uk/aboutthebbc/purpose/public_purposes/

77 Figure from BBC 2009/2010 Annual Report Full Financial and Governance Statements accessed May 18, 2011 from http://downloads.bbc.co.uk/annualreport/pdf/bbc_ar_online_2009_10.pdf

78 About the BBC, accessed May 18, 2011 from http://www.bbc.co.uk/aboutthebbc/purpose/

BBC BROADCAST TELEVISION: LICENSING, COMMISSIONING AND CREATING CONTENT				
Key Partners Regulations UK Government Talent Transmission infrastructure UK public Public partners	**Key Activities** Commissioning Broadcasting Producing Distributing **Key Resources** BBC Charter Financial Human BBC legacy, brand, archive Access to transmission	**Value Proposition** Education Entertainment Information Public Service Broadcasting	**Customer Relationships** Public service Self-service Communities **Channels** Television Internet	**Customer Segments** Mass market: Licence fee-payers Public service niche markets (e.g. Gaelic and Welsh services) Commercial niches
Cost Structure Value focused Cost constrained			**Revenue Streams** Fixed income (licence fee) Some commercial income Free at point of use	

Business Model: Online Content

Another BBC business model is that of its online content. While responsibilities for this content may lie over a number of business units within the BBC, the BBC website is an important business model and distribution channel. According to Alexa, the BBC website is the 40th most visited website worldwide and fifth in the UK.[79] The website contains a variety of content including news, iPlayer (the on demand companion to BBC broadcasts), weather,

79 Alexa.com results as of May 18, 2011. For the UK, the more popular websites include Google, Google UK, Facebook and YouTube which are either search engines or heavily based on UGC; this suggests that the BBC is the highest ranking original content website in the UK.

sport, companion websites and foreign-language sites. This content can be characterized in three ways: original content designed for the web, repetition of content broadcast elsewhere and companion (complimentary) websites for primary content.

Management of this content and distribution of content into the public domain remains a challenge. As the internet evolves, questions of closed and open platforms arise. The BBC's financial stability and sensitivity to audience demands helped it launch iPlayer ahead of its commercial rivals. Here, the ownership of content is crucial as BBC insures it does not violate any licensing terms. The BBC's online content strategy continues to evolve and, at the beginning of 2011, the BBC Trust[80] approved a strategy which will, "involve a reduction in the budget of 25 per cent, clearer editorial boundaries and more distinctive content." [81]

<table>
<tr><th colspan="5">BBC: ONLINE CONTENT</th></tr>
<tr>
<td rowspan="2">Key Partners

BBC Television

Technological platforms

UK Public

Internet Public

Content Producers</td>
<td>Key Activities

Commissioning

Developing

Producing

Distributing</td>
<td rowspan="2">Value Proposition

Education

Entertainment

Information

Public service</td>
<td>Customer Relationships

Public service

Self-service</td>
<td rowspan="2">Customer Segments

Internet users (mass market)

Niche market for non-English sites</td>
</tr>
<tr>
<td>Key Resources

BBC brand, legacy, archive

Financial

Human</td>
<td>Channels

Internet

Mobile devices</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Value focused

Cost constrained</td>
<td colspan="2">Revenue Streams

Fixed income from license fee</td>
</tr>
</table>

80 The BBC trust is a body with the duty to "support the BBC and guard its independence - and we work to get the best out of the BBC for licence fee payers." The BBC Trust website, Accessed June 13, 2011 from http://www.bbc.co.uk/bbctrust/about/who_we_are/index.shtml

81 BBC Trust press release, 24/01/2011, "Trust approves new online strategy for the BBC," Accessed June 13, 2011 from http://www.bbc.co.uk/bbctrust/news/press_releases/january/online_strategy.shtml

The IP aspects of the BBC lie primarily in the licensing of content. For one part, the BBC licenses content from other owners (e.g. music, as noted above.) This can be challenging when faced with archival sources. As noted in the Hargreaves Review (2011), "The BBC has said that it took nearly five years to assemble the rights necessary to launch its popular iPlayer service."[82] Indeed, Hargreaves notes that clearing rights is inefficient and, in this case, a barrier to innovation. In addition, the BBC licenses content to others in terms of content (e.g. Dr. Who) and television formats (e.g. Dancing with the Stars.) In fact, the worldwide demand for BBC content has shaped the format of programs like Dr. Who, which runs roughly 45 minutes on commercial-free BBC but can also be shown within the time constraints of an advertising-supported, commercial hour.

As the BBC is free at the point of consumption, there are fewer incentives for users to copy content. However, YouTube contains nearly one million videos that are tagged with "BBC,"[83] not all of which are legitimately licensed content. This presents challenges for the original rights holder and creators of the content. Furthermore, it circumvents geo-blocking[84] and means that license fee payers are essentially subsidizing content for other non-license-fee-paying regions. As a public service broadcaster, these potential adverse affects on its suppliers and consumers are a concern for the BBC.

Finally, UGC does not, at present, factor greatly into the BBC television and online business models. While the BBC has traditionally incorporated UGC via phone-ins, Question Time and requests shows, UGC is not a key factor in the business model. However, UGC can play a key role in current events as users may be on a newsworthy scene before journalists. This was the case with the London bombings of July 2005 which, as Wardle and Williams (2008) argue, marks a turning point in the use of UGC in BBC news as their website was flooded with UGC.[85] Thus, while UGC can be hugely important for specific content at the BBC, it is not a key feature of the business model as a whole.

82 Hargreaves (2011) p. 29.

83 A search performed May 18, 2011 for "BBC" returned 835,000 results.

84 Technology which allows access to content based on the user's location; for the BBC, geo-blocking restricts some content to the license-fee paying regions.

85 Wardle and Williams (2010) p. 3

EULA review

Hotly debated in the games industry is the re-sale right of consumers of physical product. In the digital world, the copying of paid-for content by consumers is also an issue. Furthermore, the ownership and rights to revenues surrounding UGC remains murky. All of these points are addressed in the EULAs, which have moved from shrink-wrap in the physical world to click-wrap in the digital world. In both cases, the consumer cannot access the content without accepting the EULA. The EULA can be a very powerful tool for the content owner. Kunze (2008) examines a case in which a consumer violated the terms of a EULA and lost his account and notes that "developers wield godlike powers and users – typically paying customers – have little or no ability to challenge this power."[86] Anecdotal evidence suggests that most users do not read EULAs before accepting them.[87] Given these debates, this section presents an overview of ten popular[88] EULAs in each of our three sectors.

In each sector, the EULAs have been collated and analysed using a Wordle[89] visualisation. This is a textual analysis which catalogues the use of words in a text and displays them by size according to the number of times the word is used. Words used more frequently appear larger. As the Wordles below demonstrate, the key terms across the EULAs in the three sectors are largely the same. However, the Wordles should be interpreted with the significant caveat that the method does not take into account modifying terms. For example, the Wordle equates "may" with "may not." Furthermore, the Worlde ranks words by count and not by importance. In legal writing, a few key clauses can dramatically alter the meaning of a license. Thus, the Wordles should be viewed as relatively rough method of evaluating EULAs.

Figure 2: Music Services EULA

86 Kunze (2008) p. 102

87 As an example, see Atwood, Jeff (June 21, 2007), "Does Anyone Actually Read Software EULAs?" Coding Horror, Accessed May 20, 2011 from http://www.codinghorror.com/blog/2007/06/does-anyone-actually-read-software-eulas.html

88 The selection of the EULAs varies by sector in order to capture the variety of emerging models. Given the fast changing market of the creative industries, it is likely that popular services today are not the popular services of tomorrow.

89 The Wordle service was created by Jonathan Feinberg and is available at http://www.wordle.net/

Music download and streaming services

Music services have received a lot of attention as the music industry struggles to make legal content more enticing to consumers. The ten case services[90] here include both download and streaming services. Between the selection of the case studies in October 2010 and the writing of this report, two services have changed their structure. Sky Songs closed down after one year in operation due to lack of a sufficiently large consumer base.[91] MSN Music Downloads is now powered by Zune.[92]

Key points of the music service EULAs are DRM and the license of EULA. The DRM ranged from the ability to have streaming services on one device only, the right to make up to five copies of downloads (iTunes and HMV Digital offered this) and DRM-free content. In cases where the content does not have DRM, this is typically advertised as a benefit to the consumer. Interestingly, music downloads do not appear to be following the law of one price[93] as evidenced by download comparison sites.[94]

UGC factored into most of the EULAs in which the user grants a license which was typically royalty-free and non-exclusive. UGC in most of the services was primarily focused on reviews and commenting. Only one of the services, We7, allows users to sell their songs. We7 offers the greater of 60% or £0.10 for downloads or the greater of 50% of net revenue or £0.01 per play for ad-supported streams for UG songs.[95] None of the EULAs mentioned the user's moral rights.

