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**MUSICIAN'S, FANS' AND RECORD COMPANY'S
VALUE CO-CREATION IN INTERNET**

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ABSTRACT

The purpose of this study is to describe and analyze the co-creation processes between the musician, music consumers (fans) and the record company. All these connections are analyzed with S-D logic theory. The author will also exploit her own knowledge of the music industry. During the last few years the new media technologies, particularly the Internet, have dramatically changed the connections between the musician, music consumers and the record company. Nowadays these parties can easily be connected with each other both timely and locally. Co-creation may have positive impacts on all three parties, but it can also work vice versa by destroying the value.

Virtual co-creation and crowdsourcing are relatively new phenomena in the music industry. The "official" term of crowdsourcing comes from Jeff Howe, who defines it as an act normally run by personnel, but which a company outsources to an undefined network of people in the form of an open call. The company offers a compensation for anyone who completes the task (Whitla 2009, 15).

Due to the new media technologies the musician can easily distribute and promote his music on his website. The supply of music has grown enormously, which has compartmentalized the music consumers. That has challenged record companies, the musicians and the media (Wikström 2009, 89). In an online store of a musician David Guetta a consumer can personalize and make his own cd. He can choose the songs and the form of them, the label, the cover and the cd case from several options. The result is a unique cd (<http://shop.davidguetta.com/en/>).

For music consumers digitization means easier and faster access to music. The Internet connection brings potential for connection to a wide variety of music. It broadens the listening possibilities, but can also overwhelm the listener with choice. The Internet has also narrowed the gap between a consumer and a musician. At present, illegal file sharing and different kinds of peer networks are popular but they worry the record industry (Jones 2002, 218). The ownership of music has changed into an access to music (Kusek and Leonard 2010, 2). The idea of "music as a service" can come in. The fundamental part in co-creation is, that consumers are no longer passive but actively involved with the development of a product or service and co-creating value together with the companies (Prahalad and Ramaswamy 2004, 2).

Key words - value co-creation, music in Internet, changing relationships

1. Introduction

Information technology, especially the Internet, has altered the day-to-day lives of consumers (Murray, Liang and Häubl 2010, 232). Although companies have traditionally placed consumers in the core of the company with the idea that the “Consumer is King”, they still have maintained the most powerful role in markets (Kucuk 2009, 327). Internet has however strengthened the position of consumers tremendously. Consumers have changed from isolated to connected, from unaware to informed and from passive to active individuals and communities (Prahalad and Ramaswamy 2004b, 2). Consumers are considered nowadays a valuable source of innovation and their active and productive roles are getting more attention in the previously firm dominated world (Füller 2010, 98). Companies have noticed that the ideas and creativity of networked consumers can also be exploited in their businesses (Kozinets, Hemetsberger and Schau 2008, 340). The traditional division between a producer and a consumer is falling apart, because now also a consumer can act as a producer and be part of the value creation process. Consumers are no longer just passive value takers, but also value makers in both individual and collective actions (Zwass 2010, 12).

1.1 Consumer 2.0

Consumer 2.0 refers particularly to the new active role of consumers. Combining ideas and choices of hundreds of consumers, it is possible to produce information that no individual organization can produce on their own (Pantzar, Hyvönen, Repo and Timonen 2006). Consumer 2.0 is often associated with the term Web 2.0, which revolves around the idea that individuals are no longer passive browsers of the web, but they actually are the web (Whitla 2009, 17). They create and update information to the Internet and with those collective and participatory actions help companies in their activities. Consumer 2.0 is a new consumer concept that combines three phenomena of time: the new networked technology, people’s desire to share their experiences and a growing trust in the

information created by others. The goal of Consumer 2.0 is to lift up the voice of regular people to the same level with experts (Pantzar, Hyvönen, Repo and Timonen 2006).

The exploitation of consumers' new active role has started to show in the music industry as well. Many music firms have little by little realized the possibilities of the Internet. They have started to exploit the new media technologies offering music consumers new and fresh ways to be connected and communicate with artists and bands (Warr and Goode 2011, 127). The social media services for example Facebook, Twitter, Myspace and YouTube have become very popular among artists, bands and music firms. Social media is an easy and effective way for an artist to promote its music and be connected with the most valuable network of people- the fans.

