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Niklas Eriksson

*Arcada University of Applied Sciences*, [niklas.eriksson@arcada.fi](mailto:niklas.eriksson@arcada.fi)

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## Competing successfully with a multi service online platform – a music industry case study

Niklas Eriksson

Arcada University of Applied Sciences, Finland  
niklas.eriksson@arcada.fi

### Abstract

*This paper presents a successful multi service online platform called Meteli.net within the music industry in Finland. The case platform is maintained by a network of actors either with a commercial or non commercial interest. Sources of value and revenue are identified for the case platform as well as challenges and prospects. The study gives practical insights into the business opportunities and challenges of online business and shows that music consumers are not necessarily interested in being paying customers of content but instead there is an interest to become contributors in a community or becoming so called prosumers (consumers acting as producers). A broad online partner network makes it possible for the Internet start up company to create a multi service platform instead of a stand alone music service and thereby compete successfully in the online marketplace.*

**Keywords:** Internet, Music industry, Content, Community, Shopping, Value, Revenue

## **1 Introduction**

With the Internet new ways of developing business have been made in almost all industries. The music industry is undergoing major changes due to the digitalization of content, communication, broadcasting and shopping procedures. The roles of the different actors in the music business are therefore certainly in for changes (Peitz M & Waelbroeck P., 2005). The barriers of entering different markets have, depending on the industry, also been lowered by the Internet and thereby creating opportunities for new entrants to gain competitive advantage. However, as pointed out by Porter M. (2001) there are many challenges for Internet entrants to overcome as the Internet technology in itself doesn't give a competitive edge.

To gain more understanding of the business opportunities and challenges online it becomes essential to analyse online businesses which have entered the market with new online business concepts. The aim of this paper is therefore to receive practical insights on online business opportunities and challenges in the music industry by analysing a successful multi service online platform run by a small Internet start-up company. Practical understanding will be built by identifying sources of value and revenue for the case platform, as well as report on challenges and prospects for it. The case platform is called Meteli.net and operates within the music industry in Finland.

The case study involved collection of data through semi-structured interviews with the CEO, Patrik Lindberg, of the case company and review of external and internal source data.

## **2 Meteli.net – an overview**

The Meteli.net (meteli = noise) music service platform was started in 2001 by a company called Nemesys – New Media Systems Ltd which was established in year 2000 by three students, one with a business education and the other two with a computer engineering background. Nemesys Ltd was founded as a service house for digital solutions especially for the music industry. All three founders were heavily involved in music activities before the start up of Meteli.net. One could say that they were/are music lovers or heavy consumers of music. Through their interest of music they realised that there isn't one common information and discussion forum in Finland for music lovers or people in general interested in music. Especially when it comes to information and discussions on artists and music happenings for music genres not frequently played on the radio or TV.

The first version of Meteli.net was published in the beginning of 2001 with risk finance which was hard to find at that moment as the hype around Internet broke down. During the first years the maintenance was more or less done by the founders them selves and other volunteer music lovers. Financially the mother company Nemesys Ltd survived by creating digital solutions for other companies.

This year is the third year when Meteli.net is making a profit and it's not by charging music consumers for the services but by selling advertising and calendar content to other service providers (B2B). Meteli.net employs today 13 persons, most of them doing reportages and maintaining the database. However, there is a great network of different actors who contribute to the service platform both commercially and non commercially, making a huge community consisting of festival producers, clubs, music lovers, music retailers, mobile service providers, free lance journalists, representatives of Meteli.net, music artists and radio channels. Today Meteli.net has a data bank with information on more than 10.000 artists, 11.000 albums, 50.000 single tracks, 80.000 events from the past 5,5 years and the music service is visited by more than 50.000 unique visitors every week. The number of visitors, based on their own statistics but back upped by an external traffic counter, has grown from 9.900 visitors per month in November 2001 to 98.000 in November 2004 and 215.000 in November 2006. Their own prediction for the end of year 2007 is about 300.000 unique visitors per month. Meteli.net has therefore become one of the most visited music services in Finland<sup>1</sup> where people can e.g. search for information on favourite artists and communicate with others alike. The domain names *festarit.fi* (festivals) and *klassinen.fi* (classical music) are also part of the business concept. *Festarit.fi* works as a sub service to Meteli.net and *klassinen.fi* is planned to be a service only for the classical music genre. The Meteli.net platform has so far also included some retail features, foremost operated by partners, such as sale of mobile tunes and logos, records and accessories. Now Meteli.net is also considering extending the business model in cooperation with other music service platforms to include download services of music files. Generally they call Meteli.net "the service for all music lovers".