90 The selection of case studies is based on the article by PC Pro (September 2, 2010), "The best music download sites," Accessed October 10, 2011 from http://www.pcpro.co.uk/features/360805/the-best-music-download-sites

91 Josh Halliday (December 6, 2010) "BSkyB closes Sky Songs music subscription service," The Guardian, Accessed May 22, 2011 from http://www.guardian.co.uk/media/2010/dec/06/bskyb-closes-sky-songs-music-service

92 As noted by a re-direct noticed viewed May 22, 2011 at http://downloads.music.uk.msn.com/

93 In economics, the law of one price predicts that, in efficient markets, identical goods will have the same price.

94 For example, Jennifer Lopez's single "On The Floor" was for sale for £0.55 to £1.49 according to comparedownload.com. Accessed May 22, 2011 from http://www.comparedownload.com/product/uk/B004MY7VE8/Jennifer%20Lopez/On%20The%20Floor#product

95 According to the Digital Download and Streaming Agreement of We7, accessed May 22, 2011 from http://www.we7.com/#/legal/artist-terms-and-conditions

Online computer games

Figure 3: Games EULA Wordle

The selection of the top ten most popular computer game sites is more of a challenge as the format of computer games and their delivery vary significantly. To address this, we select the top ten most popular Facebook games for August 2010,[96] World of Warcraft (the largest massive multiplayer online role playing game (MMOPRG)[97]), Runescape (the largest free-to-play MMOPRG[98]), and iTunes as a sample. Of the top ten Facebook games, seven are run by Zynga and have the same EULA. With the exception of iTunes, the gameplay of the four Facebook and two MMOPRG games are online.

UGC terms differ in some cases from that of the music EULAs. The more general UGC often has the typical non-exclusive, royalty-free license. For user feedback and suggestions, two of the games EULAs use wording which includes the assignment of copyright to the developer[99] or a rights transfer.[100] Only one of the EULAs requires that you also waive moral rights.[101] Reverse engineering in general is prohibited.

96 Christopher Mack, Inside Facebook, Accessed April 27, 2011 from http://www.insidefacebook.com/2010/08/02/top-25-facebook-games-for-august-2010/

97 Andrew Ross (May 6, 2011) "Have you met any WOW players in real life?," accessed May 22, 2011 from http://wow.joystiq.com/2011/05/06/breakfast-topic-have-you-met-any-wow-players-in-real-life/

98 As noted by its owner Jagex, Accessed May 22, 2011 from http://www.runescape.com/game.ws?autocreate=true&j=1

99 MindJolt terms and conditions, "You acknowledge and agree that all Feedback will be the sole and exclusive property of MindJolt and you hereby irrevocably assign to MindJolt all of your right, title, and interest in and to all Feedback, including without limitation all worldwide patent rights, copyright rights, trade secrets rights and other proprietary or intellectual property rights therein." Accessed April 27, 2011 from www.minjolt.com/terms.html

100 Zynga terms of services, "All comments, feedback, suggestions, ideas and other submissions ("ideas") disclosed, submitted or offered to Zynga in connection with the use of the Service shall be the exclusive property of Zynga." Accessed November 22, 2010 from www.zynga.com/about/terms-of-service.php

101 Playfish (owned by EA) requires that "You waive and agree not to assert any moral or similar rights you may have in such UGC." Accessed April 27, 2011 from heep://tos.ea.com/legalapp/WEBTERMS/US/en/PC

Television on-demand and streaming Services

Figure 4: Television Services EULA Wordle

The identification of television streaming services was not done by popularity, but by availability[102], and results in seven identified EULAs. These services are primarily on-demand and, with the exception of the BBC iPlayer, do not offer download capabilities. All of the services are provided via proprietary websites and are accessed online.

The terms of the television services are largely similar to the other two sectors. UGC is often licensed non-exclusively and without royalties. Two of the services require that you waive your moral rights to UGC.[103],[104] One clause often found in the TV services, but not in the games or music EULAs, was that of geo-blocking. This essentially restricts user access to the content by territory. Given that content licensing schemes and advertising are typically country-specific, and that the BBC license fee is paid only by UK residents, this is not surprising.

This review of EULAs in the three industries has pointed to some industry standards. First of all, the Wordles of the EULAs in the three sectors are largely the same with Service,

102 The list of available services comes from Wikipedia's list accessed May 15, 2011 from http://en.wikipedia.org/wiki/Television_in_the_United_Kingdom#Catch-up_services Of this list, three have been excluded: Clic, as it is in the Welsh language, and UTv as no EULA was available, TVCatch only provides links to content on other sites (e.g. BBC iPlayer).

103 STV requires that "You also hereby waive any moral rights you may have in such material, comment or contribution." Accessed May 16, 2011 from http://player.stv.tv/terms-conditions/

104 Channel Five requires that, "you grant us a non-exclusive, perpetual, royalty-free, worldwide, transferable licence to use, edit, reproduce, record, modify, translate, distribute, play, perform, make available to other users of this website, prepare derivative works of and to display any User Content you submit to us in any format, including without limitation print and electronic format and you agree to waive your moral rights in the User Content." Accessed May 16, 2011 from http://about.channel5.com/terms-of-use

Content and Use as key words. The treatment of UGC typically requires the non-exclusive, royalty-free licensing of the material to the service provider. The moral rights of UGC appear in only the minority EULAs and geo-blocking is predominately in the television EULAs.

Perhaps more interesting is what this overview of EULAs does not demonstrate. IP and IPRs do not dominate the content of the EULAs. This may suggest that the count of key terms does not necessarily correlate with the importance of terms in the EULA. Certainly, this overview provides a cursory look at the EULAs and suggests that sectoral differences in licensing to the end user are minimal. Other researchers are currently conducting more thorough reviews of EULAs.

Analysis

The six business model case studies provide a snapshot of the current state of business models in three key creative sectors. While the small sample size makes it difficult to make broad-sweeping conclusions on the state of business models in the creative industries, these illustrative case studies suggest four emerging themes. These four themes are: IP, high rates of change, sectoral differences in models, and the changing role of intermediaries.

Intellectual Property

Surprisingly, the research does not indicate that the case study firms felt that their business models developed and changed because of challenges to enforcement of IP. A common attitude was that piracy would always occur and should be minimised, but that it was more important to focus on creating new content. The business models respond instead to reduced sales of physical product, which is correlated with increased copyright piracy. Licensing of content, which is based on IP rights, was repeatedly cited as an important feature in the development of content. This is not to say that IP is not an important pressure on business models, instead it suggests that the case study participants do not view IP as a key influence. This contrasts with lobbying activities by the sectors as evidenced by submissions[105] to the Hargreaves Review. This paradox could be due to a division of labour in which the SMEs, by which this study is dominated, rely on larger industry members and groups to monitor the regulatory framework.[106]

Yet, while IP is not perceived by the case study participants as an important influence on the structure of business models, it does play a number of roles in governing the implementation of business models. Licensing, for the smaller firms who need the market reach of larger players, may involve the assigning of rights to the larger player or the licensing of brands. In the case of television, the terms of licensing under a commissioning model are limited by statute. In other sectors, market forces and negotiating skill may dictate these terms. In addition to the business-to-business licensing realm, is that of consumer-to-business licensing in the form of EULAs, which are dictated by the business. IP law governs the underlying rights around which these licensing agreements are framed.

Beyond licensing, out-of-copyright material can be a key resource for these business models. Tern TV provides a prime example of the digital adaptation of these materials in their use of 39 Steps and Wuthering Heights. Material specifically not protected by IP, for example cultural icons such as football and non-textual storylines, factor into the storytelling and entertainment factor of creative content. This beyond-copyright material fits the social contract theory of IP in which IP law represents a contract between the state (society) and innovators. As Denicolo and Franzoni (2002) note, contract theory argues that the goal of IP is to "promote the diffusion of innovative knowledge."[107] The property right (in this case,

105 Available from http://www.ipo.gov.uk/ipreview/ipreview-c4e.htm

106 This would suggest that smaller players free-ride on the efforts of larger players. Baldwin and Robert-Nicoud (2007) develop an economic model which suggests that the strongest lobbying comes from ailing sectors which might suggest why certain players in the creative industries are most vocal. Hargreaves (2011) also refers to the lobbynomics of piracy estimates.

