Chapter IV Vertical Value Nets of Music Factory Indonesia

IV.1 Case Study Overview

The case study overview showed the informants and reliability and validity of each case study. The informants part describe the name of the people and the span of the interview including the location when the interview conducted. Case study reliability and validity provided to convince the reader regarding the data collection and data analysis of the case study.

IV.1.1 Informants

The informants of Music Factory (MF) Indonesia's vertical value nets were divided into two types; internal MF's management and MF's partners. From internal MF, the interview with KFC team was held at RICE Restaurant, Darmawangsa Square, Jakarta Selatan, May 1, 2015. The respondents are Syafia as Media and Promotion Manager (IMF01), Yorie as Secretary and Media Promotion Support (IMF02), Bambang Sugianto as Artist Management (IMF04) and Nugroho Dandy as Business Development of Music Factory KFC Indonesia (IMF03) and spent 1.5 hours interview. In different times, the phone interview with IMF01 was conducted two times.

The interview with MF's partners included two records labels; Trinity Optima Production and Musica Indonesia. Interview with Trinity Optima Production (TOP) conducted three times. First was at their office Jl. Hayam Wuruk No. 5, Tamansari, Jakarta Barat, April 28, 2015. The respondents were Yonathan Nugroho as Managing Director (EMF01), Irien Santoso as Business Development Staff (EMF02), and Eunike Elisaveta as General Manager Digital Business (EMF03). The second interview with TOP was with Kandria Kananta as Artist & Repertoire and Music Publishing of Trinity Optima Production (EMF05), August 30, 2015 and spent 46 minutes. The third interview was through the phone with Ana Harestinah, Strategic Marketing of Trinity (EMF04) on February 9, 2016. This interview was spent 50 minutes. Interview with PT Musica Studio has included Siti Dyana as Digital Content Manager, Musica Indonesia (EMF06) and

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conducted on February 18, 2016 at Jl. Perdatam Raya No. 3, Pancoran, Pasar Minggu, Jakarta Selatan. This interview was spent 1 hour 5 minutes. Another interview included Arie Legowo as Artist and Repertoire of Warner Music Indonesia (EMF07). This interview was conducted on July 24, 2012, in 5th Floor Wisma Alia, Jl. M.I. Ridwan Rais No. 10-18, Gambir, Jakarta Pusat.

Table IV.1 Informants of MF's case

Internal MF		**MF Partners**	
Name (code)	**Occupation**	**Name (code)**	**Occupation**
Syafia Wardhana (IMF01)	Media and Promotion Manager	Yonathan Nugroho (EMF01)	Managing Director Trinity Optima Production
Yorie (IMF02)	Secretary and Media Promotion	Irien Santoso (EMF02)	Business Development Staff Trinity Optima Production
Nugroho Dandy (IMF03)	Business Development	Eunike Elisaveta (EMF03)	General Manager Digital Business Trinity Optima Production
Bambang Sugianto (IMF04)	Artist Management	Ana Harestinah (EMF04)	Strategic MarketingTrinity Optima Production
Harun Nurasyid (IMF05)	Managing Director	Kandria Kananta (EMF05)	Artist and Repertoire and Music PublishingTrinity Optima Production
Fabian Gelael (IMF06)	Owner	Siti Dyana (EMF06)	Digital Content Manager, Musica Indonesia
		Ari Legowo (EMF07)	Artist and Repertoire Warner Music Indonesia

IV.1.2 Case Study Reliability and Validity

The case study's external validity is conducted by reporting the findings to the informant and music industry's experts. In this case, the findings already previewed by IMF01 and Adib Hidayat as the Editor in Chief Rolling Stone Magazine Indonesia. The case provided below is the result of case editing and fixation after conducted a discussion with the informants. Moreover, this case study conduct the external validity by utilized the previous literatures to support the findings. Referring to Yin (2014), this case study reliability is constructed based on database comprising the recordings and documentation of interviews provided in Appendix C. This case study is also using a case study protocol in

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Appendix A, which reviewed by supervisors regularly to get the valuable feedbacks. This was chosen to gain the consistency of interview response.

IV.2 Key Findings

MF (Music Factory Indonesia) is an Indonesian record label that established on 24 June 2006 by Harun Nurasyid and Fabian Gelael. MF categorized as a non-conventional distributor that has an outstanding and remarkable way of implementing the CD selling system to a merchant. The main focuses of its business are actuating an exclusive partnership with some record labels in Indonesia and helping them distribute and promote their physical product at 433 branches of Kentucky Fried Chicken (KFC) merchants all over Indonesia. Their emerging was triggered by the aging customers of KFC and the increasing competition of retail stores that sells fried chicken. Then they attempted to change their business model to become a part of people's lifestyle by interpolating music in their business. The first business model was by created their own music program and recruited indie band then repackaged and sold their CDs in KFC merchants. After the attempt reached it success, the bigger records label then asked to join to distribute their products in KFC through MF. The sales of the bigger records label doubled from the sales of indie band which then shifted the focus of MF to facilitated bigger records label instead of releasing the indie band. The bargaining power of KFC which bridged by MF is somehow very high as they selecting artist who could join and distribute their product. However, since

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the sales were always promising, bigger records label were not hesitate to follow the rules that has been set by MF and KFC.

IV.2.1 Who: Actor's Network

Music Factory is categorized as the vertical value nets as it becomes a hub of supplier nets, in this case, a records label, that wants is to distribute their product through KFC channels all over Indonesia. Vertical value nets are the type of value net that includes supplier nets; channel and customer nets. This type of net has vertically integrated value-systems.

The main goal of vertical value nets is usually to increase the operational efficiency of the value system. One of the examples of vertical value net is Wal-Mart that becomes a hub that is directing the supplier system. Most vertical nets also look for developmental objective, which mainly lead to small and local improvements in the products or processes of the given value system. Another goal which is quite ambitious is to incorporate the complete value system, starts from the raw materials to the distribution of products to the end-customers (Möller et al., 2005).

IV.2.1.1 Structure

The network structure is the overall pattern of relationships within which the industry embedded (Gulati et al., 2000). Based on Inkpen and Tsang (2005), the network structure is comprised of network configuration, network ties, and network stability. MF network structure mostly consists of the actor from creation and reproduction chain. Although MF first recognized as a records label, now it is most known as the official distributor for music product that sold through KFC merchants.

<u>Configuration</u>

MF position in the network structure is on the distribution chain, and its network comprises the actors from the creation chain (e.g. artist, producer, songwriter) who stand alone and not contracted by particular records label, reproduction chain

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(e.g. records label), and consumption chain (KFC merchants). Some records label that became MF partners are Warner Music Indonesia, Mega Music, Aquarius, Musica Studios, Sony Music, Trinity Optima Production, E-Motion, Pro-M, Nagaswara, Ancora Music, dr.m, Glow Music, Virgo, Republik Cinta Record, Keci and Alfa Records. The main partner of MF is KFC Indonesia as the owner of 433 KFC branches all over Indonesia. Until December 2015, MF is the only records label that has the authority to select, collect and promote artist or label that wants to distribute their album through KFC merchants.

> *"Our main partners are the record labels."* (IMF01)

> *"Given the impact of black October, the CD sale was decreasing. Fortunately, we enter KFC at that time and the CD selling was really good."* (EMF05)

Besides records label and KFC as the main partners, MF also has a partnership with Agency or production house. This partnership occurs when a particular agency or production house want to use a song from KFC singer or band as the movie soundtrack, and advertisement back sound.