### **3 Value vs. Revenue**

Value is what customers experience in their internal processes and when interacting with the service provider as consumers (Grönroos C., 2002). Sources of value are what underlie, from a company perspective, the perceived customer value. Many Internet services have, however, failed to offer value to the customer. The value creation process in e-commerce depends from an online vendor perspective on different factors; channel features, product characteristics, the chosen business model and the extent and quality of the Internet application (Anckar B., 2002). Therefore it is essential to identify sources of value for an Internet vendor in order to understand its success or failure.

On the other hand there is always a cost to create value which means that all commercial businesses need to generate revenue. Revenue streams for content operators online are generally coming from online advertising, subscription fees, revenue sharing with other online services, per-unit charges, online sale of noncontent merchandise and services and shared profits from directing buyers to an ecommerce storefront (Gallaughar J. et. al. , 2001).

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<sup>1</sup> Finland has a total population of about 5.2 million

The Meteli.net multi service platform will be analyzed from a value and a revenue perspective through three dimensions; content, community and shopping. The three dimensions were identified in the interviews with the CEO as key elements in the Meteli.net business model. The main pillars in the business model being at the moment content and community, and shopping becoming a key element. The three dimensions should nevertheless foremost be seen as away of structuring this study. In practice the dimensions are more or less integrated with one another.

## **4 Content**

Content is the key resource of the information economy. However, Internet is certainly suffering from information overload and content has to some extent lost its value due to bad written content and that one can get much of it for free (McGovern G. & Norton R., 2001, Seelye K. 2005). The music content sector with information on such topics as artists, albums, news, charts and events has traditionally, at least partly, been in the hands of music magazines and music TV/Radio programs. These content producers, publishers or broadcasters have generally extended them selves to Internet but their core business is still foremost the magazine or the TV/Radio program. General information on artists and albums can be found through search engines such as Google or through fan forums which usually are maintained by the artists themselves. However, based on a survey by J.H. Lee & J. S. Downie (2004) about 50 – 80% of the respondents have a great need for more detailed information and social interaction in their process for search of music related content.

### **4.1 Sources of value**

Based on surveys by Meteli.net information on artists, albums and event calendars is what primarily attracts consumers to the Meteli.net web service. The experience of Meteli.net is that the information has to be broad, it needs a certain depth and it needs to be reliable in order for the consumers to actually commit to the service as their main information source when it comes to music. For Meteli.net a broad information range means that almost all Finnish artists, music happenings also in remote parts of Finland and information from different music genres like rap and rock are available in the database. A certain information depth on the other hand is achieved by providing e.g. facts, interviews and reportages on artists, albums and events. For information to be reliable it has to be continuously updated and corrected. To ensure the reliability clubs and other event partners are given the possibility to update the Meteli.net database directly by themselves.

The event calendar and latest news can also be viewed from anywhere and anytime with a wap supporting mobile phone or a PDA device, creating mobile value for the consumer by fulfilling spontaneous, time-critical and mobility (on the move) needs (Anckar B. & Eriksson N. 2003). The mobile Meteli.net is nevertheless a limited version of the original service with the most important features such as news and event calendar.

Broadcasting with both voice and picture is also making its way into the digital world in different formats. Meteli.net offers together with a partner an own

interactive streaming radio channel from which the users are able to pick their favourite genre to listen to for free. The electronic DJ also learns over time the music style of the listener based on the picks and favourite listings made by the user. Meteli.net sees the radio as a personalised content feature and as an additional feature to the broad genre assortment that they offer the consumers.

Although the data bank is in its own league in Finland when it comes to information on Finnish artists, albums and events, Meteli.net won't, however, charge the consumers for the content they provide. Instead Meteli.net sees the value of content as away of building a consumer commitment to the platform, which will make Meteli.net the primary choice of music consumers when looking for music related content.