107 Denicolo and Franzoni (2003), p. 1.

copyright) is granted in exchange for disclosure and, eventually, the transfer of the right to the public domain. The case studies presented here are commercial examples of the use of material in the public domain to generate further innovation.

Change

Repeatedly emphasised by interviewees was the rapid pace of change of their business models. Facebook, iTunes, Android markets and iPlayer, all cited as key partners or delivery methods, are all products of the last decade. The iPad, currently in use in both the YoYo Games and Tern TV business models and anticipated in others, only launched in 2010.[108] When asked about their business model, one interviewee mentioned 'it changes every three months.' Three of the case study firms did not exist ten years ago and all of the case studies had content producing business units that were less than five years old. The fast changing technology and consumer demand is incorporated into new business models as they move from physical or digital product sales to services. The move to services, in the form of online gaming or music streaming, allows for adaptability within the business model. Overall, this rapid change means further challenges and opportunities for the creative industries. It also suggests one very important point for both researchers and policy makers: data dates quickly. The three creative sectors surveyed in this research imply that the creative industries are far from reaching equilibrium in business models. Researchers and policy makers should expect further, rapid changes in business models as the technology evolves and content adapts.

Comparative Analysis

A comparative analysis of the case studies reveals key differences between the sectors. Culture, file size, technology platforms, adaptive ability, consumption of content and delivery methods varied amongst the case studies. The evolution of digital media has already blurred the boundary between sectors as media begins to overlap. This is evident in the cases of Heist Records and Tern TV where music and television meet games. Yet both of these case studies noted that working with other sectors confronts differences in cultures which may hamper co-production.

The content produced by the three case study sectors differs in terms of consumption, file size and technology platforms. As noted earlier, the consumer's utility of consumption of content differs between the sectors. The business models of music case studies offer their content as entertainment through recorded music, event oriented (e.g. live gigs) or supplemental content (syncing.) Within the games business models, the content is entertainment in either immersive, snackable (Dynamo and YoYo's handheld games) or social contexts (e.g. Soccer Tycoon.) Television content focuses on immersive, often episodic entertainment[109] which can be supplemented by complimentary content as noted in the Tern

108 Parr, Ben (January 27, 2010) "Apple Introduces iPad Tablet Device," Mashable, Accessed January 19, 2011 from http://mashable.com/2010/01/27/apple-ipad/

109 However, the emergence of snackable, short clips, of television content and the rise of mobile television consumption have been documented in other countries, such as South Korea (see Shim et al, 2008) where adoption of mobile technologies is ahead of the UK markets. Jeremy Hunt, Secretary of State for Culture,

TV and BBC case studies. For both games and music, the consumer is likely to repeatedly consume the same content. For television (and film) consumption is more likely to be one-off. These underlying differences in consumption of the content influence the business models in the development of content (e.g. episodic), relationship with consumer (e.g. the degree of consumer interaction) and pricing.

Two further key differences between the business models are technological platforms and adaptive ability. The case studies suggest that the digitally native games sector is relatively quick to adopt new technologies and delivery platforms, for example Facebook, when compared to music and television. As the case studies of Dynamo and YoYo Games demonstrate, small games developers are quick to adapt their business models to new platforms through experimentation in key partners, key activities, delivery methods, revenue streams and customer relationship. On the other hand, music has primarily focused on adapting its delivery method. Heist Records, for example, now focuses more on delivery via live music and computer games. Television has also focused on its delivery method (BBC's iPlayer) but is beginning to branch out to other areas such as Tern Digital. The relative speed of technology adoption of the games sector does not necessarily translate into relative success.

The technological platforms of the three sectors further explain the differences between them. Broadly speaking, content delivery can be either downloadable or streaming. For games, there is a significant difference between downloadable and streaming content. The downloadable game is primarily content consumed and owned an individual as in YoYo's iPhone games. Streamed content, for example Facebook-based games and "live" online services such as the Playstation Network, transform the consumption of games into a social activity. The streaming aspects of games are not owned by the player. As noted in the Dynamo Games case study, this reduces incentives to copy as the freemium model reduces costs and the network effect increases benefits of the streamed content for the consumer. Additionally, the constant communication with the game's servers increases the costs of copying.

However, the differences between streamed and downloadable content are not as stark in the business models of the music and television industries. Streamed and downloaded content is consumed in relatively the same manner; the main difference being that streaming requires a live connection. The content itself may be the same. For music and television, there is a lack of differentiation between streamed and downloaded content. Unlike the fairly large differences between a Facebook game and a console-based game, music on a MP3 player is the same as music on a streaming services. Furthermore, music digital files are smaller, and therefore more easily distributed, than the larger files found in games and television. Likewise, the content of a television program is the same on a TV or a downloaded episode. The television and music streamed content also does not benefit from the network effect associates with social gaming.

Olympics, Media and Sport, noted Korea's leadership in broadband in a 28/09/2010 speech to the Royal Television Society, accessed June 13, 2011 from http://www.culture.gov.uk/news/ministers_speeches/7447.aspx

Without differentiation between online and streaming, the consumer may prefer downloads which do not require the live internet connection of streaming. This additional cost associated with streaming, combined with the lack of a network effect, increase the relative benefits of illegal copying. This further supports Heist Records and Clash Music's emphasis on live events which are differentiated from digital content. For television, the interactive content produced by Tern Digital and even the cinema change the consumption of the content.

Content, consumption, technology and delivery vary across the three sectors. Collectively, this suggests that analysis of business models in the creative industries in one sector cannot be generalised to other sectors. It also suggests that the some of the successes of one sector may not translate to other sectors. The singularity of the digitally native games sector contrasts with the relatively traditional music and television sectors and may point the way to the future. The rapid rate of change in the creative industries makes it difficult to draw definite conclusions on the future success of these business models.

A final point is that of public funding and support. All six of the case studies presented in this report some form of public support. For most of the firms, the support stems from regional development assistance or grants. Given the small sample size, it is possible that that public support is overrepresented by the SME nature of the case studies and Scottish government's goals of economic development in these sectors. Nonetheless, the ubiquity of public funds supporting these firms suggests that the business models may not be sustainable in a purely private market.

Intermediaries

A hot topic in creative industries has been the suggestion that new technologies and delivery platforms are enabling disintermediation in the digital markets.[110] Chircu and Kauffman (1999) label this process as the intermediation – disintermediation – reintermediation process. As the authors note,

> "Intermediation occurs when a new firm interjects itself among buyers and suppliers (and possibly among other intermediaries). Disintermediation occurs when an established middleman is pushed out of a market niche. Reintermediation occurs when a once disintermediated player is able to re-establish itself as an intermediary."[111]

The idea of disintermediation can be evidenced in the creative industries by the fall of high street behemoths. The Hargreaves Review of Intellectual Property notes, "In the UK music industry … some individual businesses have suffered dramatically from the boom in digital downloads (HMV, the music retailer is an example) …"[112]

Another example of distermediation in the creative industries is self-publishing which bypasses traditional publishers and delivery methods. However, this disintermediation has been coupled by intermediation in the form of new digital markets and publishing platforms. While bricks-and-mortar retailers and physical sales have dropped, digital sales are increasing. Facebook, iTunes and iPlayer are all examples of new intermediaries in the last decade that have supplanted previous intermediaries. At present, there is little evidence in this research to support a reintermediation phase.

The case studies presented here evidence both disintermediation and intermediation. They do not support a dominating trend of disintermediation which would lead to an overall reduction in intermediaries. Indeed, examples such as the market dominance of iTunes in the music sector and the success of Facebook suggest that the digital era is creating fewer, more powerful intermediaries. For example, Facebook recently compelled all Facebook applications to use Facebook credits.[113] All payments in Facebook must operate using the Facebook currency and are subject to a 30% fee. As privately owned, for-profit corporations, these intermediaries have significant power as gatekeepers. If the trend continues, it suggests that these platforms may function as natural monopolies.