> *"We are in contact with many Production House since they see that KFC could provide several media such as LCD TC at the merchants, banner, so we offer cross-promotion, why they choose KFC because they want to join the promotion."* (IMF01)

> *"From 1 album there are six songs which be used in 4 different films."* (IMF01)

Other partners are telcos and digital store. MF also creates a publishing house namely "Pusaka Music Factory". Although digital sales are not the primary focus of them, at least they have they own channel for the digital product.

> *"We have a publishing "Pusaka Music Factory", this is for artists who still not having a publisher, they could join us, and we'll help them distribute their songs to telcos and digital store."* (IMF03)

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MF has an excellent communication with different kind of media, from online and printed media, radio and television. Once an album released through MF and KFC, all media partners will be informed and invited to their events.

> *"At every event, even CD release, we collaborate with many media from printed media, online media, radio and TV or with different production houses like what being done when Andien releases her album."* (IMF03)

Ties

In its vertical nets, MF becomes the organizer of the collaboration and has a great bargaining position compare to the records label. However, MF is tightly tied with KFC management that has a higher bargaining position than MF. In this case, MF becomes the spokesperson of KFC Indonesia to the records label/artist, and both of them usually sit together to determine which artist or albums could be distributed through KFC branches. This condition seems to try to monopolize the physical music distribution industry, remembering only less brick and mortar music store left in Indonesia due to the physical music sales decrease.

The network ties in these vertical value nets are mostly between labels and MF. MF only receives the end product, while the contracted labels are responsible for picking the qualified artist, producing the song materials, reproducing the materials to 250,000 CDs with the KFC logo, and sending the product to MF. MF is responsible for managing the exclusive distribution of the label's artist via KFC stores and conducts promotion activities with labels.

> *"We give a choice (to label) who wants to print (the CD cover). But regarding the material and cover quality, logo, etc., should still upon our approval, for example, CD covers for Ahmad Dani rather sinister black color, we asked the to change. All this will be adjusted again to make it (cover) more eye-catching."* (IMF04)

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<u>Stability</u>

The contract is usually for a three to six months contract. Labels are not allowed to sell their CD anywhere else during the contract period with MF. If the product sales do not meet the target, the product is returned to the label.

> *"The contract (with the label) includes three-month targets, a maximum of six months for completion. This is because the product (CDs) constantly rotates, and queuing artists to enter to KFC is from six months to one year. After the contract is done, there is a grace period for the product to be sold in other places (stores that sell CDs), such as Gramedia and Indomaret. If you have not completed the contract but sell the product in other outlets, you will be blacklisted. You will also be blacklisted if you sell the product to competitors, such as Texas and Seven Eleven."* (IMF01)

Since the contract is very short, the network stability is considered moderate. Moreover, the continuation of the label distribution through KFC network is not always firmly determined, thus makes changes in network member every six months. The way how KFC and MF selected the label or albums and the contract agreement which sometimes one way and felt pressing the label with its price requirement makes the labels hesitate to distribute their product through KFC merchants.

IV.2.1.2 Governance

Network governance is the process of making and implementing a decision in the network. The network governance elements include review and evaluation, decision-making authority (Shuman and Twombly, 2010), collaboration guidance (Bititci et al., 2004), and transaction (Håkansson and Snehota, 1995).

<u>Review and evaluation</u>

Review and evaluation were mostly conducted concerning sales and promotion effectiveness. In promotion activity, the preferences of the city were determined by the fans location of the artist. For instance, for the artist who's the fan base is in the lower income group, the city preferences for promotion are mostly in suburban.

"We usually create a meet and greet in suburban-like Cikarang and Bekasi for the C-D consumer group, because it is more promising." (IMF01)

Review and evaluation are usually conducted after the promotion activity end. MF will ask the merchants of the sales number for before and after the event takes place. This was carried off to figure out the promotion or event effectiveness. After one week, MF will contact the KFC merchants again to know the sales progress. If nothing happens, then the promotion activity needs to re-evaluate.

"Normally we would ask the sales data on the day visit takes place, usually one day before and after the visit, so we know how big the changes at before and after the visit. After a week we check again, for example if we visit on Wednesday, we will check next Wednesday again see how big the difference after the visit." (IMF01)

<u>Decision making</u>

Decision making is usually determined by MF, which makes MF's bargaining position high. Even though the label built a good relationship with MF, not all artists in that label could sell their music via MF. MF mostly integrates and controls the movement from the distribution slot of labels, product requirement, artist and label promotion obligations, and sales reporting.

"We offer (artist) to KFC through Music Factory, however, we're the one who needs distribution channel, but who makes the decision is not Music Factory, but KFC, Music Factory is truly aggregator, but Music Factory has the power to influence KFC to release particular artists." (EMF04)

MF has a regulation that it can only distribute ten regular albums outside of children's and religious albums. This is the reason why MF and KFC become more selective of artists and albums.

"We are afraid that if we accept more than two albums from each label per year, the distress will be in the focuses of selling and promotion. Because we are not a CD store, we prevent accumulation of the unsold product." (IMF01)

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For some new artist, MF usually carried out a small research. This is to make sure whether the new artist has a fan base of not. This will also help MF determine how many CD should be produced.

> *"We're going to have met and great to test the market, to know whether they have fans that will buy the CD whenever artists perform in an even, no matter how big is the artist if they don't have loyal fans the CD won't sold well."* (IMF01)

Besides regarding the selection of artist, MF also determines the promotion plan. Label need to comply with the schedule which already given by MF. This sometimes makes some labels feel unhappy.

> *"We will push artist or label (to follow the promotion plan), if not we will issue a warning letter if they don't take the time for promotion because it's already stated in the contract."* (IMF01)

> *"Because they offer a deal that we think is too arrogant, so for us ok, this is not the only place to sell our product."* (EMF06)

When the artist or a label were not following the promotion schedule that given to them, sometimes KFC gives the unilateral penalties. This was not based on the win-win solution principals and label, or artist felt not given a chance to voice their opinion.

> *"Having collaboration with KFC is so much hassle, for instance, "LILA" needs to perform in one city today, if LILA can't attend. KFC threaten MF then MF will talk to us."* (EMF06)

> *"Maudy Ayunda once dropped from KFC merchants, she supposed to release at Ramadhan time, but at that time Maudy told to come to one event, but she couldn't attend because she already had a deal with Trans TV. Because of that KFC release a letter of notification to all KFC merchants to not offering Maudy's CD."* (EMF06)

However, MF still tries to be professional and try to make the album on sales again. It can be seen that MF mostly acts as the intermediary between label and KFC. They always do their best to make the collaboration run smoothly.

> *"After Maudy taken down, it being up again for sales after a while, I mean, Music Factory fight for that."* (EMF04)

Collaboration guidance

The collaboration guidelines are stated in the contract. The guidelines include obligations that label must propose the marketing plan for six months; the label must follow the promotion plan. MF requires labels to manage their artist for store visits or meet and greets in KFC stores as scheduled by KFC. Each contract usually contains the equal responsibilities and benefits for MF and the label(s). However, adjustment of the contract is still possible, although not always applied.

> *"If they don't bring the marketing plan we're going to reject them, because usually labels are ready with their marketing plan, many artists for instance like Mike Mohede is queuing for two years, although the material is already there since two years ago."* (IMF01)

> *"At least four times visit, one time per month to meet and greet for all artists that albums sold in KFC. We will push again to send a warning letter they don't follow the contract."* (IMF03)

The partner label owns most of the licenses, but MF also owns some licenses through a separate deal. Artists who are stable and tend to create a high number of sales are those who could join MF network. In contract is also written that label must put the logo on the cover, and the time period of contract is mostly three to six months. Labels are prohibited from selling albums anywhere else whenever label and MF are still under the contract and much more.