## **4.2 Sources of revenue**

The experience of Meteli.net is that the majority of the consumers are not ready to pay for information as they are used to get general data for free on the Internet. As earlier mentioned this tends to be a general problem for content publishers on the Internet as at least some publishers are giving away information for free on the Internet and thereby in a way are cannibalizing their own original business idea to sell content. Meteli.net has considered subscription fees for special services like reminders on events coming up. On the other hand Meteli.net sees micro payments on the Internet as non-profitable if the transaction volumes are not high enough, since the cost of setting up and maintain bank, credit card and mobile phone payment services are quite expensive. As the CEO puts it "the transaction costs are too high if there is only a hand full consumers willing to pay and the payment each time is only a couple of euros". Therefore there is a need to sell ads and event content to companies who can profit from their presence on Meteli.net. In order for advertising to be profitable Meteli.net needs traffic and the number of unique visitors per month are now more than 200.000 which is becoming an attractive number for different kinds of advertisers and sponsors in Finland. Compared to the market leader of music magazines in Finland with about 141.000 readers per magazine per month the Meteli.net visitor number is competitive (KTM Lukija 2005).

According to the CEO more consumers and especially committed consumers, the ones who come back to the service and stay there for a longer time, ought to attract advertisers, sponsors and service providers of products of more "commerce-able" nature to the site. Thereby content features can be used also for commercial use, however, in this case not by charging the end consumer. Similar tactic is used by online giants like Yahoo (yahoo.com) and MSN (msn.com) who offer free services as e-mail in order to draw the consumer more frequently to the site.

## **5 Community**

Web technology has enabled new ways in which people may interact. People join online communities in search for information, encouragement and conversation. If a community responds, participants benefit and become more committed (Arguello J. et. al., 2006). The community can also be extended from a web interface to mobile devices and is then called a hybrid community (Schubert P. & Hampe F. 2006).

### **5.1 Sources of value**

Meteli.net offers discussion forums on different music topics, users can write artist reviews, influence on the charts and comment the content. Upcoming artists are also welcome to promote themselves through Meteli.net by e.g. sending artist facts and gig information. One of the newest features of the platform is mobile video blogging from festivals so that other users can catch up on the feeling from a particular festival. So far the video blogging is done by field reporters almost in real-time. The web publishing delay of the blogs is only about ½ hour.

The experience of Meteli.net with their community features is that people also commit to the service because of the feeling of a social belonging by communicating with people that are similar music lovers as them selves and perhaps foremost that they are able to influence on the substance of the service (someone listens and talks to them). Similar research results of community proposed value in the travel industry have been presented by e.g. R. Stockdale & M. Borovicka (2006).

However, Meteli.net will not charge anything from the users for providing the community platform. Meteli.net sees instead the consumers as producers also commonly referred to as prosumers as people take actively part in e.g. reviewing artists and discussing hot topics of music. As the CEO of Meteli.net puts it “we cannot create and correct all the substance our selves so we let people create and correct it for them selves, but of course with some coordination from us”. Similar philosophy lies behind other online knowledge communities such as the free encyclopaedia Wikipedia (wikipedia.org). Empirical research also shows that many consumers want to be part of the product and service development process. According to von Hippel (2005) great business opportunities lie in free revealing and user innovation communities.

### **5.2 Sources of revenue**

According to the CEO the community will make Meteli.net better and attract more users which in the end ought to attract, from a commercial perspective, more advertisers and partners. The CEO also pointed out that the knowledge of what consumers are clicking on, reading and commenting may be interesting from many business perspectives and can certainly be tradable in the right format. Thereby also communities can be used for commercial use, however as for content, in this case not by charging the end consumer.