110 McCubbrey (1999) analyses this in relation the travel markets.

111 Chircu and Kauffman (1999), p. 2.

112 Hargreaves (2011) p. 74.

113 Pearson, Dan (January 25, 2011) "Facebook Credits to Become mandatory currency," accessed May 22, 2011 from http://www.gamesindustry.biz/articles/2011-01-25-facebook-credits-to-become-mandatory-currency-on-social-network

This also highlights the illusion created by the term "self-publishing." As noted in the case studies, self-publishing models are actually publishing models in which some roles have shifted. The approval and publication process occurs by the digital platform (centralised content portal) instead of a publisher and bricks-and-mortar retailer. Much of the responsibility for financing, marketing and managing the content is now the burden of the content creator. Our evidence also supports Leendertse and Pennings (2007) observation that these intermediaries, or "centralised content portals" have three key elements in common,

> "First and foremost they increase the ease of finding, selecting, purchasing and distributing digital content for end users. Second, these portals are usually not designed around the requirements of content suppliers. Third, these portals tend to exclude rival services."[114]

One strong theme echoed by most participants involved in publishing via external, digital platforms was the industry standard of 30-70 split in revenues.[115] Under this scheme, the publishing platform retains 30% of revenues while the developer/artist retains 70% (which may then be further split with licensors.) This differs from previous models in games, for example, where the developer retained less than 10% of revenues. The 30-70 split is used by key platforms including Facebook[116], Apple's iTunes[117], and Google Android.[118] While this split may be perceived as an improvement by interviewees, it suggests a new industry standard which may limit the future bargaining power of content creators. Furthermore, as the business models of users of these platforms evolve, it may be that their 70% share is whittled down as licensors are added. However, the current success of these publishing platforms suggests that the 30-70 split will continue as an industry standard.

Overall, the case studies highlight the role of IP, the rapid rate of change in business models, the differences between the sectors and the role of intermediaries.

114 Leendertse and Pennings (2007)

115 Thomson on Film, in an analysis of a film distributor platform on Facebook, refers to the 30% of revenues kept by the platform owner as "the now-standard 30% of the proceeds" in a June 3, 2011 blog post accessed June 13, 2011 from http://blogs.indiewire.com/thompsononhollywood/2011/06/03/flicklaunch_indie_distributor_builds_on_facebook/

116 Facebook takes a 30% cut of sales of Facebook credits. See Helft, Miguel (September 22, 2010), "Facebook Hopes Credits Make Dollars," New York Times, Accessed April 16, 2011 http://www.nytimes.com/2010/09/23/technology/23facebook.html

117 Apple takes a 30% cut of content sold via Apple for iPhone or iPad. See Edgecliffe-Johnson, Andrew and David Gelles (February 15, 2011), "Apple demands 30% slice of subscriptions," Financial Times, Accessed April 15, 2011 from http://www.ft.com/cms/s/0/74c4873a-391c-11e0-b0f6-00144feabdc0.html#axzz1L7brroDS

118 Android has multiple markets, the Amazon Android market affords 70% to developer. See Kincaid, Jason (January 5, 2011), "Amazon's Disruptive Android App Store Now Open To Developers — Full Details," Tech Crunch, Accessed April 15, 2011 from http://techcrunch.com/2011/01/05/amazon-android-app-store-2/

Conclusion

This report highlights how business models in the creative industries are responding to market changes. Using six illustrative case studies in music, computer games and television, the study demonstrates the ever changing business models UK creative sectors are developing.

The case studies have provided a detailed snapshot of firms in the creative industries. The two games case studies, Dynamo and YoYo Games, illustrate how a relatively new media is sold through new distribution platforms. Both of these companies are small, relatively young and have evolving business models. In music, Heist Records and Clash Music provide contrasting business models based around music. Despite their relatively different models, both Heist and Clash rely on events as part of their business models. Finally, the television case studies of Tern TV and BBC operate on two different points of the television market. As a broadcaster, creator and commissioner, BBC relies on its publicly funded nature. Tern TV, as a much smaller entity, works with larger firms like the BBC but is also branching out to new media.

Collectively, the case studies suggest four main themes:

- IP;
- change;
- differences between sectors;
- the role of intermediaries.

While IP was not often identified as a direct influence on business models, it has an important secondary role. A strong theme was that of change and the fast paced evolution of business models. However, this was tempered by significant differences between the business models of the three sectors. Finally, the role of intermediaries is changing and the evidence suggests that more change may come.

Given the relative youth of business models as a field of research, it is not surprising that this research project should identify further research areas. This project has relied on a case study approach which necessitates a small sample size. Expansion of this sample size would strengthen evidence for the claims made in this report. Furthermore, alternative methodologies, such as surveying and empirical analysis, might provide additional insights. Given the relative newness of business model research, it is difficult to foresee how an empirical study might be carried out. However, as this study has pointed out, the digital world provides us with new methods and opportunities.

Bibliography

Amberg, Michael and Manuela Schröder (2007) "E-business models and consumer expectations for digital audio distribution", *Journal of Enterprise Information Management*, 20:3:291 – 303.

Andersen, Birgitte and Marion Frenz (2010) "Don't blame the P2P file-sharers: the impact of free music downloads on the purchase of music CDs in Canada," *Journal of Evolutionary Economics*, 20:5:715-740

Baden-Fuller, Charles and Mary S. Morgan (2010) "Business Models as Models," *Long Range Planning*, 43:2-3:156-171.

Baldwin, Richard E. and Frédéric Robert-Nicoud (2007) "Entry and Asymmetric Lobbying: Why Governments Pick Losers," Accessed May 19, 2011 from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.119.8523&rep=rep1&type=pdf

Beacon 10 IP & Open Source (2011), Final Report, *Knowledge Transfer Network, Creative Industries*, Accessed May 22, 2011 from https://ktn.innovateuk.org/c/document_library/get_file?p_l_id=1342553&folderId=1812583&name=DLFE-33289.pdf

Beuscart, Jean-Samuel and Kevin Mellet (2008), "Business Models of the Web 2.0: Advertising or the Tale of Two Stories," *Communications & Strategies*, Special issue, Nov. 2008, p. 165. Available at SSRN: http://ssrn.com/abstract=1374448

Chaudhry, Peggy E., Chaudhry, Sohail S., Stumpf, Stephen A. and Hasshi Sudler (2011) "Piracy in cyber space: consumer complicity, pirates and enterprise enforcement," *Enterprise Information Systems*, 5:2:255-271.

Chesbrough, Henry and Richard S. Rosenbloom (2002) "The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin□off companies," *Industrial and Corporate Change*, 11:3:529-555.

Chircu, Alina M. and Robert J. Kauffman (1999), "Strategies for Internet Middlemen in the Intermediation / Disintermediation / Reintermediation Cycle," *Electronic Markets - The International Journal of Electronic Commerce and Business Media*, 9:2:109-117.

Denicolo, Vicenzo and Luigi Alberto Franzoni (2003), "The contract theory of patents," *International Review of Law and Economics,* 23:4, 365-380. Available from http://www.sciencedirect.com/science/article/pii/S0144818803000541

Doyle, Gillian and Richard Paterson (2008), "Public Policy and Independent Television Production in the U.K.", *Journal of Media Business Studies*, 5:3:17-33.

Eisenhardt, Kathleen M. (1989), "Building Theories from Case Study Research," *The Academy of Management Review,* 14:4, 532-550. Available from http://www.jstor.org/stable/258557

Elbrese, Anita (2010), "Bye-Bye Bundles: The Unbundling of Music in Digital Channels," *Journal of Marketing,* 74:3:107-123.

Fairbanks, Susan (2006), "Intellectual Property Rights and the Television Sector," *South West Screen*, Accessed May 16, 2011 from http://www.swscreen.co.uk/assets/files/Policies%20and%20publications/IPR%20Rights%20report.pdf

Froud, Julie, Sukhdev, Johal, Leaver, Adam, Phillips, Richard and Karel Williams (2009), "Stressed by Choice: a Business Model Analysis of the BBC," *British Journal of Management*, 20:252-264 Accessed January 7, 2011 from http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8551.2008.00564.x/full

Gold, Raymond L. (1958) "Roles in Sociological Field Observation," *Social Forces*, 36:3:217-223.

Ghosemajumder, Shuman, Bangayan, Phil and Giselle Bonet (2002), "Digital Music Distribution," *MIT Sloan School of Management,* Digital Business StrategyProfessional Seminar (15.967, Instructor Timothy Rowe).

Ha, Imsook, Yoon, Youngseog, and Munkee Choi (2007), "Determinants of adoption of mobile games under mobile broadband wireless access environment," *Information & Management,* 44:3, 276-286. Available from http://www.sciencedirect.com/science/article/pii/S0378720607000055

Hagel, John and Marc Singer (1999), "Unbundling the Corporation," *Harvard Business Review*, 2000:3, 148-161.

Hargreaves (2011), "Digital Opportunity: A Review of Intellectual Property and Growth," Accessed May 18, 2011 from http://www.ipo.gov.uk/ipreview.htm

Horn, Adrian (2009) Juke Box Britain: Americanisation and Youth Culture, 1945-60, *Manchester University Press*, United Kingdom.

Itami, Hiroyuki and Kazumi Nishino (2010) "Killing Two Birds with One Stone: Profit for Now and Learning for the Future," *Long Range Planning*, 43:2-3:364-369.

