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Introduction

The products coming from the Music, Movie and Video Games industries have never been in such a hot demand. They are traded and consumed as never before. However, despite this success, the Entertainment industry is facing a major crisis. Therefore the weak financial results of the "Majors" of the industry call for new solutions, since losses are not generated by a lack of demand. More than a business model, it is a brand new approach of the relation between companies and customers that will pave the way to a profitable outcome.

The common meaning of the word "consumption" is not sufficient to refer to the new utilization of entertainment products. The traditional value chain, which outcome is the transaction, is no longer relevant to represent the increasingly active participation of customers in the design of their consumption environment. This subject is developed in the first chapter.

A good product is not sufficient to satisfy the individual needs of each consumer : people are rather looking for a good "experience". In fact, the role of an entertainment company is not limited to distribute a Compact Disk of good quality : it has to be adapted to the experience environment of consumers, such as listening to music on a MP3 player, on a mobile phone, on the computer, or in the car. Anything that does not match each individual experience environment will destroy value. So entertainment companies will create maximum value by designing personalized experience environments. It implies alliances with stakeholders of the experience environment to form nodal networks, as explained in the second chapter. Such personalized environments, and therefore such value, can only be co-created : In fact, personalization is enabled by participation. Interaction with clients is mandatory to understand their specific needs and to address them.

In the third part, the statement that value creation is not the monopoly of companies will be developed. Customers also create value for companies, for themselves and for communities such as communities of fans. Therefore

the Internet and the new technologies become a fantastic opportunity for the entertainment industry : The Internet transforms literally "customers" into "firms", since any computer can indifferently play the role of "host" or "server" by distributing music for instance, movies, or by hosting websites of fans. Another example are consumers who are also developers, and who fix software or create add-ons for video games.

By building a business model on the active participation of clients, peer to peer Networks, word of mouth, support from communities of fans, or even hacking, that most of the time enhance the functionalities of entertainment products, the entertainment industry has many opportunities to turn a crisis into a co-creation of value, and therefore a creation of new value. Activities online such as file swapping exist today. The business model of the entertainment industry is cracked. It is a matter of fact. Instead of ignoring these activities and considering them as out of the value creation system, I propose a new business model that incorporates them. Co-creation of value is the patch to fix this issue.

The internet and the new technologies have modified our experience of entertainment products on a long term basis

1. Consumers have been empowered by the internet and the new technologies

1.1. The role of intermediaries is put into question

1.1.1. Music Majors are challenged by Peer-To-Peer Networks

Digital formats have enabled peer-to-peer networks (P2P) to develop. The advent of P2P has created new distribution networks. The two consequences are :

- Music Majors do not earn money on transfers of ownership based on P2P technologies, interfering with the value chain of the industry
- The monopoly of music majors on distribution has been eroded

Projects that directly link artists and final consumers, such as distributing music on eBay, are under study. In this extreme situation, the distribution function would almost disappear. Even more threatening for Music Majors, some P2P companies and independent music labels have entered into talks to work directly together to distribute songs. The English independent label *Ninja Tunes* for instance is exploring new methods of promotion and distribution of artists thanks to P2P network and the internet.¹

A new type of 100 % online distribution is emerging. Communitymusician.com is a good example of this trend. This website allows to create a personalized web page on a music store online to sell home- or studio-created music. It also proposes to make copies of original and personal creations on CDs or DVDs.

¹ According to Tariq Krim, founder of a website dedicated to online music named *Generationmp3.com*, in an interview realized by the newspaper *Le Monde*, October 7,2003

Consumers, through P2P networks, and artists, through the internet, tend to become more and more independent from the Music Majors. New online platforms have been recently created to ease cooperation between artists. Music75.com for instance delivers to its subscribers (professionals or not) some virtual space on the site dedicated to a music-related project. Authors, composers, singers, guitar players or drummer can join a project and meet potential group members. Eric Cougniot, co-founder of the website *Music75.com* shares his experience in this terms "I have composed the tunes, they have written the lyrics, other people have sung, and all this was possible thanks to the internet. We never met, but our songs are not virtual at all!"² After ten days of operations, the website already counts 570 subscribers from all over the world. More than 230 songs are broadcast on the online radio. A first "best of" CD will be released in the coming month under the label music75 to promote young artists. Next steps after promotion would be to link music75 with the *Apple music store*, *Altnet*, *od2* or *e-compil* to distribute the songs on fee-based downloading platforms.

Not only do Music Majors lose money from an increased competition, but also from parallel distribution networks that directly link consumers with one another. The current business model of music companies includes controlling distribution networks to extract value from the consumers at the very end of the value chain. P2P is disrupting the value chain. Tomorrow the movie or the book publishers industry will also face radical changes in their value chain. This evolution can be prepared and anticipated today by changing the configuration of the value chain as explained in Chapter 2.

1.1.2. The promotion of entertainment products is more and more direct

Whether it be songs, books, movies or video games, promotion of new entertainment products is faster than before. We all have a close friend that has watched everything, read everything, and who can give us his opinion about a CD, a movie, or a video game 3 months before the release date.

The traditional functions of promotion and marketing are put into questions. If a CD or a movie is bad, people will know it even before it is available on the marketplace. Online communities are challenging entertainment companies because it becomes more and more difficult to sell mediocre products, even with massive marketing investments.