## **6 Shopping**

Within the music retailing sector there have been quite a few different business models tried, varying from different e-tailing models (selling records online) to digital download models. Some have been more successful others have failed. E-tailing has mostly failed to be a dominating business model due to different logistical barriers and a few dominating record producers. Downloading on the other hand in the early days of Internet failed to be a dominating business model due to e.g. insufficient consumer Internet bandwidth, free peer to peer downloading services like Napster and a few dominating record producers. (Wallis R. & Wikström O., 2002) Apples iTunes has during recent years, however, proven that it is possible to sell music online as downloads very successfully. Therefore many believe that the success of iTunes has forced the music industry to think differently, although there are still issues regarding e.g. the ways royalties and profits are going to be made to the artists (Meyer J. 2006). This is confirmed by the fact that a traditionally content focused giant like MTV (mtve.com) is opening up download shops in different countries. Likewise a Finnish publishing house, Sanoma (musiikkilataamo.hs.fi), and several others are doing the same.

### **6.1 Sources of value**

Meteli.net has an agreement with three different record shops, all operating in Finland with an extended e-tailing model where a physical store is the outlet. When an album or an artist of interest is found on Meteli.net and the shopper is interested to purchase the record he or she is given the possibility to with a simple click choose from three different record stores. The actual shopping transactions like order and payment are all operated on the web service of the record stores but the services are connected in such away that the search result of Meteli.net also appear on the web service of the record store. The experience of Meteli.net is that this certainly simplifies the search process for the shopper and makes it more convenient to shop. Moreover, the consumers can easily compare the offerings of the three record stores.

Also mobile services such as mobile phone tunes and logos can be purchased over Meteli.net. The model is slightly different as for records as the consumer is not directed to the storefront of the mobile service partner but stays on the Meteli.net platform to complete the order. Nevertheless the mobile service provider cares for the tunes and logos. The search process is similar as for records.

Meteli.net also sells Meteli.net branded T-shirts online through another partner verkkopaita.com (online shirts). Verkkopaita.com cares for the order routines and for the money transactions. The search process is simplified in the same manner as for records described above. Four different types of shirts are for sale. The message given by Meteli.net is to let your inner noise (meteli) show. The author interprets the message as join our community and show it.

### **6.2 Sources of revenue**

As Meteli.net directs the consumers to the electronic storefront of the record stores they either charge the record store by click through volume of the store link



or by charging a monthly fixed commission which is independent of the click volume. The revenue from mobile phone services and shirt sales comes from profit sharing with the respective partner.

## **7 Summary of value and revenue sources at Meteli.net**

For each dimension; Content, Community and Shopping at least one source of value and one source of revenue was identified for Meteli.net. In total about ten services deliver seven sources of value for the users of Meteli.net and five different sources of revenue for the vendor; Nemesys Ltd. Thereby Meteli.net can be called a true multi service online platform. However, according to the CEO, it wouldn't be possible for an Internet start up company to deliver a multi service online platform service like Meteli.net without a broad partner network. Furthermore he says that Meteli.net would neither be as successful with a business model of a stand alone music service.

The sources of value and revenue are summarized in a table (See figure 1.) together with examples of the online services that Meteli.net offers its users.

**Figure 1:** Three dimensions with sources of value and revenue at Meteli.net

<b>Dimensions</b>	<b>Examples of Services</b>	<b>Sources of Value</b>	<b>Sources of Revenue</b>
<b>Content</b>	<ul style="list-style-type: none"> <li>- music articles</li> <li>- events calendar</li> <li>- charts</li> <li>- streaming radio</li> </ul>	<ul style="list-style-type: none"> <li>- Broad range of information with a certain depth</li> <li>- Reliable</li> <li>- Personalised</li> <li>- Available from anywhere and anytime through a mobile device</li> </ul>	<ul style="list-style-type: none"> <li>- advertising</li> <li>- content licensing like calendar services</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>- discussion forums</li> <li>- mobile video blogs</li> <li>- artist reviews</li> </ul>	<ul style="list-style-type: none"> <li>- Social communication</li> <li>- Consumer acting as a producer</li> </ul>	<ul style="list-style-type: none"> <li>- advertising</li> </ul>
<b>Shopping</b>	<ul style="list-style-type: none"> <li>- Music as records (CD/DVD/vinyl)</li> <li>- mobile phone music tunes and logos</li> <li>- T-shirts</li> </ul>	<ul style="list-style-type: none"> <li>- Shopping convenience by a simplified search and comparison process</li> </ul>	<ul style="list-style-type: none"> <li>- fixed monthly promotion</li> <li>- commission</li> <li>- commission per click through</li> <li>- profit sharing based on actual sales</li> </ul>