Jansen, Wendy, Steenbakkers, Wilchard and Hans Jagers (2007) New Business Models for the Knowledge Economy, Gower Publishing.

Jones, Colin (2010) "The rise and fall of the high street shop as an investment class," *Journal of Property Investment & Finance*, Accessed May 23, 2011 from http://www.emeraldinsight.com/journals.htm?articleid=1871135&show=abstract

Krueger, Alan B. (2005) "The Economics of Superstars: The Market for Rock Concerts in the Material World," *Journal of Labor Economics,* 23:1.

Kunze, Jason T. (2008) “Regulating Virtual World Optimally: The Model End User License Agreement,” *Northwestern Journal of Technology and Intellectual Property,* 7:102.

Leendertse, Matthijs and Leo Pennings (2007) “Centralized Content Portals: iTunes and the Publishing Industry,” *Proceedings ELPUB2007 Conference on Electronic Publishing in Vienna, Austria,* Accessed May 22, 2011 from http://elpub.scix.net/data/works/att/149_elpub2007.content.pdf

Masanell, Ramon and Joan Enric Ricart (2010) “From Strategy to Business Models and onto Tactics,” *Long Range Planning,* 43:2-3: 195-215

McCubbrey, Donald (1999) “Disintermediation and Reintermediation in the U.S. Air Travel Distribution Industry: A Delphi Study,” *Communications of the Association for Information Systems*, 1:18.

McGrath, Rita Gunther (2010) “Business Models: A Discovery Driven Approach,” *Long Range Planning*, 43:2-3:247-261.

Nadel, Mark S. (2004) “How Current Copyright Law Discourages Creative Output: The Overlooked Impact of Marketing,” *Berkeley Technology Law Journal*, 19:785.

Osterwalder, Alexander and Yves Pigneur (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, John Wiley & Sons.

Osterwalder, Alexander and Yves Pigneur (2002) “An e-Business Model Ontology for Modeling e-Business,” 15th Bled Electronic Commerce Conference e-Reality: Constructing the e-Economy.

Osterwalder, Alexander, Pigneur, Yves, Tucci, Christopher (2005), “Clarifying Business Models: Origins, present and Future of the Concept, submitted to CAIS,” *Communications of the Association for Information Systems.*

Passman, Donald S. (2001) All You Need to Know About the Music Business, *Penguin Book*, London.

Porter, Michael (2001) “Strategy and the Internet,” *Harvard Business Review*, March 2001.

Porter, Michael (2008) “On Competition,” *Harvard Business Review.*

Rappa, M. (2001) “Managing the digital enterprise – Business models on the Web,” Available at: http://ecommerce.ncsu.edu/business_models.html

Searle, Nicola Charlotte and Creaton, Tony (2011) “Workshop Notes: Changing Business Models in the Creative Industries ,” Available at SSRN: http://ssrn.com/abstract=1762568

Schumpeter, Joseph A. (1939) Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process, McGraw-Hill Book Company.

Shim, J.P., Park, Sungmin, and Julie M. Shim (2008), "Mobile TV phone: current usage, issues, and strategic implications," *Industrial Management & Data Systems,* 108:9, 1269-1282.

Sobel, Lionel (2003) "DRM as Enabler of Business Models: IPSs as Digital Retailers," *Berkeley Technology Journal,* 18:667.

Varian, Hal R. (2005) "Copying and Copyright," *The Journal of Economic Perspectives*, 19:2:121-138.

Wardle, Claire and Andrew Williams (2008) "ugc@thebbc: Understanding its impact upon contributors, non-contributors and BBC news," Accessed May 16, 2011 from http://www.bbc.co.uk/blogs/knowledgeexchange/cardiffone.pdf

Williams, Matthew (2007) "Avatar watching: participant observation in graphical online environments," *Qualitative Research* SAGE Publications vol. 7:1:5–24

Wirtz, Bernd W., Schilke, Oliver and Sebastian Ullrich (2010) "Strategic Development of Business Models: Implications of the Web 2.0 for Creating Value on the Internet," *Long Range Planning*, 43:2-3:272-290.

Wisniewski, Donald and Derrick Morton, ed. (2005) "2005 Mobile Games White Paper," *IGDA Online Games Conference SIG,* available at http://archives.igda.org/online/IGDA_Mobile_Whitepaper_2005.pdf

Zehnder, Sean M. and Scott D. Lipscomb in Vorderer, Peter and Jennings Bryant (ed.) (2006) Playing Video Games: Motives, Responses, and Consequences (Communication): Motives, Responses, and Consequences, Routledge.

Zott, Christoph, Amit, Raphael H. and Massa, Lorenzo, (2010) "The Business Model: Recent Developments and Future Research", Available at SSRN: http://ssrn.com/abstract=1674384

Appendix 1: Interview Questionnaire

Background information

Name:	Location of interview:
Title:	Duration:
Company:	Date:
Number of employees:	Career:

Interview Questions

Context:

1. How do you describe the market you work in?
2. What do you understand by the term “business model”?

Business models:

3. Who are your customers?
4. What do you offer your customers?
5. How does your game reach your players?
6. How do you engage with your customers/what is your relationship with your players (e.g. co-creation, self-service)?
7. What is your pricing mechanism (e.g. free-to-play, subscription)?
8. What are your key resources (e.g. physical, intellectual, human, and financial)?
9. What are your key activities in order to create your service/game?
10. What outside organisations/suppliers are key to your business?
    a. How do they rank in terms of time devoted to them?
    b. How do they rank in terms of generating revenue for your company?
11. Do you consider your business to be more cost driven (e.g. EasyJet) or more value driven (e.g. luxury hotels)?
    a. Are you competing with free?

Change and Influence

12. Has your business model changed over the last five years? If so, how?
    a. What external forces may have caused a change in your business model over the last five years?
    b. What internal forces may have caused a change in your business model over the last five years?
13. How might user-generated-content influence your business model?
14. Are you worried about your content being copied via file sharing or similar methods?
15. Any other comments?

Appendix 2: Methodology

This section presents a more in-depth look at the business model literature and the business model and case study methodologies employed in this research.

Business Model Framework: Methodology and Literature Review

Business Models as a research topic is an emergent and growing area. As Zott et al (2010) note, the concept of the business model in academic journals has "virtually exploded in the 15-year period between 1995 and 2010."[119] The authors add that the growth of the internet in the 1990s is a driving factor in the increased interest in business models. The internet introduced a myriad of new ways of tweaking business models. In this section, the business model literature is reviewed for current trends, opposing views and relevance to this research project.[120]

Borrowing from the Long-Range-Planning Special Issue on Business Models (2010), the business models literature can be grouped into four main themes: definitions and approaches to business models, the beginnings of business models, social business models and emerging markets, and the implementation of business models. As this research project focuses on the creative industries, the charity and development economics focus of the third theme, social models and emerging markets, can be excluded. Thus, this section focuses on the remaining three themes with an emphasis on the role of the internet.

Definitions and Approaches to Business Models

Definitions

A key challenge in an emerging research topic is the definition, nomenclature and categorization of the topic. The business model literature reflects this challenge. As Jansen, et al (2007) argue, there is much confusion and lack of consensus over the definition of the concept of the "business model."

Jansen et al (2007) note that concept of the business model falls largely under two categories: the revenue model and the integrated model. The revenue model, as the authors define, refers to the underlying financial flows of the business[121]. Recent trends in micro-transactions,

119 Zott, Amit and Massa (2010), p. 2

120 This section does not seek to provide a comprehensive, in-depth review of the business model literature. For that, I recommend the Zott, Amit and Massa (2010) paper and Long Range Planning special issue on Business Models (2010) available from Science Direct.

121 An example of the focus of the financial flows of the business can be seen in the David Perry (2008) entry which lists 29 business models for the computer games industry. As Perry notes, the models are largely based on experimentation with the monetization of games. Available at http://lsvp.wordpress.

subscription, ad-supported content etc. are examples of experimentation with the revenue models of online content businesses. However, the integrated model provides a more comprehensive, strategic approach to a business model. As the authors define it, the integrated model "refers to the strategy and the configuration of the organisation." Here, the authors include the business strategy as part of the business model.

However, a definition of business models remains a challenge. In their study of the business model literature, Zott et al (2010) describe the lack of a consistent definition of business models. They present a table of ten business model definitions which highlight their point that "existing definitions only partially overlap, giving rise to a multitude of possible interpretations."[122] The authors further categorise these definitions as pertaining to three categories: e-business, strategic issues and innovation and technology management. However, as Zott et al note, these categories are not mutually exclusive.

