

**Case study 9.2.1:** **The music industry in a digital, networked world.**  
**Three firms - two didn't make it, one still hasn't quite made it.**

**Authors** Dr Roger Wallis, Visiting Professor of Multimedia, and Ola Wikström, Researcher, Department of Media Technology, Royal Institute of Technology (KTH), Stockholm, Sweden.

**Abstract** Considerable venture capital support was available to entrepreneurial initiatives in the late 1990s aimed at introducing Business-to-Consumer (B2C) e-commerce into the music industry. Many of these ventures failed dramatically, often after a short period of attempting rapid geographical expansion. Numerous reasons have been proposed for this apparent inability to disintermediate an established value chain:

- a lack of understanding of logistics when dealing with the delivery of physical goods,
- a lack of co-operation between would-be digital distributors and established music industry actors who control the Intellectual Property Rights to most available products,
- incorrect assumptions about consumers and rational behaviour (thus often ignoring parameters such as trust, credibility)

This case study looks at three examples, all of which were started in Sweden in the late 1990s. It provides an in-depth analysis two of the most dramatic failures – the e-tailer Boxman, and Deo.com, offering digital downloads – and of Music Pool, a hybrid venture which sets out to offer personalised CDs to customers desiring to create their own music compilations. The latter is currently in limbo, mainly because of the difficulty in reconciling the differing goals of music copyright owners, Internet portals and potential customers.

The case enables comparisons between the three business models as they evolved from the founders' view of potential value of the offering, to the perceived value envisaged by investors and the consumers' view of actual value. The analyses suggest that lasting value was indeed created in terms of both the consumer's and the market's understanding of the potential of e-commerce.

The move of traditional mail order houses towards using the Internet as an additional channel to consumers was facilitated by the activities of the 'first movers'. Their attempts to sell downloads of music enabled the potential of the Internet and the Web for marketing purposes to be refined. For instance, the remains of deo.com are now adding this function to the operations of a traditional record company. Moreover, consumer activities involving the downloading and/or sharing of both 'legal' and 'illegal' music in digitised form have had considerable significance for the activities of network providers and operators through the amount of traffic generated.

By focusing on the experience of the music industry to examine emerging forms of value creation this case study lays the essential foundations for an understanding of the potential value in many industries of combinations of virtual and physical approaches.