----- symbolizes the integration of more or less all features on Meteli.net

## **8 Challenges and prospects**

A challenge for Meteli.net is nevertheless that only a minor percentage (~3.8%), although it's growing, of the total advertising in Finland so far is aimed at Internet (Mediamainonta, 2007). On the other hand the online advertising numbers in the other Nordic countries with similar market trends as Finland are higher. This indicates a quite strong online advertising growth in the near future for the Finnish market.

Meteli.net also feels that there is a lot to do by creating a complete content and community platform. The platform needs to be well structured and be efficiently coordinated by the administrators in order to be interesting enough to a larger audience. The procedures for processing incoming data on e.g. new artists can today be as much as 7 to 10 working days to guarantee the quality. Also new community features such as mobile video blogging need to be developed in the direction of an entertainment and a life style community. This development is supported also by the fact that entertainment and life style communities such as youtube.com (videos) and bluetomato.at (snowboard) certainly have received a lot of interest recently.

One dilemma for Meteli.net, according to the CEO, is also that the online product catalogues of the record stores cannot meet the number of artists and albums in the data bank of Meteli.net which make many artists and albums unavailable to purchase through Meteli.net. Except for not being able to influence directly on the product range offered Meteli.net cannot neither directly influence on other variables of competition in the retail markets. Generally proposed customer value sources in different retail markets both online and offline are product price (Anckar et. Al.; Chen Z. & Dubinsky A.J.), product quality (Chen Z. & Dubinsky A.J.), customer service (Anckar et al.), shopping convenience (Anckar et al.) and shopping enjoyment (Xu Y. & Cai S.). On the other hand by outsourcing the shopping features to other companies Meteli.net avoids the logistical matters which come with e-tailing. Meteli.net is also investigating different options of extending their business model to involve a commercial music download service. The advantage over e-tailing of course being the radically shorten distribution chain with a link almost from the record producers to the hard disk of the consumer (Wallis R. & Wikström O., 2002). In a street survey in December 2006 performed by students at Arcada and supervised by the author, 449 Finns of different gender and age were asked on their opinion on online music services. About 45% of the respondents reported that they are interested in download services and about 61% are willing to purchase music online. Moreover, the numbers rise noticeable for the younger population. The results certainly confirm that people more and more move towards online music shopping and indicates that the young population hasn't been lost to free peer to peer download services.

Another future prospect for Meteli.net may also be the ticket market. As Meteli.net is already offering information on several thousands of events the CEO feels that it would be quite natural to offer together with a partner an online ticket service for these events. The ticket market is, however, a different business from the retail market where commissions usually are made in percentage of the total value. In ticket sales the commission is usually a fixed sum per ticket independent

of the value of the ticket and therefore the setup of the revenue model is a key issue.

## **9 Conclusion**

This study has identified sources of value and revenue as well as discussed challenges and prospects for the case platform, Meteli.net. Thereby the study gives us several practical insights into the business opportunities and challenges online.

One special insight in this study is that music consumers are not necessarily interested in being paying customers of content but instead there is an interest to become contributors to a community or becoming so called prosumers. The data bank of Meteli.net wouldn't be what it is today without the contributions from the general music public.

This study also shows the online business opportunities of a broad partner network. In this case a multi service online platform wouldn't even be possible without the network, as the vendor behind the Meteli.net platform is a small Internet start up company with very limited resources.

However, as pointed out in the study there is a general trend today to create different kinds of online communities both commercial and non-commercial. In this case competitive advantage of the community emerges when combined with online features of content and shopping. Nevertheless as highlighted in this study the major business challenge is to coordinate the community properly so that it will be interesting to a large enough audience and thereby be commercially attractive to advertising and sales of different products.

Other interesting online business opportunities pointed out in this study are the positive prospects of mobile video blogging and the positive consumer attitudes towards purchasing and downloading music. The author will follow up on these issues by studying the development of Meteli.net in the near future to come.

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