Chesbrough and Rosenbloom (2002) also lament the lack of a clear definition of business models. Their preferred definition comes from a consulting firm, KMLab, Inc., "… a Business model is a description of how your company intends to create value in the marketplace. It includes that unique combination of products, services, image, and distribution that your company carries forward. It also includes the underlying organization of people, and the operational infrastructure that they use to accomplish their work."[123]

While the concept may still be evolving, the preferred definition of the business models, for the purposes of this study, is Osterwalder and Pigneur's (2010) definition: "A business model describes the rationale and infrastructure of how an organization creates, delivers and captures value." This definition is a streamlined version of the preferred definition used by Chesbrough and Rosenbloom (2002.) Furthermore, Osterwalder and Pigneur's definition represents Jansen et al's (2007) integrated model, encapsulates the essential components of the business model and identifies the unit of analysis for this study.

com/2008/07/02/29-business-models-for-games/

122 Zott et al (2010), p. 9

123 From http://www.kmlab.com/4Gwarfare.html, June 20, 2000 as cited in Chesbrough and Rosenbloom (2002)

Approaches

The prominent strategist Michael Porter has been critical of the business model approach. In Porter (2001), the author notes that the focus on business models can be misguided without proper integration and consideration of strategies and competitive advantages. Porter also notes that, "no business model can be evaluated independently of industry structure."[124] Indeed, Porter's (2000) famous five forces provide an analytical framework which identifies the role in industry structure in its influence on business models. For example, Porter (2008) uses his analysis of the threat of substitute goods and services to explain the declining role of high street video rental: "Similarly, video rental outlets are struggling with the emergence of cable and satellite video-on-demand services, online video rental services such as Netflix, and the rise of internet video sites like Google's YouTube." [125] As Porter argues, the business model is best analysed in the context of industry structure.

Baden-Fuller and Morgan (2010) are supportive of the business model approach as a unit of analysis. The authors argue that the business model is a useful subject for case study analysis and, "exemplar case business models (such as McDonalds) are to management what the model organisms are to biology: real-life examples to study."[126] The authors further note that business models can serve a recipe-like function in their instruction and demonstration of a particular model. Hence, Baden-Fuller and Morgan find business models are a suitable and illustrative subject of research.

Osterwalder and Pigneur (2010) pitch business models as a pragmatic tool for business innovators. Their 2010 book frames business models as a tool and builds on earlier scholarly works (e.g. Osterwalder, Pigneur and Tucci, 2005 and Osterwalder and Pigneur, 2002.) Osterwalder and Pigneur (2002) refer to the business model framework as a "generic model with which companies can express the business logic of their firm or even the one of their competitors."[127] In Osterwalder, Pigneur and Tucci (2005), the authors use this framework, as Baden-Fuller and Morgan suggest, as a unit of analysis. This study follows this approach and uses the Osterwalder and Pigneur (2010) business model structure detailed later in this paper.

Business Models Representations

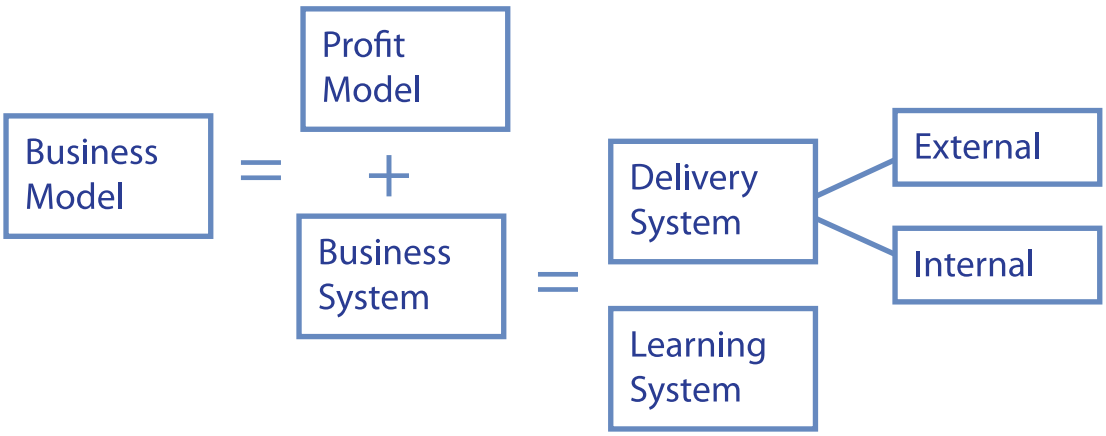
As noted in Zott et al (2010), a further element in the business model approach is the representation of business models. The authors identify that researchers often use a combination of "informal textual, verbal and ad hoc graphical representations … and by providing a business model ontology"[128] to represent business models. Zott et al suggest that the business model ontology typically comprises of infrastructure, financing, customer and offer. The authors present a concise overview of work by other authors on business model representation.

124 Porter (2001) p. 13
125 Porter (2008), p. 31
126 Baden-Fuller and Morgan (2010) p. 163
127 Osterwalder and Pigneur (2008) p. 1.
128 Zott et al (2010), p. 17

A challenge for researchers is identifying which business model representation to apply. In addition to the models noted in Zott et al, various representations can be found in scholarly works. Jansen et al (2007) base their business model representation on strategy, technology, processes and governance. Casadesus-Masanell and Ricart (2010) focus on strategy and tactics and note that the representation of a business model can be done in two forms: the total model or in parts. They argue that moving from the full detail of a business model to a more manageable representation should be done by either aggregating the total business model (on overall view) or decomposing the business model into different groups (potentially representing only parts of an organisation).

Itami and Nishino (2010) develop a business model representation using an equation-like representation. They define the business model as the combination of the profit model and the business system. The authors represent this simple model as reproduced in Figure 5. The authors identify learning as a key element in the business system in terms of information accumulation which can lead to a competitive advantage. Itami and Nishino suggest that the profit model operates in the short-term but that learning should be emphasised in the long-term.

Figure 5: Itami and Nishino (2010) Business Model Representation



The preferred business model representation for this research is that of Osterwalder and Pigneur (2010), as cited in Zott et al (2010) and Chesbrough (2010), among others. As Chesbrough (2010) notes, "one promising approach is to construct maps of business models, to clarify the processes underlying them, which then allows them to becomes a source of experiments considering alternate combinations of the processes."[129] Chesbrough suggests Osterwalder's nine element model as an example. Osterwalder and Pigneur (2010) develop this nine element model as shown in Figure 6.

129 Chesbrough (2010), p. 359

Figure 6: Osterwalder and Pigneur (2010) Business Model Map

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

motivations for partnerships:
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

categories
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

types of resources
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

characteristics
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

examples
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

channel phases:
1. Awareness
   How do we raise awareness about our company's products and services?
2. Evaluation
   How do we help customers evaluate our organization's Value Proposition?
3. Purchase
   How do we allow customers to purchase specific products and services?
4. Delivery
   How do we deliver a Value Proposition to customers?
5. After sales
   How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

is your business more:
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

sample characteristics:
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

types:
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

dynamic pricing
Negotiation(bargaining)
Yield Management
Real-time-Market

www.businessmodelgeneration.com

The elements of model can be broken down as follows. *Key partners* identify the key outside suppliers and partners of the business. *Key activities* are the core activities the business engages in to produce its service or good. *Key resources* identify the important physical, intellectual, human or financial resources for the business. *Value proposition* describes the resources and/or goods the company offers its customers. *Customer relationships* describe the type of relationship the business has with its customers. *Channels* define the communication, distribution and sales channels of the goods and services. *Customer segments* identify the groups of people or organisations that comprise the customer base. *Revenue streams* describe the revenue flows and pricing structure of the model. Finally, *cost structure* represents the costs underlying the running of the business; these range from cost-driven, like the Easyjet budget model, to value-driven, such as a luxury hotel.

Decomposition of Business Models

The development of business model representations can be done in a parts analysis. As in Osterwalder and Pignuer (2010), businesses can represent a bundled collection of business models. They argue that, following Hagel and Singer's (1999) matrix, business models can be unbundled into three core business types: product innovation, customer relationship management and infrastructure management. While this approach is useful and teases out the economic, cultural and competitive imperatives of the bundled model, it is limited in its application to changes within each of the models.[130]

Casadesus-Masanell and Ricart (2010) argue that the decomposition of business models is useful in analysis. The authors note that,

> "Some business models are decomposable, in the sense that different groups of choices and consequences do not interact with one another and thus can be analyzed in isolation. Depending on the question to be addressed, representing just a few parts of an organization's business model may be appropriate."[131]

For the analysis at hand, a key question is the role of IP in the digital realm. As noted earlier, significant change has occurred in the technology platforms that allow for the creation and distribution of content. Furthermore, consumer behaviour has changed dramatically in the same period. As these two changes affect the business model and the role of IP, this research uses differences in the channels for delivering content, and the customer segments associated with the content, to decompose the business models. This decomposition focuses the research on the IP issues of interest.