Nowadays it is not all about the music. The music consumers are becoming more and more demanding and they are craving for new things to satisfy their wants and desires. They want to have content that is personified, possibilities to take part in the music production phase and also tools to share their own creations and experiences with others (Kauhanen 2010, 25). More and more artists, bands and music firms are making good use of the Internet by building websites that connect music consumers more with the whole music experience, including making the music or music videos for artists, designing labels to a record, funding the artist and so on. Creating value together with music consumers via the new media technologies is one the most current topics in the music industry.

1.2 The digital revolution

The development of digital technology has shaken up the music industry. It has transformed the operational environment of the industry and its center of gravity has basically shifted from the physical to the virtual (Wikström 2009, 4). The production, distribution, promotion and consumption of music have all been radically changed by the Internet and the digitization of music (Warr and Goode 2011, 126). At the end of 2010 there were more than 400 legitimate music services worldwide and 13 million tracks licensed by record companies to those services. Despite the fact that digital music has built its share in the music market, digital piracy, and the lack of adequate legal tools to fight it, remains the

biggest threat to the future of the music industry and other creative industries as well (IFPI Digital Music Report 2011, 5).

Due to the new media technologies, the music industry has slowly shifted from a product-centric view to a service-based model, where the music record is not the only focal point, but a part of a larger entity. The artists' images and brands, live performances, additional products, different music services and fan sites are also an important part of this entity. The music industry can be seen as a part of the experience economy, where the end product is neither the music record nor the digital music file but the entire experience music invokes. The music record and other physical resources work only as appliances producing the experience. In a way we are returning back in time, and music can once again become more about the experience than the product (Kusek and Leonhard 2010, 3).

Chris Anderson's Long Tail theory (The Long Tail) describes well the recent changes in the music industry. According to the Long Tail Theory the music industry has slowly drifted away from the focus of mainstream music into the endless opportunities with multiple producers and artists. Internet offers a great channel to spread all kinds of music. The connection of the personal computer to the Internet brings potential for connection to a wide variety of music and broadens the scope of listening possibilities. Nowadays also an artist who represents more marginal music can easily distribute its music and be successful. Thanks to the Internet the production and distribution costs of music can be minimized. The Long Tail theory's "long tail" represents these multiple unknown artists.

1.3 The purpose of the study

The purpose of this study is to describe and analyze the co-creation processes between the musician, music consumers called fans and the record company. All these connections are analyzed with service-dominant logic theory and the DART- model.

First, the change in the value chain is analyzed. Second the fans' motives for co-creation are explored. The last aim is to analyze the co-creation between consumers and the music

industry which includes the record company and the musician. The author will also exploit her own knowledge of the music industry.

2. The changes in the value chain

The value chain is a chain of activities for a firm operating in a specific industry. It is the series of activities required to produce and deliver a product or service and it enables a company to offer unique value (Porter 2001, 11). In the music industry the value chain consist of the phases from making the music to distributing it to consumers (Pönni and Tuomola 2003, 21). The value chain of music industry includes creation, development, packaging, marketing and distribution of music to consumers. The Internet has however powerfully influenced the stucture of the music industry and its sustainable competitive advantage. By easing and speeding the exchange of real-time information, Internet has enabled improvements throughout the entire value chain, across almost every company and industry (Porter 2001, 10), also in the music business. Due to the digitisation, the positions of artists, record companies, distributors and music consumers have changed. In other words the value chain of the music industry has changed (figure 1).

