



Key Issues in the Arts and Entertainment Industry

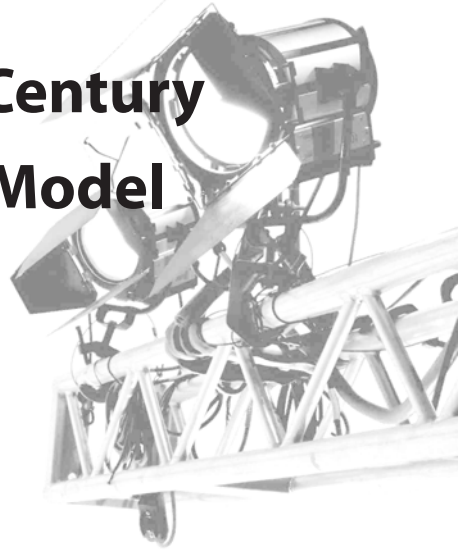
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The 21st Century Business Model



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Introduction

The art of organization is not to create organizations but to multiply our effectiveness.

(Reiner, quoted in: Byrnes, 2009: 155)

In the opening chapter, we saw how relationships between producers and audiences are undergoing a fundamental shift, with audiences becoming increasingly more involved in the creative process. In this chapter, we will move on to consider the repercussions of this phenomenon by exploring how traditional business models are evolving in the arts and entertainment industry. To achieve this, we will focus in depth on two very different sectors: popular music and the performing arts.

We will start by defining the term 'business model' itself, as it is a term which incorporates many elements and which is therefore often confused with related terms and concepts such as 'strategy' and 'structure'. We will then apply these business concepts to the popular music and performing arts sectors and consider the range of existing and emerging models across these diverse industries. By deconstructing concepts of value and audience engagement, we will explore how modern arts and entertainment organisations are adapting their business models for the 21st century. Finally, a case study on Watershed will illustrate both the process and the benefits of transforming a business model to meet modern audiences' needs.

What is a business model?

A business model can be regarded as a series of relationships participating in the creation of value (Rayport and Sviokla, 1995) and therefore as the engine and framework of a business which informs all of its activities (Falk and Sheppard, 2006). Effective business models should therefore maximise value (usually by minimising costs and generating income as efficiently as possible) and provide a holistic and effective structure to the day-to-day processes of business. Most importantly, they should reflect the drivers and values of their customers. This is what distinguishes a modern, marketing-orientated business model from the traditional production or sales-driven models.

Business models in the arts and entertainment industry

The correct interpretation of the concept of 'value' is imperative within the context of the arts and entertainment industry. In a purely commercial context, value creation is indelibly linked with profit: commercial organisations exist to create wealth for their owners, partners and/or shareholders and achieve this by maximising their profit margins. But in the non-profit, public sector and more product-led industries, value is much more subjective and therefore harder to define. In education, for example, it might be linked simplistically to a quantitative assessment of exam results, whereas a more holistic and qualitative approach might consider factors such as students' wellbeing and even transformation. But in any sector of any industry, value creation should refer back to an organisation's fundamental mission. So in the arts and entertainment industry, if an organisation's mission is to 'delight and surprise audiences' rather than to maximise profit, then value will be created (and hopefully judged) by the impact a product, event or service has on the people who engage with it.

From a marketing perspective, an effective business model should address and add tangible customer value to each of the four Ps of the marketing mix: the product, price, place and promotion. Let's now take each of these in turn and apply them to the music industry to illustrate how emerging business models have transformed the customer experience while maintaining or even generating addition revenue for the industry as a whole.

Popular music

First of all, new and emerging business models have fundamentally transformed the core product in multiple ways. What was a physical, collectable product packaged and delivered in a glossy sleeve with song lyrics and branded artwork (a CD) has become a digital, transferrable product which populates the

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