130 While the Hagel and Singer (1999) matrix is very useful for capturing changes across an industry, it is less applicable for examining specific changes within a firm. For example, the evolution of the gaming industry platforms from PC, to console, to mobile to social gaming largely falls under the Product Innovation business model. However, as the case studies in this research suggest, a firm may engage in all of those platforms at once. Using the Hagel and Singer matrix would minimise the diversity of those activities into one business model.

131 Masanell and Ricart (2010) p. 200.

For this paper, the Osterwalder and Pigneur (2010) model is employed as a research and mapping tool for business model representations. Furthermore, the Baden-Fuller and Morgan (2010) proposal of the business model as a unit of analysis is utilized in combination with the decomposed, part analysis approach suggested by Casadesus-Masanell and Ricart (2010) using the delivery channel and customer segments to delineate between bundled models.

Business Models Innovation: Beginnings

The evolution of business models has also received significant attention. Numerous case studies highlight the success or failure of business models as companies adapt to changes in the marketplace. On oft-cited[132] example is that of the evolution of Xerox. As Chesbrough and Rosenbloom (2002) detail, the Xerox photocopying machine was initially rejected by industry leaders who doubted the high cost machine would achieve sufficient market penetration. Xerox's business model innovation was to lease, rather than sell, the machine and charge customers based on the number of copies made. The machines became a huge success and the company grew tremendously. Examples such as this illustrate how innovation in business models can be key to the success of an innovation.

McGrath (2010) details experimentation as a key factor in innovation in business models. As she notes, "typically new models emerge when a constraint is lifted, and old ones often come under pressure when one emerges."[133] McGrath also notes the Xerox photocopying franchise model eventually became unsustainable and the company now focuses on document and information management. McGrath suggests that industry incumbents are reluctant to experiment with new business models due to the lack of internal incentives.

Chesbrough (2010) also emphasises the role of experimentation. He details case studies of Xerox company spinoffs and the self-distributed Radiohead album as examples of experimentation. The author suggests that the "dominant logic" of a successful business model can lead industry incumbents to miss opportunities as the systematic censoring of information limits strategic decision-making. When experimentation leads to a new model, "the organisation's culture must find ways to embrace the new model, while maintaining the effectiveness of the current business model until the new one is ready to take over completely."[134]

132 E.g. McGrath (2010), Chesbrough (2009) and Mont (2006)

133 McGrath (2010)

134 Chesbrough (2010) p. 362

The Implementation of Business Models: the Internet

The success of a business model is determined by its implementation. This paper focuses on business models in the creative industries which, as a whole, are in a period of experimentation. McGrath (2010) notes a key point in relation to the implementation of business models and experimentation, "it is nearly impossible to tell in advance which design will win."[135] Nonetheless, key forms of business models in this period of experimentation have emerged.

Technology has long influenced business models as, for example, in Horn (2009) who notes that the per-song payment system of music juke box called for shorter song length to increase revenues. The internet is no exception. A catalogue of business models on the internet is Rappa (2001) who distils business models on the web into nine basic categories. These are detailed in Table 1 below.

Table 1 Rappa (2001) Categories of Business Models on the Web

CATEGORIES OF BUSINESS MODELS ON THE WEB	
Category	Description
Brokerage	Bring together buyers and sellers to facilitate transactions
Advertising	Extension of traditional broadcast media where free content is mixed with advertising
Infomediary	Gathers data about consumers or producers; may sell this information
Merchant	Wholesalers and retailers of goods and services
Manufacturer (Direct)	Manufacturers reaching buyers directly (compresses the distribution channel)
Affiliate	Provides purchase opportunities for web visitors by offering financial incentives to affiliated partner sites (e.g. pay-per click)
Community	User loyalty supported sites where users have high time or emotional investment (e.g. Facebook)
Subscription	Users are charged a periodic fee for access to service or content
Utility	"On-demand" or "pay-as-you-go" model

135 McGrath (2010) p. 254

Further details on business model classification can be found in Zott et al (2010) which details Rappa's categories and work by others.

Wirtz et al (2010) examine the strategic development of business models in the internet. The authors develop a typology of internet business models grouped into four categories: content, commerce, context and connection. However, the authors inadvertently highlight the challenges of successful implementation of business models. In their analysis of MySpace, the authors note the evolution of the MySpace business model from an internet storage site to a social networking site. At the time, MySpace could accurately be described as "a pure and very successful Web 2.0 player,"[136] however, at the time of writing of this paper, MySpace is in decline[137] as its competitors grow.

Intellectual Property and Business Models

Given the wide ranging interest in business models, it is surprising how few research papers examine the interaction between business models and intellectual property. A notable exception is Varian (2005) who analyses copyright in the face of rampant copying of content. Varian examines the economic incentives behind copying and copyright and the impact it has on information based goods. He suggests that copyright may become impossible to enforce in a digital environment. Given the abundance of free content, Varian suggests alternate business models for a market without effective copyright. However, he argues that, "It is highly unlikely that free content alone will meet all of our needs for content. However, it may be that free content, some combination of the business models described above, and traditional copyright will do an adequate job of satisfying our demand for information goods."

Arguing that, "It is one thing to say a new model is necessary. It is quite another to suggest how that model might work," Sobel (2003) puts forth the idea that Internet Service Providers (ISP) should become digital retailers. Under this model, content creators would license their works to ISPs who would then sell the works to consumers. Sobel argues that this new regime would be supported by DRM. DRM based models would fall under three categories: control based (copyright supported) models, the anti-copyright model (no copyright, remuneration based on users "tipping" content creators), and the beyond copyright model (DRM supported.) However, Sobel notes that the ISP as digital retailer model might give copyright owners too much control.

136 Wirtz et al (2010) p. 280.

137 Article by Scoble, Robert (March 25, 2011) MySpace's Death Spiral: Insiders Say It's Due To Bets On Los Angeles And Microsoft" from Business Insider, available from http://www.businessinsider.com/myspaces-death-spiral-insiders-say-its-due-to-bets-on-los-angeles-and-microsoft-2011-3#ixzz1Hbo0dRnP

Nadel (2004) offers a legal perspective on the interaction of business models and copyright. The author argues that copyright law inflates the returns to successful content and subsequently discourages less successful content. He argues that this lottery environment dampens investment in new creation. As a solution, Nadel proposes alternate business models which use a combination of technology, social norms and different approaches to copying. He suggests the following: pre-sales to consumers, versioning and offering services in place of products, advertising, consumer selection assistants, first mover or lead time advantage for hard copies, DRM and tip “boxes” and ancillary hardware sales as possible models.

The role of intellectual property is addressed more completely when taken into the examination of the changing industry structure. For the creative industries, the changing industry structure has lead to a period of experimentation within existing business models and the emergence of new models. The intellectual property regime has long served as regulatory support for the control of physical goods in the creative industries. Copyright creates a framework in which unauthorised copies of creative content are deemed illegal and their physical importation and distribution can be restricted. In the digital realm, this physical constraint disappears and copyright struggles to restrict unauthorised content. The business models of incumbents in the creative industries have subsequently suffered. Furthermore, the changes in industry structure and technological advances provide opportunities for new models to emerge. A focus on intellectual property and existing business models necessarily examines the business model response to these changes.

This section has provided an overview of key literature on business models in the creative industries and the internet. It also identifies the theoretical basis of business models as a unit of study and a illustrative tool for case studies which form the theoretical structure of this research. The next section will address the research methodology.

Case Studies: Methodology

This section presents the methodology in the selection of case study sectors, the case study firms and data collection.