> *"The cooperation last for 6 months, if there are any unsold product then will be returned, thrown to the traditional market, KFC logo will be covered with stickers, so for example, we would pass the returned product from KFC to Gramedia, the KFC logos will be covered by Gramedia logo."* (EMF04)

> *"We tried various channel, one of them is through KFC. Since they are new, we can say that they are the first, so they have specific regulation which we have to follow. And we follow it, because they have broad distribution coverage."* (EMF07)

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<u>Transaction</u>

The transaction happens in MF network usually occurred monthly, according to the sales report. The transaction happens from a consumer who bought the CD at KFC merchants then the money was collected to MF. MF will manage the reports and money for the labels.

> *"They (MF) sent us monthly report, so the transaction is based on that, for instance from 200.000 thousand copies, the 1st month resulted in 50.000 copies sold, so we'll get the base price multiply by the number copies sold that month."* (EMF04)

> *"So the transaction is between Label to Music Factory and music factory to KFC, for example KFC give the price to consumer Rp 22,500 then Music Factory pays to us Rp 14,500 per CD multiplied by the total number of CD sold."* (EMF04)

IV.2.1.3 Behavior

Network behavior is the way in which members of the network act toward others. The network behavior elements include active/passive communication, sharing resources, transparency of internal information, and time period of collaboration (Shuman and Twombly, 2010).

<u>Active in communication</u>

The communication between label and MF usually happen at the beginning of the contract, during the product distribution, and during the promotion time. The communication in MF is handled by the promotion staff and in the label is handled by the physical sales staff.

> *"Besides regarding the sales, usually, we communicate regarding the promo scheduled, then we create a promo concept, campaign, which has a direct impact on sales."* (EMF04)

The communication also happens regarding the sales report and product demand. Since promotion activity is hoped to give a direct impact on CD sales, MF and label are actively communicate regarding the promo effectiveness.

"There is a monthly sales report, for example, KFC purchase 200,000 pieces (of CDs), but the monthly report is based on the CD sales for per month, if they (KFC) asked to repeat then we'll repeat the CD production." (EMF04)

The communication usually happened through email of the phone call. The communication regarding the promo activity was mostly initiated by MF to KFC and KFC will adjust the schedule and the store activity. Labels are waited to be informed until the schedule is fixed.

"Usually by email, area manager to store, if there is a visit the information must deliver to head of marketing, then continue to area marketing then they will recommend the are, for instance, Bekasi or Bandung, then they will coordinate with MF, MF will inform label regarding the date and time, artist just need to come." (IMF04)

However, it seems that not all communication was conducted smoothly. Many labels are being disappointed for being informed in the short notice. Since the information flow regarding the promo activity is usually happen from MF to labels, and labels to artist management. Usually for the big artist, they already have a tight schedule, particularly when they just released an album. The artist absence of KFC's promo plan cannot be tolerated by KFC and MF and sometimes raised some conflict. Labels hoped that the promo plan is being communicated long before the D-Day and also the schedule still open for discussion.

<u>Sharing resources</u>

In this MF network, KFC is the one who shares its resources most. The resources include it is more or less 500 merchants all over Indonesia. The CDs from labels placed to KFC merchants. The CD is often bundled with KFC chicken package or sometimes offered separately by the cashier. The artist who is on promotion is often highlighted in the merchant. For instance, their music video clip repeatedly showed in KFC's merchant LCD TV, and the banner is placed during the promotion time. Given that condition, KFC shares its merchants, its counter staff, and place for the promo.

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"KFC has more or less 500 merchants, compare to their competitor, are the biggest, CFC only has 200 channels, Texas Fried Chicken own 100 merchants" (IMF04)

"So we use them for because of their number of outlets, can be said that KFC is the biggest in the fast food industry nowadays." (EMF06)

MF becomes the intermediaries between label and KFC. They have a warehouse that can be used to place numbers of CDs. These CDs are waiting to be placed in some KFC merchants all over Indonesia.

"All production carried out by records label, but the music factory got fee from managing the distribution in KFC, MF has a warehouse to store the CDs." (EMF04)

Source: http://bit.ly/1Zyrn1D.

Figure IV.1 Meet and greet at KFC

<u>Transparency of internal information</u>

The transparency of information is stated in the contract, including the type of information that needed. At the beginning of the proposal, labels usually share their artist's demo. This usually helps to convince MF and KFC to let them release the album through KFC. During the contract, each partner exchanges the internally required information but only in the matter of marketing plan and a

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number of sales. Other than that, MF and KFC are strict with its internal information, especially toward those who are not obliged to be informed of the labels and other partners.

<u>Time period of collaboration</u>

The lengths of the contract are three to six months. After the contract end, there is a period when labels not allowed selling the remaining CDs elsewhere. The contact happens in that short period since there is a long waiting to enter the distribution through KFC. The short period contract also makes the promotion activity being boosted and pushed during that six months period.

> *"Three-month targets, no longer than six months must be completed because the product rotates continuously and other releases are queuing."* (IMF01)
> *"When label finished its contract with KFC there is a grace period for not to sell their product in other places (stores that sell CD) for example Gramedia, Indomaret, etc. If you have not completed the contract and the product already sold in other outlets you will be put on the blacklist. Selling at our competitors will also put in blacklist. For instance Texas, Sevel, CFC."* (IMF01)
>
> *"The contract is short; however, it's ok since we still don't know the character and consumer behavior of buying our product through this chanell. We still need to learn about it."* (EMF07)

IV.2.2 What: Business Model

A business model is a representation of how actors in the network exchange value and arrange the value flow.

IV.2.2.1 Value Exchange

Value exchange is the worth of something tangibles and intangibles expressed in terms of the worth of network member and customer

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Tangible

Value exchanged in MF's vertical value nets business model is in the form of tangible and intangible value. Tangible value exchanges are usually in the form of money. KFC and MF get a fee from CD sales in the merchant. The system is more to discounted CD price. Through MF, KFC pay lower price per CD compare to the market price.

> *"KFC gives money to MF, then from MF to labels, if I'm not mistaken, KFC sells the CD for Rp 22,500, then KFC offer Rp 20,000 or Rp 17,000 per CD to MF, and MF gives us Rp 14,500 per CD, it's a fixed price."* (EMF04)

Another tangible value being exchanged is the CD. After labels get the order form from MF, the label then produced the CDs and delivered it to MF. MF is the one who responsible to place the CD to KFC and make sure that the CDs are well distributed to KFC merchants.

Intangible

The intangible value that is shared here is mostly in the form of data (musical data in many formats, song and artist data), and marketing and promotional data. Labels exchange the fanbase information to help MF directing KFC to place the CDs in the right merchants. Labels also share other information regarding the promotional activity that was going to be activated during the contract with KFC. A visit store program gives the artist benefit to exclusively sell their CD for three days in that area.