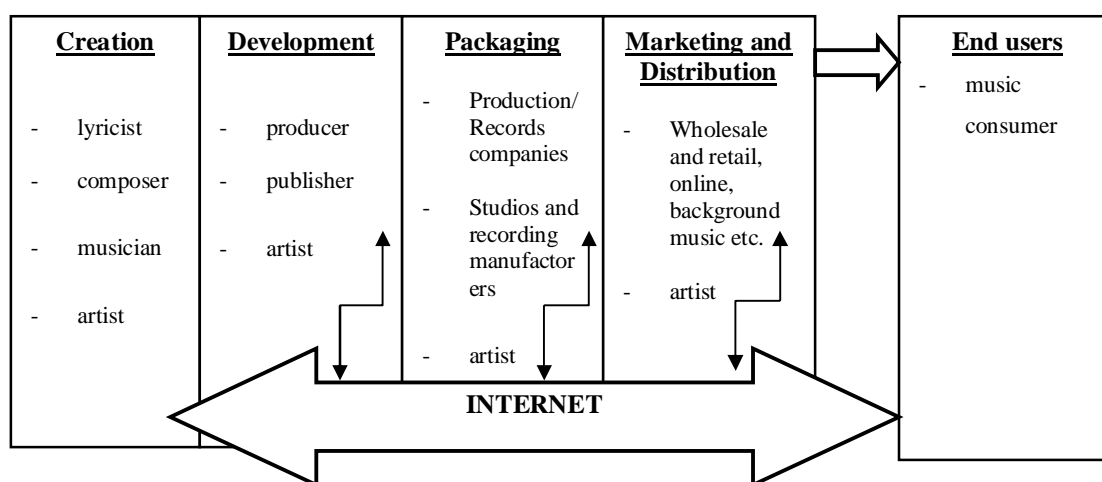


Figure 1 The value chain of the music industry

Source: Adapted from Pönni and Tuomola 2003, 23. Anna mulle tähtitaivas.

Before the development of the new media technologies, in the old music economy, there were strong connections from the music firms to the audience, but only weak connections between the members of the audience (Wikström 2009, 5). Producing a record in a studio, promoting it efficiently and distributing it to consumers, required big investments, which only major record companies could afford (Brusila 2007, 58). The consumers were easy to reach through few distribution channels and cd's sold well. The position of an artist was also different, because often the only way to reach audience was to sign a contract with a major record company.

Now, in the era of new media technologies, things have changed. The connectivity between the network constituted by audiences and music firms is radically improved, which has caused the music firms to lose their ability to control the flow of information (Wikström 2009, 6). In many cases, mostly due to the Internet, the audience has the upper hand. Nowadays it is also possible for both artists and producers to by-pass record companies (Warr and Goode 2011, 126). A music record can be produced almost anywhere by anybody due to the falling costs of home computer recording equipment and software. The Internet has established itself as a very significant distribution and marketing channel and has therefore brought many opportunities, especially to artists. Websites like Myspace offer a great way to promote music straight from the artist to the fans for free. The supply of music is anyhow enormous these days and that complicates artists or bands task of standing out from the crowd.

Due to the digitization, record companies have had to rethink their necessity and earning logics. The extensive use of illegal file-sharing and illegal downloads of music tracks threatens the survival of the record industry (Warr and Goode 2011, 126), as the sellings of the music records are sinking. The record companies have little by little changed their ways of actions towards a so called 360-model, which is a comprehensive way of controlling the artists' careers. The music company supports artists and bands with its core know-how that contains in addition to the traditional music distribution, the selling of gigs, publishing, selling of the additional products, publicity and brand management. The music company not only offers resources that enable the basic work of an artist but also value adding

functions that really are meaningful to the artist (See also Bokstedt, Kaufmann and Riggins 2006).

For music consumers the digitization has meant easier and faster access to music and nowadays many of them are using mainly Internet for discovering new music (Warr and Goode 2011, 127). A whole generation of human beings are listening music online without even considering to purchase a cd (The music industry's ... songs). Therefore music companies today have licensed a range of services, offering not only ownership of tracks and albums, but also ubiquitous access to comprehensive music libraries (IFPI Digital Music Report 2011, 6). Spotify is a good example of a music service that provides an access to a vast music library (Spotify). This is a one way of fighting against the digital piracy that is an enormous problem in today's music industry.

3. Consumers and musicians as a part of the co-creation process

As a result of the quick change in the new media, particularly in the Internet, has dramatically changes the connections between the musician, music consumers and the record company. Nowadays these parties can easily have a dialogue with each other both timely and locally. Co-creation may have positive impacts on all three parties, but it can also work vice versa by destroying the value (Vargo and Lusch 2010).

