Chapter 15 A Standalone Digital Music Vending Service

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In this chapter, we apply the STOF model and method to a case that involves a digital music vending service, called ‘MusicBox’, in a newly industrialized country. The service uses store locations where users can obtain digital music from digital music vending machines. The service enables users to make use of mobile devices like MP3 players, telephones and the like to listen to popular music. We used the STOF model as a prescriptive framework. Accordingly, the present chapter addresses the following question: Can the STOF model and method be used as a framework for designing a digital music vending service and underlying business model? The analysis is based on the first two phases of the dynamic business model, i.e. the conceptualization of the first ideas, and the initial market trials.

15.1 MusicBox

As a result of numerous technological innovations, the global music industry has changed considerably over the past decade. While the sales of music based on physical media, i.e. CD and cassette, have fallen, the consumption of digital music in the markets of developed countries has increased. The key factors with regard to this increase include affordable broadband access via Internet, an abundance of ripped digital music, a sufficiently high PC penetration, and low prices of portable music players. However, in the country under study – a newly industrialized country – the density of PCs is low and the penetration of broadband facilities is almost zero.

In an attempt to overcome the absence of these two key factors, a specific company is developing MusicBox, the main goal of which is to offer digital music to consumers by setting up digital music vending units (kiosks), bypassing traditional PCs and the need for broadband Internet access. Consequently, MusicBox provides the ‘on-the-go’ experience in a newly industrialized country. As a result, its value proposition is to enable end-users to purchase and download high quality original digital content legally,
via a network of multimedia vending units, placed at convenient locations throughout the country to enable the music to be played on portable devices.

In the next section we discuss the intricacies of the music industry in the specific country under study. The subsequent section contains an overview of existing external drivers, as well as preconditions characterizing the indigenous market. After that, we elaborate on the manner of applying the STOF method in the design process. We discuss the Critical Design Issues (CDIs) involved in the MusicBox case. Next, we illustrate the various interdependencies between the CDIs of the various domains. In the final section, we present our conclusions and discuss the issues we addressed.

15.2 The Indigenous Music Industry

We begin by identifying the external technology, market, and regulatory drivers that influence the business model. The introduction of digital music and digital data-compressing techniques in general are important technical drivers, because they have a significant impact on the global music industry, in particular with regard to the distribution channels, as digital (non-physical) formats become available. The distribution channels of music are changing and new distribution channels evolve as the availability of broadband Internet and third generation (3G) mobile services enable licensed digital distribution services. Obviously, the same drivers have enabled a large-scale unlicensed p2p exchange of digital content, which thus far has proven much more important than its legitimate counterpart. However, in the market under investigation, PCs and broadband Internet are hardly available and adoption levels are low. In addition to a channel used to obtain content, a device to play digital music is also required. The development of such devices, at lower prices for devices with ever larger storage capacity, is another technical driver. In addition, the development of these devices is connected to the available digital audio formats.

Market drivers have to do with issues such as disposable income, demographics, available leisure time, and demand for leisure (Vogel, 2004). The fact that consumers in newly industrialized countries have relatively small disposable incomes implies that markets will tend to favor low prices and high volumes. However, as the economy in the countries in question is growing, so is the average disposable income of consumers. The number of digital music playing devices, like MP3 players and mobile phones with built in MP3 functionality, is growing. A more specific trend involves the music sold by the indigenous music industry, which for the greater part consists of local film music.