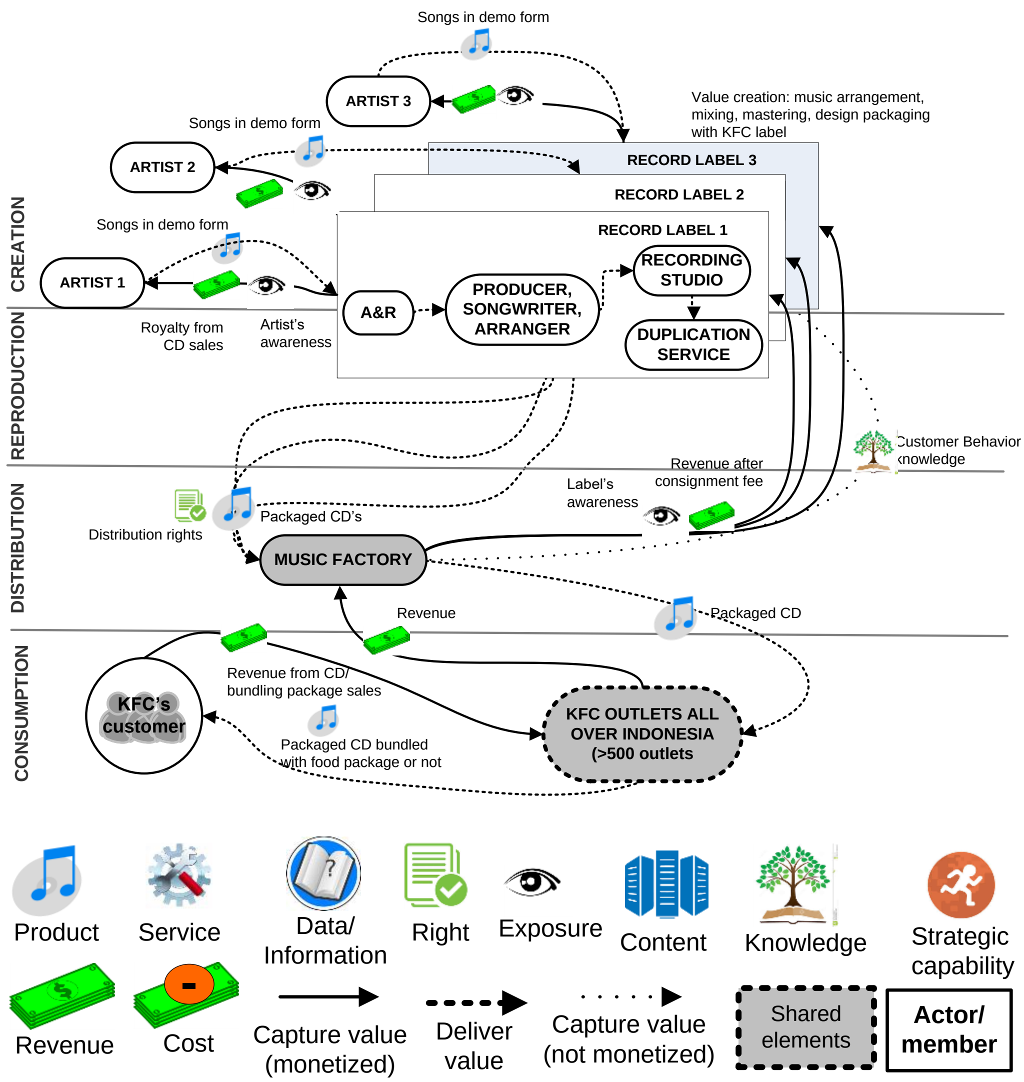

Figure IV.2 Business model of MF networks

"We classify the distribution area based on the fanbase location from each artist's." (IMF01)

"For instance, GIGI album titled "Mohon Ampun" can only be found in KFC store area: Aceh, Medan, Pekan Baru, Jawa Timur, Nustra, Bali, Jawa Barat, Jawa Tengah, and for compilation album which includes big names such as Rossa, Afgan, Armada, Tompi, Wali, Derai, Vizha, Ungu, and the new singers such as Rijabbas and Eros Tjokro, are distributed in KFC Jabodetabek, Sulawesi, Kalimantan, Ambon, Papua, Palembang, Padang, Lampung, and Jambi." (IMF01)

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IV.2.2.2 Value Flow

Value flow is the action that being taken to move value within network member and customer. In MF network the value flows are in the form of products, services, and money flow. The value flow is strictly centralized to the focal firm.

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<u>Product flow</u>

Product flow starts from the selected artist's CD reproduction that was managed by the record label. The final product, which already has KFC labels, is then delivered to MF to be distributed. KFC usually request some amount of CD copies to the label. Label then fulfill the order and produced the CDs with KFC label to MF.

> *"KFC requests 200.000 CDs at the first week 200 thousand so right, we usually produce only about 250 thousand, the remaining 50.000 usually for promo, for the media, continue later if for example the KFC has a repeat order, so we make new copies again."* (EMF04)

<u>Information flow</u>

Information flows start either from MF or partners. From MF, information that delivered based on the purchase order. The rest of the information flows from MF to labels are mostly on the monthly sales report. From partners like records label, information is more about the content and the marketing plan activity. It started when label wants to place their albums to be distributed by KFC.

> *"Information was conducted mostly through email, by phone only if it is urgent."* (IMF01)
> *"KFC informs the available date to MF, then MF will inform it to labels, sometimes in a very short notice so we can't adjust the schedule."* (EMF04)

<u>Service flow</u>

Service flow started when fans or KFC come to KFC. On the counter, the merchant staff will offer the CD to the fans or customer. When the customer agrees to pay, the staff will give the CD. Staff will also inform the upcoming promotion program to the customer. KFC also created a KFC music hitter community. KFC music hitter is a community for KFC music hit list lover. The consumer can be a member by buying a KFC hit list CD in KFC store, after that they will get a scratch card. By becoming a KFC music hitter, the member could get some advantages, such as: get 10% discount for CD, free KFC product by showing SMS “free product”, and much more. As one of the service, each KFC merchants will report the CD sales monthly to MF, which then forwarded by MF to the label. For the front liners, KFC gives incentive to the outstanding employee in the form of overseas vacation. It will make the front liners more passionate in doing their job and providing the best service to the customer.

> *“Some artist, for instance, Firza, appreciated the front liner who sold his CD most by visiting them after work hour, those who sold most of the CD will treated a dinner together with Firza.”* (IMF01)

<u>Money flow</u>

The money flow happens at the same time with the service flow. It starts from the bottom, which is when a customer bought CD from KFC merchants. The KFC merchant reported the CD sales to MF. When the customer agrees to pay, the staff will place the money. Money from the CD sales then being collected monthly and reported to MF, which then reported by MF to labels. After that, MF will transfer the money from monthly sales to labels. Labels then distribute the money exclude the fee to the artist management.

IV.2.3 How: Business Model Innovation

The business model innovation is a process of valuable changes in part or all of the activities, resources, and capabilities within the network business model, which happen in different types and levels.

IV.2.3.1 Types

Adapting the BMI types by Giesen et al. (2007), MF’s vertical value nets of BMI categorized as industry model types, and the level of BMI considered an industry breakthrough, as its emergence redefined the music distribution industry in Indonesia. Before the emergence of MF, none of the records labels distributed

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their music through a restaurant chain. CD distribution normally conducted through CD stores. However, CD sales have declined since the mid-2000s, and most CD stores have closed. This vertical value net emerged as one of the solutions for CD distribution, as it could help labels distribute their product all over Indonesia with minimal risk of investment compared to their self-distribution. However, this network is very exclusive and could not be a solution for smaller record labels. After the network operates, BMI is categorized as a revenue model, because the net innovation activity is mostly on how it could generate revenue through offering re-configuration (product/service/value mix) and pricing models. The result of the innovation activity is mostly on the promotions which were designed differently for each artist.