3.1 Music consumers' motives and expectations to engage in co-creation activities

To interest consumers in co-creation processes, the companies need to find out what consumers expect from co-creation and how consumer's motivations and personalities influence those expectations (Füller 2010, 99). Music usually invokes different kinds of powerful feelings in people. On this account it may be that the motives and expectations of music consumers are well personal and they might be connected to feelings of passion and self-fulfillment. On the other hand many of the modern-day consumers are experimental by nature (Prahalad and Ramaswamy 2004b, 3), which may encourage them to take part in the

co-creation processes without any great passion for music or a specific artist or a band. The main motivator may then be enjoyment and playfulness. Nonetheless consumers only volunteer their time and talent if they consider co-creation to be somehow rewarding (Füller 2010, 99). According to Zwass (2010, 99) potential motivators in co-creation may be for example altruistic desire to contribute, identity construction, desire for social standing, recognition, and renown and learning through co-creation from and with others. Therefore not only the outcome but also the experience of interaction may be rewarding for some people.

Because music is related to many powerful feelings that have an impact on the actions of musicians and music consumers (Rautiainen-Keskustalo 2004, 28), motives and motivators for co-creation can be more multidimensional than in traditional product development tasks. For many people music is a way of expressing oneself, a way of enhancing mood and a way of helping to form, consolidate or defend ones identity (Nuttall 2008, 626). Feelings are therefore powerfully attached to the music business, although the main goal of the industry is economic growth. A big part of the significance of music has been based on its feeling of privacy and the identity one can built with it. But now in the era of new media technologies, many people want to share their favorite music with others and that way enable oneself to bond socially with other music consumers. As music is so powerfully entangled with privacy and collectivity, emotions and business and culture and economy (Rautiainen-Keskustalo 2010), motives and expectations of music consumers for co-creation are hard to define.

3.2 Co-creation and crowdsourcing

Co-creation is the participation of consumers together with producers in the creation of value in the marketplace (Zwass 2010, 14). Value is then jointly created by both the firm and the consumer (Prahalad and Ramaswamy 2004a, 7). Instead of firms marketing to customers, suppliers and other parties are marketing with customers as part of an interactive, relational process (Ballantyne, Frow, Varey, Payne 2011, 202). Consumers are no longer passive but actively involved with the value creation (Prahalad and Ramaswamy

2004b, 2) and instead of physical products the value lies in the whole value creation experience. According to Zwass (2010, 11) co-creation can be divided into two sections: sponsored co-creation and autonomous co-creation. In sponsored co-creation individuals and consumer communities co-operate at the best of an organization, whereas in autonomous co-creation individuals or consumer communities produce marketable value in voluntary activities conducted independently of any established organization.

The concept of the market is no longer about people as a target for the goods and services offered by the firm, but a social forum where a network of people, also people outside the firm, are integral to the value creation process of the firm (Ramaswamy 2011, 195). Consequently the co-creation experiences become the new basis of value. The firm can initiate or participate in developing value propositions, but only beneficiaries will determine what value really means for them (Ballantyne, Frow, Varey and Payne 2011, 205 and Ballantyne, Williams and Aitken 2011). It is important for the company to create an experience environment in which consumers can have active dialogue and co-construct personalized experiences although the product would be the same for everyone (Prahalad and Ramaswamy 2004a, 8).

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“Crowdsourcing refers to the process of outsourcing activities by a firm to an online community or crowd in the form of open call” (Whitla 2009, 15). The firm offers compensation for anyone who completes the task the firm has set. The compensation can be recognition, learning experience, the feeling of pleasure or monetary reward. The most important thing is that the participants feel truly empowered (Salmenkivi and Nyman 2007, 243).

4. Outsourcing of music

4.1 IMOGEN HEAP: Lifeline - a crowd inspired song

Imogen Heap is an English singer, songwriter and composer. She plays heavily produced and arranged singer-songwriter pop incorporating elements of rock, dance and electronic. She has produced three solo albums and is now working on her fourth album. Imogen Heap is known for making good use of new media technologies especially social media. When making her third album, *Ellipse*, she kept her fans regularly updated on the album's progress via Twitter, MySpace and YouTube. She encourages fans to be creative by letting them write her press biography and help to design her album artwork (Imogen Heap).