Selection of case study sectors

The selection of television and film, computer games and music as the focal sectors of this study are based on the Technology Strategy Board's (TSB) sector segmentation approach. The TSB approach takes the Department for Culture, Media and Sport's (DCMS) 13 identified creative industries sectors and groups them based on the level of technology in innovation in the sector and the nature of the sector's output. The TSB groups are listed in Table 2 below:

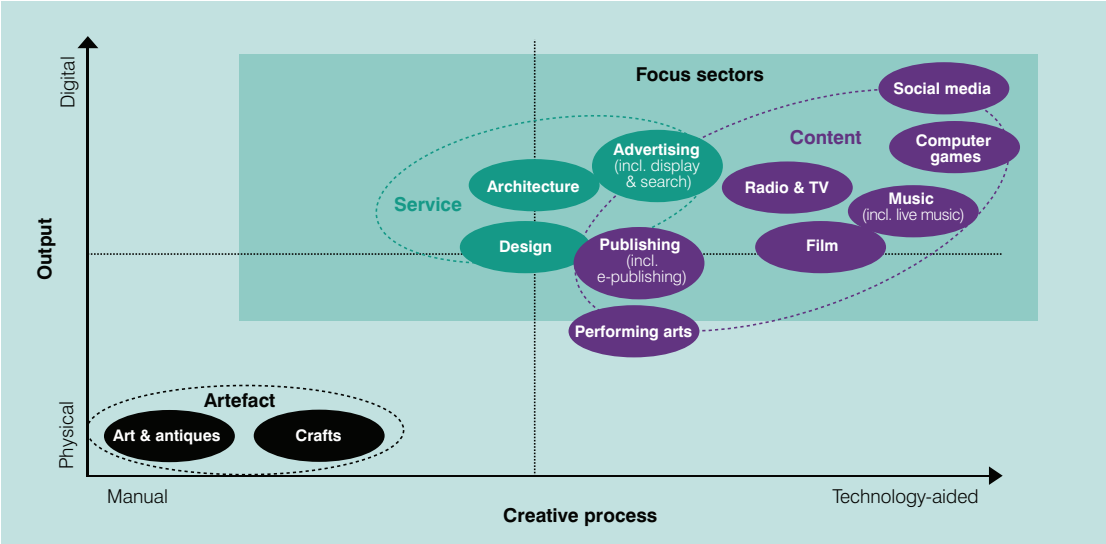
Table 2: TSB Grouping of DCMS Creative Industries Sectors[138]

Grouping	Sectors
Services	Advertising, Architecture, and Design (including Fashion Design);
Content	Games, Film, TV, Radio, Publishing, Music, (and Performing Arts: dance, theatre, etc);
Artefacts	Fine Arts, Crafts

As a primary focus of this research is the role of intellectual property in digital content, artefacts and services can be excluded and the focus remains on the content sectors. Furthermore, TSB displays these sectors on a graph (reproduced here in Figure 7) where they are located by the level of technology and the type of output.

138 Technology Strategy Board, (2009) "Creative Industries, Technology Strategy 2009-2012," p. 7 available from http://www.innovateuk.org/_assets/pdf/creative%20industries%20strategy.pdf

Figure 7: TSB Sector Segmentation Strategy[139]



In Figure 7, the content sectors are primarily in the upper right hand quadrant to indicate higher levels of both digital output and technology-aided content.[140] This leaves Computer games, Music and Radio/ TV as the highest ranking sectors in terms of both technology aided and digital output. Computer games, Music and Television are selected based on this high ranking (narrowing the television & radio category down to simply television.) However, overlap between industry sectors can be seen, as, for example, in the use of music in computer games or film in television. Indeed, the lack of clear distinctions between sectors in the creative industries reflects their amorphous and evolving nature.

Selection of case studies

The case studies are chosen to form a representative sample with sufficient variation to encompass a variety of business models. The individual firms are identified via the non-probability sampling method of quota sampling.[141] To capture the diversity of the three sectors, two case studies per sector are analysed. The specific firms are identified via judgement sampling from existing contacts associated with a digital media project entitled Moving Targets.[142] Further case studies are then identified via snowball sampling. While these sampling techniques potentially introduce bias, the disparate nature of the industry, and the high level of trust required for successful data collection, makes their employment necessary in the interest of cost.

139 Technology Strategy Board, (2009) "Creative Industries, Technology Strategy 2009-2012," p. 7 available from http://www.innovateuk.org/_assets/pdf/creative%20industries%20strategy.pdf

140 Note also that TSB chose to introduce Social media as an additional Creative Industry sector. For the purposes of this project, we exclude social media as an independent sector on the basis that it overlaps significantly with other sectors by providing a distribution platform for content.

141 For more details on these methods, see the Statpac overview of methods available at http://www.statpac.com/surveys/sampling.htm

142 Moving Targets is a digital media project with the Universities of Abertay, Edinburgh and Edinburgh College of Art. www.movingtargets.org.uk

Data Collection

Data collection is along a triangulation approach that includes semi-structured interviews with key employees, participant observation and literature sources. As Eisenhardt (1989) notes, this three-pronged approach is typical to case study analysis.

Participants in the study were informed of the nature of the study an asked to sign confidentiality agreements. To confirm the accuracy of the research material and insure against the potential leakage of confidential information, participants firms were also given a 30-day review window of this text before publication.

Semi-structured interviews

The semi-structured interviews were drafted around the Osterwalder and Pigneur (2010) business model framework. The questions are designed to illustrate the structure of the business model in question and examine tensions surrounding the role of digital, UGC and copyright. The interview template was piloted tested with a selection of six industry members in the London area in autumn 2010. This process led to further refining of the template.[143] Expertise and advice was also sought from a researcher workshop held at the UK IPO on January 18, 2011.[144]

In line with the triangulation methodology, the goal was to interview at least three participants per case study. These participants were selected to include at least one interviewee at the senior management level and at least one interviewee at the content production or technological level. This method allows for the collection of multiple points of view. However, given the nature of the creative industries, these roles are not always well defined. Furthermore, as in the case of the sole trader, there were not always three participants available.

A total of 25 interviews were conducted and lasted a minimum of half an hour and a maximum of two and half hours. In all cases, the interview was conducted by the researcher and noted via shorthand. Following each interview, the researcher transcribed the notes via computer into a legible format suitable for analysis.

The interviews provided the bulk of the qualitative data and participants were available post-interview for clarifications.

143 The questionnaire is in the appendix.

144 The notes of which can be found here: Searle, Nicola Charlotte and Creaton, Tony, January 2011 Workshop Notes: Changing Business Models in the Creative Industries (February 16, 2011). Available at SSRN: http://ssrn.com/abstract=1762568

Participant Observation

A further source of information was the role of researcher as a participant observer in both open and closed settings. The researcher acted as an overt observer in the closed settings[145] of the case study firms and/or Moving Targets events[146]. The researcher filled this role as Gold's (1958) observer-as-participant in that the role was primarily as observer with occasional participation. The primary source of observation was through naturally occurring inter-office talk,[147] discussions and office meetings. The researcher kept a running log of observations and notes. This participant observation provides a further source of research material and contributes the overall understanding of the mode and priorities of the firms' employees.

Participant observation also occurred through open settings in the form of the online presence of case study firms. Williams (2007) terms this form of online participant observation as "virtual ethnography." The online presence of the firm serves an integral function in the business model in terms of customer relationship, channels, revenue streams and other vital functions. The observation of the internet component of the firm provided further evidence of the business model. For example, observations on customer relationships were observable within a firm's online community via customer-firm interaction online forums and blogs.

Participant observation within the closed setting of the firm was not available in all cases as it was deemed too intrusive. This was the case with the sole trader. In this case, more emphasis was placed on the other methods of data collection.

Literature Sources

Further evidence was collected via grey literature and media sources. This includes firm websites, media reports, firm internal and external reports, government reports and user websites. In addition to providing further evidence as a means of fact checking, this literature offers alternative perspectives on the details of the firms' business models. Furthermore, the use of publicly available data insured that business confidentiality was not an obstacle to incorporation of data into the research findings.

145 For further details on overt versus cover roles and closed versus open settings, see Chapter 17 of Bryan (2008).

146 This includes workshops, project meetings and informal discussions associated with the Moving Targets project.

147 As described in Bryan (2008) p. 410

Supplementary Evidence

As noted earlier, as the study of business models necessarily incorporates appreciation of the market context in which these models operate, further analysis of this content is necessary. The use of existing secondary sources in the form of academic and media analysis forms the basis of this analysis. Given the research interest in UGC, this is further supplemented by a review of the EULA of popular music, game and television online services.

We would like to thank:

DYNAMO GAMES: http://www.dynamogames.com

YOYO GAMES: http://www.yoyogames.com

HEIST RECORDS: http://www.heistrecords.com

CLASH MUSIC: http://www.clashmusic.com

TERN TV: http://www.terntv.co.uk

BBC: http://www.bbc.co.uk

Concept House
Cardiff Road
Newport
NP10 8QQ

Tel: 0300 300 2000
Minicom: 0300 0200 015
Fax: 01633 817 777

For copies in alternative formats please contact our Information Centre.

When you no longer need this booklet, please recycle it.

DPS/E100-10.11