> *"The drastic change is mostly in distribution method. Instead of distributing CD through CD store, now we distribute our product through unconventional channel, like KFC, etc."* (EMF01)

IV.2.3.2 Process

Initiation

The initiation phase, cover the activity of understanding the needs of the player and identification of change drivers. The innovation process of MF mostly happens internally and is initiated when the owner and team are getting a deep understanding of the personality of the target market by conducting surveys and observing trends and the consumers' daily habits. They also realized that in Indonesia, the number of retail stores that also focused on selling fried chicken is expanding rapidly. That time, KFC was a lack of innovation and not concerned about lifestyle aspect compared to McDonalds. They realized that lifestyle was not an only dining experience. They desired to be a part of people's lifestyle by interpolated music in the business.

> *"We see from the bigger brand like Reebok, Pepsi. Coca-Cola and much more, they use music to attract youngster, but what they did is quite a short cut, what we want is to build out own music program."* (IMF05)

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Get inspired by Indonesian Idol; KFC sees the prospect of the unreleased artist be orbited in the entertainment industry. So the idea of creating a label for the unreleased artist has arisen, and KFC music factory is created.

> *"The music and genres that suit youngsters, like a KFC customer segment, signified the rejuvenated pace of KFC Indonesia."* (IMF01)

> *"Indonesian youngsters are very open to changes and easily adapt overseas trend or innovation."* (IMF06)

<u>Ideation phase</u>

Ideation phase covers the activity of overcoming the current business logic, thinking in the business model and managing the idea creation. At the ideation phase, the concept is then brought to discussion with the KFC headquarters in America which then resulted in the MF's establishment in the year 2006. In 2006, Music Factory was made after a two-year discussion with KFC headquarters in America. Fabian Gelael was confronted with uncertainties while he developed the innovation. Many records label was doubt with the system of CD selling in KFC merchants based on the minimum experience in the music industry and based on the infamous artists that being offered.

> *"We start with an indie band, the unknown, recompile from the best, we repackaged and sold it through KFC stores."* (IMF06)

> *"At first, the front liner gets scolded by the customers, they get mad because of the CD offering was made the service longer than usual, but I encouraged the frontliner and asked them to keep doing that."* (IMF06)

<u>Integration phase</u>

In integration stage, the activity consists of detailing and ensures the alignment of the business model and managing partners. At this stage, the owner details the business model together with the MF team.

“We regularly do a brainstorming with the business development team, human resources team and customer orientation team to figure out the best innovation we should make.” (IMF04)

Because the business model is merely adapting the concept of the record label, the MF team rushes to test the distribution model. They make sure that all KFC merchants were ready with these changes. The first strategy at that time is placing a standing banner outside and inside every KFC store and continuously playing the song of the artist that is released by MF. If the customers like the song and want to buy it, they can directly purchase the CD that was offered by cashier guards.

Implementation phase

In implementation stage, the activity is to overcome the internal resistance and evaluation. At the implementation phase, the network of actors starts to be established, and members of the network, such as partner labels, KFC store management, and consumers, begin to be involved. At first, the album offered by MF was an indie album, which did not sell well. MF then repackaged the CD with KFC fried chicken as a promotional bundling and made a community named Music Hitter for those who bought the CD at KFC. The benefits for members of this community were a free product named ‘KFC Goceng’, a discount on an upcoming CD purchase, a merchandise discount, and many other things.

“Almost 90% of our customers made a purchase, not because of the CD, but to get the benefit of the bundling package.” (IMF06)

The new model worked well. The number of sales increased from 3,000 CDs to 100,000 CDs per month. Since then, many record labels have started to respond MF’s offering.

“When we reached 100,000 CD sales in a month, major labels started to be curious and decided to join our business.” (IMF06)

KFC and MF were not stopping innovating. They also created a publishing company namely pusaka music factory for artists who still have no publisher. Pusaka music factory will help them to distribute the digital content to telcos

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provider and digital store. They also involve artist to innovate the way they promote the album. For instance, when Pongki Barata, had just launched a new compilation album, "Pongki Meets the Stars" (pongkimeetsthestars.com) featuring the various song collaborations between Pongki Barata and other local singers. Due to the numerous artist collaborations with Pongki Barata, MF wanted to gamify their advertising campaign while educating users on the local artists in the album and the songs they had collaborated on with Pongki, as well as to promote the songs in the album to users in a fun, interactive way. A memory matching game was created to challenge users to match the correct song title to the artist, actually educating users on the various song collaborations.

Source: http://bit.ly/1RpxxxZ.

Figure IV.3 Campaign scenario

Other than that, the activity happening in MF's network was more into the marketing or promotion gimmick. Since then, MF has put more attention into the distribution model. MF communicates regularly with its label partners and artists to find opportunities regarding innovation of the album's distribution, promotion, and selling mechanism. In this regard, the innovation occurring from the cooperation between partner labels and MF is usually incremental.

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> *"Artist in Music Factory must also promote KFC in any events to boost market consciousness so that KFC can get more revenue in all business units."* (IMF01)

> *"As usual, we always want to treat the CD buyer in KFC with door prize, for instance, last week we give a door prizes in the form of "Umrah with Armada" for 1 CD buyer of religion compilation "Cahaya Bintang Ramadhan", the one who get lucky will find the "Golden Tickets" inside the CD."* (IMF03)

IV.2.3.3 Level

The emergence of MFs with distribution in KFC was considered an incremental innovation. Although it seems innovative, it only comprises a tailoring of previous models that incorporates new technical capabilities and additional service offerings. Before KFC, Starbucks in other country had done the same approach before. The process of the CD selling and distribution was the same with the conventional one but in a different place and media.

> *"We are first fast food restaurant that offers a CD selling system in the merchants, more than that, we also create a sustainable program not only become a distributor, we recruited the unreleased band and created a compilation and much more."* (IMF01)

> *"KFC become one of the options of CD distribution which turns out to be the most successful method for several artists."* (EMF04)

IV.2.4 Why: Value

Value is the worth of something tangibles and intangibles expressed in terms of the worth of network member and customer.

IV.2.4.1 Value Creation

Value creation is the performance of actions that increase the worth of offerings. Value creation 'depends on the relative amount of value that is subjectively realized by a target user who is the focus of the value creation—whether individual, organization or society' (Lepak et al., 2007). "Value resides in the satisfaction and fulfillment of customers' expectations, at the same time, generating wealth for organizations" (Martinez, 2003). Value creation could occur in the form of tangible or intangible. Tangible value creation in MF vertical value net includes:

- Increase the quality of the product. Together with the label, MF created value by for the CD buyer. Tangible value created for direct consumers is the quality of the product regarding the artist and songs;
- Lower product prices (if consumers buy the CD in a KFC store), it is bundled with the chicken package. Adding the value of the product, for example by adding a coupon inside the CD and creating music games for promotion are also tangible value creation.

> *"The label also likes to contribute to the program for example by entering a coupon in random CD with prizes "hang out with the artist". Another example is when Kotak Band in collaboration with Gen FM give coupons for traveling overseas in their CD box. Each label races to create as many gimmicks as possible."* (IMF01).

> *"The games created to educate users on Pongki Barata's new song collaborations and engage users in a fun, interactive way, moreover, this could help user acquire contact information of users for future Music Factory events and encourage users to listen to the new songs."* (IMF04).

- Simplifier, because consumers can buy the CD and eat at the restaurant at the same time.

The intangible value that is created is an increase in the customer experience because KFC regularly holds a meet and greet events with artists and their fans at the restaurant.

> *"We often create a program like "Dinner with Blink" and the fans love that, usually, fans will follow the event even it's held in several merchants. They keep buying the CDs even though they already got one back in their home, they just want to meet and interact with the artist."* (IMF01)

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Source: http://bit.ly/1pKRSVF.