Imogen Heap started to work on her fourth solo album on the 14th of March 2011 her fans as the spark of inspiration. The particularity of the album is that Imogen Heap did not write any material before the 14th. She wanted to take her fans’ desires and wants into even better consideration and gave part of the creation task to them. The idea of the album that is still untitled is that it will be completed in roughly 3 years, with new song released every 3 months as soon as it is completed. So rather than wait and release all the tracks as an album in a conventional way, Imogen Heap will keep the songs relevant to the time they are created by putting them out as soon as they are created (Imogen Heap Press Release).

Table 1 Imogen Heap: The timeline for “Lifeline”

Date	Mission	Description of the task
14.3.2011	<i>Hunting for the inspiration</i>	Fans can upload sounds for the song from all over the world via an online distribution channel called Soundcloud. The sounds can be “anything from rustling leaves to wine glasses”. The purpose is to get Imogen Heap inspired.
15.3.2011	<i>Words</i>	Fans can submit words to a”wordcloud” and get Imogen Heap inspired lyrically.
16.3.2011	<i>Pictures</i>	Fans can upload their photographs, drawings, stencils etc they feel connect to the past two inspirational day’s themes. The favorites will be incorporated into a virtual 3 D CD.
17.3.2011	<i>Moving image</i>	Fans can upload short pieces of moving image clips (animations or films) they feel connect to the previous inspirational day’s themes. These clips will be the core of the video for the song.
18.3.2011	<i>Solo</i>	Imogen Heap will reveal the middle section of the song and asks fans to record a solo (guitar, vocal, cello, spoons, beatbox etc.) via Soundcloud for that section.
19.3.2011	<i>Discussion</i>	Imogen Heap will discuss (in her live blog) and choose some of the solos which will be added into the mix.
21.3.2011	<i>The song is completed</i>	The song will be written and completed.
26.3.2011	<i>Fans- get inspired!</i>	Imogen Heap will invite fans to draw inspiration from the same sounds, words and pictures and finish a piece of their own, which can be music, poetry, video etc. Fans can upload their work for all to see and hear on an “inspiration wall” on Imogen Heap’s website.
28.3.2011	<i>Publication</i>	Imogen will reveal the first listen of the song publicly on her website on 28th March.

Source: Imogen Heap. < <http://www.imogenheap.com/> >; Imogen Heap Press Release. 2011. <http://heapsong1.imogenheap.com/heapsong1_press_release.pdf

Imogen Heap released the first song of the album “Lifeline” on the 28th of March 2011. The song was made in two weeks with the help of fans (table 1). All submissions went through the #heapsong1 microsite specifically built for the project where fans, friends and interested onlookers could watch the whole process over two weeks via blogs and daily live webchats on Ustream. Contributors were credited and paid appropriately (Imogen Heap Press Release).

4.2 DART-model in the process of making the song Lifeline

Prahalad and Ramaswamy (2004a, 9-12; 2004b, 23-33) have developed DART-model (dialogue, access, risk-assessment, transparency) that they also call the building blocks of co-creation. Dialogue, access, risk assessment and transparency are emerging as the basis for interaction between the consumer and the firm (figure 2).

Dialogue, access, transparency and risk assessment may not alone produce compelling experiences in co-creation. According to Prahalad and Ramaswamy (2004b, 40) the dimensions of choice in consumer-company interaction affect to co-creation experience. The dimensions of choice are multiple channels, technological know-how, options and price-experience relationship (figure 2). It has also been discovered that virtual interaction tool has an impact on consumer’s perceived empowerment and experienced enjoyment which again have an impact on the consumer’s willingness to participate in future virtual co-creation projects (Füller, Mühlbacher, Matzler and Jaweck 2009–10, 72). All the elements in the figure 2 are somehow entangled with each other.

