Talkin’ about a revolution…
Redefining the value chain in a digital economy

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Facebook Is Developing Ways to Share Media

By BEN SISARIO and MIGUEL HELFT
Published: May 26, 2011

Facebook is developing features that will make the sharing of users' favorite music, television shows and other media as much a part of its site as playing games or posting vacation photos.

The company is in discussions with several online music services, including the European company Spotify, to develop a tab or widget that would display a user's most-played songs and provide an easy way for friends and fans to hear them.
VIEWPOINT July 29, 2010, 11:09PM EST

One Way to Save the Music Industry

Given the persistence of digital music piracy, a new subscription-creation model borrowed from online gaming could aid ailing record labels

By Johnny Ryan and Allègre L. Hadida

Does the answer to music retailing’s collapse lie within the computer game industry? Global music revenues suffered a 10th year of decline in 2009, with sales and performance rights falling to $17 billion. In contrast, revenue from the computer game industry’s sale of
The Traditional Value Chain: a linear & transitive system of inter-connected value-enhancing activities

Limitations of the value chain model

- Simple linear vs. complex simultaneous activities
- Activities and value creation within vs. outside of the organization
- Economic vs. political rationale
Core issues

**VC structure**: The emergence of an increasingly inter-connected society calls in question the core assumption of an orderly, linear and inward-looking sequencing of activities within a value chain.

**Impact of new technologies on the VC**: By allowing reconfiguration of organizations and industries, new technologies, in particular the Internet, may have made some value chain activities and linkages redundant, and brought to the fore hitherto neglected internal and external partners in value creation.
1. Value chain structure: opening up a customer-centric architecture to external influences

- Innovation value chain (Hansen and Birkenshaw 2007; Roper et al. 2008)
- Reverse logistics value chain (O’Connell 2007)
- Vertical architecture (Jacobides and Billinger 2006)
- Value grid (Pil and Holweg 2006)
- Radix organization (Schneider 2002)
- Value constellation (Norman and Ramirez 1993, Ramirez 1999)
- Innovation ecosystems (Adner 2006; Van de Ven 2005; Chesbrough and Appleyard 2007)
2. Impact of new technologies: complementarity vs. destruction and disintermediation

- Advanced decision support systems based on mathematical programming models also help optimize the vertical value chain (Shapiro, Singhal et al. 1993)
- The Internet: an enabling technology deployed throughout an organization’s vertical value chain (Porter 2001; Barua et al. 2004)
- The Internet: a means to unbundle information from physical modes of delivery and break the traditional trade-off between richness and reach (Evans and Wurster 1997; Evans and Wurster 1999)
- Value matrix (Rayport and Sviokla 1995)
Our central thesis

The would-be substitution of traditional actors by new ventures based on “crowd-sourcing” practices is not tantamount to simple substitution or disintermediation. It also leads to radically new prescription modes, new supply structures and a redefinition of the theoretical concept of the value chain.
Methods

1. Sample selection
   • Preliminary list of most visible new services (relative to media impact on the Internet/buzz)
   • Aggregation into a list of 247 services
   • Final sample: 21 services cited at least three times

2. Database construction
   • Data from company and press releases
   • General info: date of creation, geographic location of the server, audience/customer base, catalogue size, revenue model, content type, distribution channel
   • Vision: statements, “about us”, baseline, Google search results...

3. Coding and analysis
   • “Manual” discourse analysis
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Preliminary model: general info:
value chain evolution vs. revolution

• Evolutionary discourse: classical value chain terminology
  • e.g., we are a… “digital entertainment retailer, entertainment superstore, store, radio, Internet radio, Internet radio network interactive webradio, digital music marketplace”

• Subversive statements: from denial to symbolic destruction of the value chain
  • e.g., we are a… “digital music service, social network, the pioneer of digital music, online community, killer social music community, website for the discovery and promotion of new music and emerging artists, your personalized gateway for music discovery, connector between people and music”
Preliminary model: emergence of three core dimensions in “vision” discourse

- **Prescription**
  - Hands-on traditional professional prescription (A&R manager)
  - Expert prescription (critic)
  - Technological prescription (algorithm)
  - Communal prescription (community, wiki)
  - No prescription (end-user act as own prescriptor)

- **Supply**
  - Limited (novelty) vs. “one-stop-shop” (abundance)

- **Use**
  - Ease of use
  - Innovative website architecture
  - Free-freemium-subscription
  - Local-regional-everywhere
Preliminary empirical results

• Revolutionary discourse adopted by 15 firms out of 21

• Emergence of five clusters
  1. Prescription (“changing the way music is recommended”): 5 firms
  2. Supply (“proposing a richer supply”): 4 firms
  3. Supply and prescription: 4 firms
  4. Use and prescription: 3 firms
  5. Neutral positioning: 4 firms

• Prescription is central to all 21 firms’ discourses and claims to innovate (“vision” discourse)

• Half the services that claim to change prescription also state neutral/non-prescriptive role
Going full circle: Our new model addresses the core limitations of the value chain model

- Simple linear vs. complex simultaneous activities: supply
- Activities and value creation within vs. outside of the organization: use
- Economic vs. political rationale: evolution vs. revolution
Next steps

• Extend sample size, further test the preliminary model and interpret results

• Revise terminology to better reflect realities of the phenomena under scrutiny (e.g., use & supply)

• Check correspondence between discourse and actions

• Formalize the model as a (relatively) simple and visually appealing framework
We have only just started our value chain revolution!
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