Figure IV.4 Branded games

IV.2.4.2 Value Delivery

Tangible value delivery for KFC consumers in vertical value net are:

- Increased quality of the product and delivery, because consumers will experience a direct offering of the CD at a KFC store.
- This attempt will also decrease the cost of delivery. Instead of going to conventional CD store, which nowadays only can only found in the mall, at KFC consumer can grab their lunch at the same time buying the CD.

> *"But the changes of CD selling from the usual CD store to KFC brings a lot of difference, first, KFC has more than 400 stores spread across Indonesia, second they apply push selling method constantly to their customer, in contrary to that, the regular CD store just waits for the customer to come"* (EMF05)

Intangible value delivery for consumers in vertical value net is:

- The increase in engagement, because consumers can communicate with the front liner at the merchant directly. The front liners are trained and given some product knowledge so that they can explain it to the customer. They also informed about the promo schedule of some artist to their merchants so that they can pass the information to the customer.

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> *"Our front liners will offer the CDs to customer and give a little bit of product knowledge of the artist or compilation."* (IMF04)

> *"Most of the customers who buy the CD are those who offered the CD at the counter or those who see the CDs displayed on the counter... We also provide standing catalogue consists of new CDs to attract consumers to buy."* (IMF04)

IV.2.4.3 Value Capture

The tangible value that can be captured by the KFC, MF and partner labels is profit from sales. KFC get some percentage of each CD sold so do MF. Labels get the money from the fixed price of CDs that sold in KFC store. The sales in KFC have usually reached the target of each label. Some of it was reached the CD sales beyond the target.

> *"We once reached a record until 1.2 million CDs. Afgan has reached 250 thousand copies. Maudy Ayunda reached 800 thousand copies...the last is LILA which only reached 200 thousand copies... This becomes a big question, now they (KFC) don't have as many products as before...and it becomes less attractive to the consumer."* (EMF04)

Source: http://virzharocks.com/official-launching-album-perdana-satu/.

Figure IV.5 Promo example

Since the tangible values that can be captured are heavy in sales, many methods have conducted to increase the sales. The tangible values include the direct offering at the store and the store activation by the artists. The two activities can increase the sales at the same the partners label could also capturing the product awareness as the intangible value.

> "*Sometimes KFC act as if when the customer was buying a chicken package they will get a free CD, it is their unique strategy. This change turns out to give dramatic results. We can sell hundred thousand CDs through KFC."* (EMF05)

However, some records label thinks that the CD sales are not as good as it used to be. Many hustles in the deals have made some labels withdrawn their partnership recently. This decreases the number of product catalogs at the store, and MF does not produce their artist as active as several years ago.

> *"The CD selling was not as good as previously.*" (EMF05)

> *"NOAH band's CD sales at that time magnificent, but we did not continue the collaboration. We don't see any equality between us, partnership supposes to be equal on both sides, if they seem to push us, so we prefer to withdraw."* (EMF06)

For the partner labels, intangible value is captured when the CD starts to be offered at each KFC merchant and when promotional events conducted at several KFC merchants. One of the intangible values that can be captured by the label is the decreased risk or failure of distribution of the CD by themselves or another distribution channel. From MF and KFC perspective, the intangible value has decreased the risk of the infamous artist.

> *"We have a young artist who has a huge fan base, this fan base could help the promotion activity; this is why the huge fan base is significant."* (EMF05)

Another intangible value that can be captured by the label is the enhanced skill and knowledge regarding the artist's promotion in a particular city and increased product awareness through a nation-wide distribution channel.

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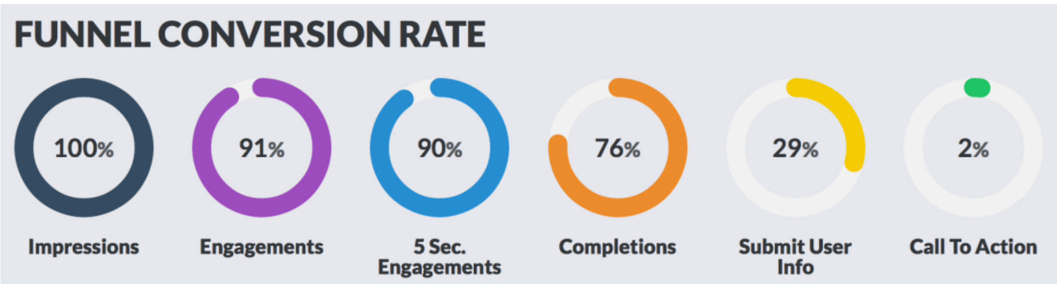
> *"The store activity always resulted in a good CD sales...the customer can also enjoy their favorite artists performing 1-3 songs, get the signature and photo session... We can learn from this and hoped to get a new fan base in different location."* (EMF05)

Other promotion activity which is unique could also increase the product awareness. The branded mini games for example, from this game, Pongki Barata gain the high awareness. This game is distributed through different kind of social media, which is suitable for the youngster consumer. The games results was quite surprising, with more than 23,000 engagements generated over the 2 week period, and 76% of users completed the game, successfully matching the correct song to the artist, 37% replayed the game on an average of 21 times per person, 29% submitted their information within the game and 2% click-through rate to listen to a song, with 6% unique user click-through conversion. Last, it acquired market feedback about the popularity ranking of the five featured songs, based on no. of click-throughs per song.

> *"The games is distributed through SMS broadcast, Twitter, Facebook, and user could register through Facebook or Mobile Number... the features of this games include Leaderboard when Top 10 win real life prizes includes 1 Flip bike, Pongki Barata CDs, and KFC vouchers... The user could also do the social sharing through Facebook."* (IMF01)



Source: http://bit.ly/1UeGDkP.

Figure IV.6 Games conversion rate

IV.3 Proposition Testing on Vertical Value Nets Case

The Music Factory's vertical network brought a new repertory in Indonesian music industry. Many conventional CD stores closed due to the changing music consumer behavior from physical to digital and the increasing number of piracy. Together with the big records label backed up by famous artists and KFC as the largest fast food chain in Indonesia, MF's managed the CD distribution to all over Indonesia. However, several things need to be modified to create a more sustainable business and also things that need to be maintained.

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Proposition 1b is fully supported, since: • Rigid value exchange control the mechanism of transaction, sharing resource, review and evaluation. • Rigid value exchange restrain the network ties, configuration, and stability • Rigid value flow affirm the active communication and the transparency of information • Rigid BM need to have a good rapport to maintain the network ties, configuration and stability	**AN dimension:** • Structure: strong network ties, exclusive configuration, in control stability (H) • Governance: review and evaluation, agreement, transaction, decision making, determined by focal firm (H) • Behavior: active, mandatory sharing resource, transparent to internal, fix period of collaboration, all determined by focal firm (H)
BM dimension: • Value exchanges: 6-8 value exchanges available (H) • Value flow: direct and strictly regulated by focal firm (H)	**Proposition 1a is fully supported, since:** • Exclusive network structure regulates actors to start the value flow (timing) and selects actors with high-quality value to exchanges • Strict network governance controls the type of value exchanges required and timing of value flow in the BM through rigid contract • Focal firm-driven network behavior, control the active communication, sharing activities, transparency of information, and period of collaboration towards the value exchange and value flow

Figure IV.7 Explanation of proposition 1a and 1b

Figure IV.7 shows the results of analysis of proposition 1a and 1b based on evidence in Table IV.2. In vertical value nets, the actor's network coordinates towards the business model (proposition 1a). Exclusive network structure selects actors with high-potential value to exchanges and regulates actors to start the value flow (timing). The vertical network is highly exclusive, and the role of the focal firm is very decisive. In actor's network dimension, the configuration is highly focused on the records label. As MF not putting their attention to recruit

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and orbiting artists. However, they started to expand their business by selecting partners from telcos, digital store and Production House considering their potential resources. Although this seems still under development, this expansion could lead to changes of the network types become a multidimensional value net. Consistent with Lindgren et al. (2010), in vertical value nets, mostly the member of the network is aiming for the short-term collaboration, which is a three to six months contract. Each actor tied into a network for a certain purpose, in this case, to distribute the physical CDs through KFC store all over Indonesia. As the focal firm, MF controls the timing of when an actor could enter the network and start the value flow.