² Source : <http://www.music75.com>

Today the most efficient marketing technique is the consumer (or reader, or viewer) opinion. Consumers become spokesmen for a product. They are more reliable than companies according to other potential consumers, since they have no interest in advertising the product. Consumer reviews on *amazon.com* are far more persuasive than a simple ad, because most of the time they assess the pros and the cons of a product, and give all the elements to the consumer to make up its mind. Whereas current traditional marketing methods are seen as biased by consumers since they only mention advantages. And consumers know it. So the aim of promotion and marketing investments initiated by entertainment companies has evolved : Marketing and promotion efforts are adapted to inform the public about the release of a game, a CD or a movie, but they no longer ensure that consumers will buy it. Opinions and reviews have created a mediation between entertainment companies and the public.

Consumers' opinions now play a determinant role in triggering the act of buying, more determinant than marketing investment that are less and less persuasive. Among the people who read consumers' reviews on *amazon.com*, largely more than one out of two find them useful.

It is so easy to find critics about a movie for instance, that the act of reading reviews before going to the movie theater and after having been informed of the release of a movie is a "must do" step to make up one's mind. In the case of *the Blair Witch Project*, marketing investment were even reduced to the minimum. The whole project barely cost \$50,000³. Critics were essential to the success since they called the movie "the scariest ever". Communities of fans were informed with a newsletter about the successes and difficulties encountered to release the movie. The word of mouth was all the more efficient since fans were involved early in the production process. So this major role of communities is representing potential cost savings for entertainment companies willing to co-opt consumers.

1.1.3. Direct added value is determinant for intermediary services

With the internet, consumers can directly find everything they want. Let's assume that I watch *MTV* and discover a new song that I immediately like : will I take my car, go to a store, look for the CD that contain the very

³ Source : <http://www.videouniversity.com/blairw1.htm>

single song that I have just heard and buy it, and then rip it ? Or will I go to my room, turn my computer on and launch *Apple iTunes* or any P2P software to download directly the digital song ?

25 % of the French web surfers admit to use P2P network : can we still call this massive phenomena "piracy" or a deep change in consumption methods ?⁴ Money is not the main driver for file swapping online : In France the proportion of persons using P2P network is the same among those who earn less than \$1000 per month and those who earn more than \$3500 per month.

In the price of a CD, almost half of it are distribution and marketing costs⁵. Are consumers willing to pay for costs that represent no value to their eyes ? On the contrary, the success of *Apple iTunes* that delivers good quality songs shows that consumers are willing to pay for valuable services : consumers are looking for an easy-to-use and friendly music store⁶. In this case, an intermediate makes sense. An illustration of this statement is the fact that payments on the internet are more and more developed : 16 % of American surfers have used a fee-based downloading platform in 2003 compared to 8 % in 2002. This expansion is parallel to user-friendly and cheap online music stores. Otherwise, there is no reason not to pick up songs directly from P2P networks.

The value delivered by music majors few years ago is disappearing. Having good quality music on CD format has less value today than having digital music "on the go". By offering services such as edition of library, rapid downloads, information about artists and concerts, organization of musical events and a free thirty-second preview of any song, the *Apple music store* creates value for consumers. It has set itself as a valuable intermediate. Otherwise consumers will overlap any intermediate that does not meet their requirements

Tomorrow the distribution of movies might face the same issue : when home theater devices will all include a hard drive, the value represented by

⁴ Source : Forrester research

⁵ According to Eric Tong Cuong, Head of EMI Music France, in an interview with *Le Monde*, October 3, 2003

⁶ "Apple store is integrated into one of the best MP3 programs around, rather than being a clumsy Web interface", according to *E-Commerce Times*, September 30, 2003

the DVD format will decrease, opening space for alternative digital distribution channels such as P2P networks. Distribution channels also start to evolve in the gaming sector : some video games created by individuals are distributed directly on the web without the interaction of publishing companies. Priced at around \$20, this type of games can directly be downloaded on PCs.

The progressive disappearance of intermediary services on the internet has triggered new alliances to aggregate content and audience : *Disney* for instance has purchased a majority stake in the *Infoseek* search engine and portal. Similarly *NBC* has taken stake in *C-Net* and made a major investment in its search engine, *Snap*. Search engines are the new intermediary companies⁷. They point the audience directly to content providers. The interactions between content providers and their audiences are increasingly direct.

1.2. Consumers have higher expectations toward entertainment products

1.2.1. Consumers look for individualized information

Thanks to forums, consumers have the ability to discuss any subject they want. For instance the *Wiki* platform enables direct cooperation between web surfers online : *Wiki* is a piece of server software that allows users to freely create and edit Web page content using any Web browser. *Wiki* supports hyperlinks and has a simple text syntax for creating new pages and crosslinks between internal pages on the fly. Therefore *Wiki* Pages enable to share projects online and capitalize on mutual expertise on specific subjects⁸. More and more consumers will refer to the net when looking for answers to specific needs. Technical support, in the case of video games for instance, is not broadly used. Hot lines are rather expensive for most teens. And when players are stuck in a level, they'd rather turn to other players online to find a solution.

Gamers will look for discussion forums or postings to get an individualized answer to their problem. Most of the time editors don't have the financial resources to answer individual problems : it is very costly to their eyes and they assume it is not worth it, even if they would like to do it. Ga-

⁷ Source : Michael J. Wolf, *The entertainment economy : How Mega-Media Forces are transforming our lives*, Times Book edition, 1999

⁸ Source: <http://wiki.org/wiki.cgi?WhatIsWiki>