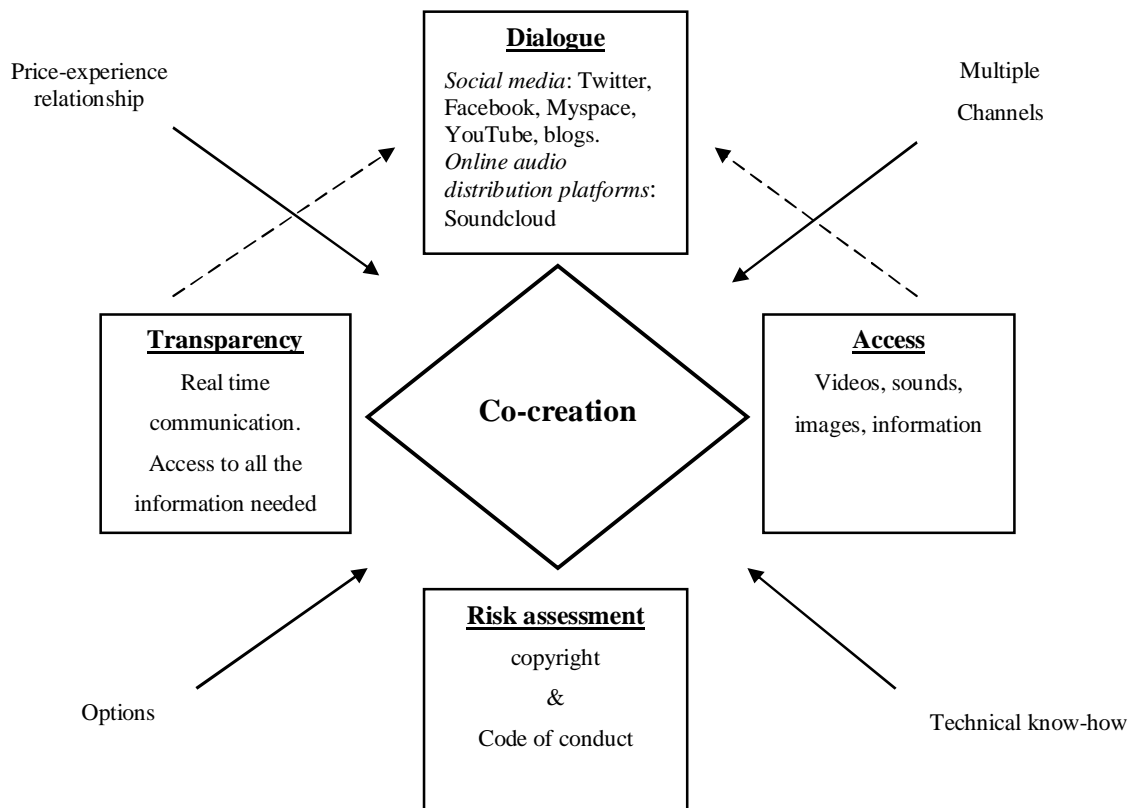


Figure 2 Value co-creation between consumers and Imogen Heap in the process of making the song Lifeline.

Source: Adapted from Prahalad, C.K. and Ramaswamy, V. 2004a. Co-Creation Experiences: The next practice in value creation. *Journal of Interactive Marketing*. Vol 18. No 3; Prahalad, C.K. and Ramaswamy, V. 2004b, 23-50. *The Future of Competition*. Harvard Business School Press. Imogen Heap. < <http://www.imogenheap.com/>>; Imogen Heap Press Release. 2011. <http://heapsong1.imogenheap.com/heapsong1_press_release.pdf>

Dialogue

Dialogue means interactivity, deep engagement and the ability and willingness to act on both sides (Prahalad and Ramaswamy 2004b, 23). Dialogue is a very important element in value co-creation and it implies shared learning and communication between two equal parties. Dialogue centers on issues that interest both- the consumer and the firm, it must

have clearly defined rules of engagement and requires a forum in which dialogue can occur (Pralhad and Ramaswamy 2004a, 9; 2004b, 23).