Strict network governance of vertical value nets controls the type of value exchanges required and timing of value flow in the BM through rigid contract. Although the formal rules and procedures which include the conflict resolution are needed for this collaboration (Helfert and Vith, 1999), actors in the network still expect that any regulation is still negotiable for this kind of network. Focal firm-driven network behavior, ensure the active communication, sharing activities, transparency of information, and period of collaboration towards the value exchange and value flow. However, it sometimes causes the problem in actor's relationship when one of them felt pressured by other actors. The inequality and the pushed decision-making behavior applied by MF and KFC made some of the biggest record label in Indonesia, reluctant to continue the collaboration. This is in line with what stated by Mohr and Nevin (1990), that the collaborating parties need to synchronize their activities so that the activities of both organizations are in tune with each other.

Table IV.2 Evidence of proposition 1a and 1b

Members	**Code**	**Example**
EMF04	BMxAN	"KFC gives money to MF, then from MF to labels, if I'm not mistaken, KFC sells the CD for Rp 22,500, then KFC offer Rp 20,000 or Rp 17,000 per CD to MF, and MF gives us Rp 14,500 per CD, it's a fixed price."
IMF01	BMxAN	"We classify the distribution area based on the fanbase location from each artist's."

Members	Code	Example
EMF04	BMxAN	"KFC requests 200,000 CDs at the first week 200 thousand so right, we usually produce only about 250 thousand, the remaining 50,000 usually for promo, for the media, continue later if for example the KFC has a repeat order, so we make new copies again."
MF	BMxAN	"Information was conducted mostly through email, by phone only if it is urgent."
IMF01	BMxAN	"We offer (artist) to KFC through Music Factory, however, we're the one who needs distribution channel, but who makes the decision is not Music Factory, but KFC. Music Factory is truly aggregator, but Music Factory has the power to influence KFC to release particular artists."
IMF01	NBMxAN	"We will push artist or label (to follow the promotion plan), if not we will issue a warning letter if they don't take the time for promotion because it's already stated in the contract."
IMF03	BMxAN	"Yesterday KFC use Andien's songs for Red Hot Chicken advertising, but we have to pay, even the owner of the agenxy is same with owner of KFC"
IMF01	BMxAN	"Our main partners is label , and it changed every 6 months based on contract... it depend og the labels who will produce the CD"

In vertical value net, the business model provides the platform for actor's network interaction (proposition 1b). Rigid value exchange control the mechanism of transaction, sharing resource, review and evaluation. The focal firm controls all through the rigid contract which give less room for negotiation. Before entering the network, actors understand the consequences of joining the network. Rigid value exchanges in vertical value nets restrain the network ties, configuration, and stability. Actors in the network should stay in the network and finish their responsibility in a determined time. They should restrain other activities outside the network; otherwise they will get the consequences from the focal firm. Based on the analysis it seems that the higher the co-ownership of the organizations represented by focal actors before the BM network establishment, the higher the tendency that the network is vertical or mechanistic which characterize with highly controlled or rigid business model.

Rigid value flow affirms the active communication and the transparency of information. In vertical value nets, focal firm directs the communication and reporting system. However, actors could initiate the communcation but the decision making is still in focal firm's hand. Rigid BM in vertical value net, need

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to have a good rapport to maintain the network ties, configuration and stability. Although the contract seems unfair to some of partners, the implementation of the business model is still professional. Thus, this is sufficient to make actors stay in the network.

Proposition 2b is fully supported because: • Type ofBMI push the rearrangement of network ties and configuration • BMI process requires sharing resource, active communication, active transaction, regular review and evaluation between actors • Level of BMI requires specific contribution and determined period of collaboration between actors	**AN dimension:** • Structure: strong network ties, exclusive configuration, in control stability (H) • Governance: review and evaluation, agreement, transaction, decision making, determined by focal firm (H) • Behavior: active, mandatory sharing resource, transparent to internal, fix period of collaboration, all determined by focal firm (H)
BMI dimension: • Types: 2 types of BMI available in the network (A) • Process: partners need to follow the required activity (H) • Level: industry breakthrough (at their emergence) and incremental (routine) (L)	**Proposition 2a is fully supported because:** • Strict governance holds flexibility of emerging BMI types and BMI process • Exclusive structure determines process and resource allocation required for the BMI • Active behavior increase involvement in BMI process

Figure IV.8 Explanation of proposition 2a and 2b

Figure IV.8 shows the results of analysis of proposition 2a and 2b based on evidence in Table IV.3. In vertical value nets, actor's network is likely to determine the business model innovation (proposition 2a). Strict governance holds flexibility of emerging BMI types and BMI process. Focal firms also determine the direction of the BMI types, as they relied heavily on the available resources, in MF's case is the nation wide distribution channel through KFC merchants. The centrally governed network also tends to have a narrow viewpoint, because it usually is more focused on its daily operations and is overwhelmed by the utilization of specific resources and capabilities. Exclusive structure control process and resource allocation required for the BMI. Focal firm determines the BMI process and they selected potential partners to entering the network. Potential partners are those who brought unique resources or particular

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capabilities. Active behavior increase involvement in BMI process and this is highly controlled by focal firm. MF ensures that the communication with partners run smooth as the BMI process often requires incidental participation of partners.

The business model innovation involved the interaction between actors in the network (proposition 2b). However, the Innovation process of MF did not involve their partner at the beginning, as their emergence was not gaining a full support from the big label until they prove their success from the real sales. The innovation with all partners conducted when the “test drive” yet successful business model was implemented. This leads to the condition when members have given a lower chance to change the business model or the given collaboration contracts. Focal actor(s) initiative to build the BM network are motivated their business model innovation in a network system. The focal firm may monopolize the industry if it is brought to the next level and experiences no change in the social, cultural, and political environment. As discussed by Lindgren et al. (2010), this monopoly could force smaller partners to change their business models, whereas focal firms would experience the least change in their business models and direct the smaller partner. Or instead, the collaboration does not go outside the traditional customer-supplier relationship (Childerhouse et al., 2003). This could make the network ineffective since the network’s competitive advantage was not shared in a way that all participants feel to be fair (Jarillo, 1993). As the result, the innovation in the network remained incremental and mostly focusing on the promotion and gimmick.

Table IV.3 Evidence of proposition 2a and 2b

Members	Code	Example
IMF03	BMIxAN	“At every event, even CD release, we collaborate with many medias from printed media, online media, radio and TV or with different production houses like what being done when Andien releases her album...”
EMF07	BMIxAN	“We tried various channel, one of them is through KFC. Since they are new, we can say that they are the first, so they have specific regulation which we have to follow. And we follow it, because they have broad distribution coverage.”
IMF05	BMIxAN	“We are first fast food restaurant that offers a CD selling system in

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Members	Code	Example
		the merchants, more than that, we also create a sustainable program not only become a distributor, we recruited the unreleased band and created a compilation and much more.”
EMF04	BMIxAN	“Besides regarding the sales, usually, we communicate regarding the promo scheduled, then we create a promo concept, campaign, which has a direct impact on sales”
IMF01	BMIxAN	“We will push artist or label (to follow the promotion plan), if not we will issue a warning letter if they don’t take the time for promotion because it’s already stated in the contract.”