In the case of making of Imogen Heap's song Lifeline, a powerful dialogue can be seen in the way the artist and her fans interact via Twitter, Myspace, and YouTube and Imogen Heap's website. The gap between the artist and her fans is definitely narrow and almost non-existent because the interaction is mutual and involves shared learning. Imogen asks for inspiration and vice versa shares her thoughts and ideas with her fans. However Imogen Heap has the main control over the process because in the end it is still her song, her album and her career although the fans are a big spark of inspiration. The rules of engagement that are required in dialogue are posted on Imogen Heaps website. There are clear terms and conditions for sounds, videos and images at the bottom of her website (Imogen Heap).

Access

Increasingly, the goal of consumers is access to desirable experiences instead of ownership of the product (Pralhad and Ramaswamy 2004b, 25). Access refers to the information firms deliver and the experiences one can create with them. Due to the Internet, geographical limits on information are eroding fast, which means that consumers can access information on firms, products, technologies, performance, prices, and consumer actions and reactions from around the world (Pralhad and Ramaswamy 2004b, 3).

The content of the project making of "Lifeline" is open to everyone. Fans, friends and interested onlookers have all an access to the same information – videos, images sounds, and all the other information on the website. They can decide either to participate or sit by. From my point of view compelling experiences can be created either way only as the concept is so unfamiliar and interesting. The access Imogen Heap allows the people visiting her website forms itself a certain collectivity as people from all over the world gather to follow the process and maybe even to participate by creating sounds, videos or images.

Transparency

Transparency means the openness of product-, service- and project information. Transparency of information is necessary to create trust between companies and customers (Prahalad and Ramaswamy 2004b, 32). To have a meaningful dialog, both access and transparency are critical (Prahalad and Ramaswamy 2004a, 9).

In the Lifeline case transparency refers nearly to the same as access, because Imogen Heap's website is open for everyone. Without Imogen Heap being so open and interactive, the process could have been a disaster. Transparency and access are even emphasized as Imogen Heap is reachable every day during the two-week-period in her live blog. Consequently people have a possibility to ask questions in real time and for some people it might be a great experience to have a chat with their idol. From my point of view this is a great sign of dedication and respect the artist has for her fans.

Risk assessment

Consumers have become more conscious and also more demanding towards firms. As co-creators they want firms to inform them fully about risks included in products and services (Prahalad and Ramaswamy 2004b, 29). When assessing risks firms can make sure that co-creation does not damage the customers. However, firms need to assure that assessing and reducing risks do not alter too much their innovative and open attitude. An active dialogue on the risks and benefits involved in using products and services can create a new level of trust between the consumer and the company (Prahalad and Ramaswamy 2004b, 30).

As the information of the Lifeline project is very transparent the possible risks are reduced. By combining transparency with risk assessment the ability to co-develop trust increases and doing the same with dialogue and risk assessment the ability to debate and co-develop policy choices enhances (Prahalad and Ramaswamy 2004b, 33). As there are clear codes of conduct posted on Imogen Heap's website, including the description of credits, compensations and copyright issues, the amount of misunderstandings should be minimal.

What might worry the artist in these kinds of co-creation processes is the adequate amount of good ideas and inspirations from consumers. What if the artists do not get enough feasible ideas to cover all the expenses? What if the consumers do not get interested in the co-creation projects? What if the ideas are too wild and too expensive to realize? In case of musicians the ability to create without the help of fans is, or at least should be good though. Anyhow the co-creation projects should be planned accurately to make sure that they will be profitable and productive enough for the artists. It is important to pay attention to the technical knowhow as well as to the creative skills of the possible target group. To reach the right type and amount of people needed in co-creation processes it is also important to pay attention to multiple channels and also to options that enable consumers to co-construct their own experiences effectively in the way they want to (Prahalad and Ramaswamy 2004b, 44).

5. Conclusions and implications for further research

For music consumers, meaning fans, digitization means easier and faster access to music. The Internet with all mobile connections gives opportunity to a wide variety of music. It broadens the listening possibilities, but can also overwhelm the listener with choice.

The new value chain with many partners gives a good market place for the music industry. However this demands new ideas for musicians to keep their fans all over the world through connection by Internet.

Further research is needed to explore the real role of the fans and the musicians in the co-creation process. The important question remains, how the results and money are earned and split in the future between all partners.

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