Proposition 3a is fully supported since: • BMI adopt the BM from overseas • Closed BMI reconfigure actors in the current BM • Closed BMI modify value exchange and value flow • Closed BMI add new activities to value flow and add new product to value exchange	**BM dimension:** • Value exchanges: 6-8 value exchanges available (H) • Value Flow: direct and strictly regulated by focal firm (H)
BMI dimension: • Types: 2 types of BMI available in the network (A) • Process: partners need to follow the required activity (H) • Level: industry breakthrough (at their emergence) and incremental (routine) (L)	**Proposition 3b is fully supported since in VVN:** • Current value flow provides lesson learn to reconfigure partners, and design new value flow through constant evaluation • Current value exchanges could help diagnose the inefficient and analyze important value exchanges • Current BM could become inspiration to the BMI

Figure IV.9 Explanation of proposition 3a and 3b

Figure IV.9 shows the results of analysis of proposition 3a and 3b based on evidence in Table IV.4. In vertical value net, the business model innovation facilitates the representation of business model (proposition 3a). BMI in MF’s network was adopted from the BM from overseas. BMI of the CD distrbution through broad chain of merchants was inspired from Starbucks business model in USA. MF realized KFC potentials as the biggest fast food chain in Indonesia to become the new distribution channel for music product. To realize the result of BMI, MF reconfigures actors in the current BM. The reconfiguration includes the partners selection based on the needed resources and capabilities. The BMI also modify the value exchange and value flow of the current BM of merchants and also the current BM of the partners in this case record labels. The new BM requires new roles and activities in value flow to ensure the expected implementation of BM. BMI also new product to old value exchange, from food to package containing food and music product. Here, the BMI tends to be closed to partners as the focal firms determine actor's involvement, required resources and the BMI process.

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Table IV.4 Evidence of propositions 3a and 3b

Members	Code	Example
EMF04	BMxBMI	"The drastic change is mostly in distribution method. Instead of distributing CD through CD store, now we distribute our product through unconventional channel, like KFC, etc."
IMF06	BMxBMI	"We see from the bigger brand like Reebok, Pepsi. Coca-Cola and much more, they use music to attract youngster, but what they did is quite a short cut, what we want is to build out own music program."
IMF01	BMxBMI	"We regularly do a brainstorming with the business development team, human resources team and customer orientation team to figure out the best innovation we should make."
IMF01	BMxBMI	"We are first fast food restaurant that offers a CD selling system in the merchants, more than that, we also create a sustainable program not only become a distributor, we recruited the unreleased band and created a compilation and much more."

The current BM essentials for the business model innovation (proposition 3b). Current value flow provides lesson learn to reconfigure partners, and design new value flow. The product and information flow in vertical value nets are the same as how the conventional CD store works. Things that make differences with the conventional CD stores are the service flow and money flow. The service flow in this business model is attached to the fast food service flow, which relies so much on the frontliner and other activities in the store. The money flow is going through the intermediaries, in this case, is Music Factory Indonesia. Finally, the adjustment of the ordinary fastfood business model is more to the new product offering (music CD), new service flow (music CD offering at the counter), and money flow (through intermediaries), and this new business model is followed by all actors incorporate in the system. Constant evaluation is carried out to control the implementation of the BM and become the source of knowledge for the next BMI.

Table IV.5 shows the results of analysis of proposition 4 based on evidence in Table IV.6.Current value exchanges could help diagnose the inefficient and analyze important value exchanges. In vertical value net, tangible value exchanges are highly focused on money and product. Given the operational of the conventional CD store, the main differences between the conventional and KFC's distribution are the product pricing and the feed cutting of sales. In MF network, CDs are given a fixed price, and the quantities of the CDs are produced based on the order from KFC. The price and quantities of product sometimes adjusted to fit the market. Current BM could become inspiration to the BMI. Innovation in current BM often inspired from the implementation of current business model, particularly the success story of it.

In this network, the presence of mutual relationship based network governance, stable network structure, and active network behavior, in the actor's network, enhances the likelihood of high-value outcome (proposition 4). The mutual relationship based network governance could increase the value creation since actors share the same vision and commitment regarding sharing behavior, intense communication to increase the quantity and quality of product/services. Before entering MF's network, partners understand the consequences of joining the network. Partners are given the contract to read, understood, and agreed. Focal firm give less room for contract's modification except for very special case. Increase the value delivery since it could increase actors configuration which could decrease the time to market and lower the delivery price. The contract in MF network already includes right and responsibilities of cooperating parties to ensure the value delivery.

The presence of mutual relationship could increase value capture since it could open the negotiation of profit sharing, and placement for product/brand awareness. In MF's network, the value that can be captured is fixed, stated in the

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contract, which lowers the chance of change in the business model and provides an opportunity for other members to capture more value other than what is already determined. This condition is in line with the research conducted by Barabasi (2002) and Gilsing and Nootebohm (2006), who mention in their papers that the business network that is centrally governed tends to deliver fewer ideas, which, in this case, lowers the level of BMI.

Table IV.5 Explanation of proposition 4

<table>
<tr><th>Context</th><th>Mechanism</th><th>Outcome</th></tr>
<tr><td>Vertical value nets of Music Factory Indonesia</td><td>Actor’s network dimension:
• Structure: strong network ties, exclusive configuration, in control stability (H)
• Governance: review and evaluation, agreement, transaction, decision making, determined by focal firm (H)
• Behavior: active, mandatory sharing resource, transparent to internal, fix period of collaboration, all determined by focal firm (H)</td><td>Value dimension:
• Value creation: 5-7 from 7 value creation available (H)
• Value delivery: 4-5 from 5 value delivery available (H)
• Value capture: 5-8 from 12 value capture available (A)</td></tr>
<tr><td colspan="3"><u>The proposition 4 is fully supported, since:</u>
<u>The mutual relationship based network governance could:</u>
• Increase the value creation since actors share the same vision and commitment regarding sharing behavior, intense communication to increase the quantity and quality of product/services
• Increase the value delivery since it could increase actors configuration which could decrease the time to market and lower the delivery price.
• Increase value capture since it could open the negotiation of profit sharing, and placement for product/brand awareness
<u>The stable network structure could:</u>
• Increase the value creation since it could ensure the actors configuration to achieve same quality of product and delivery
• Increase the value delivery since it could ensure the actors configuration to achieve the same quality of product/service delivery
• Increase the value capture since it could ensure the actors configuration to decrease risk of failure from cooperation with new actors
<u>Active network behavior could:</u>
• Increase the value creation since it could ensure the sharing activities which could increase the quantity of product/services
• Increase the value delivery since it could ensure the intense communication to ensure the quality of product/service delivery
• Increase the value capture since it could ensure the sharing activities to stabilize the income from transaction</td></tr>
</table>

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The stable network structure could increase the value creation since it could ensure the actors configuration to achieve same quality of product and delivery. In MF's case, the cooperation with KFC is for the long term since the owner of MF and KFC is the same person. The stable network structure could also increase the value delivery since it could ensure the actors configuration to achieve the same quality of product/service delivery. KFC has merchants all over Indonesia, and it is more than 400 merchants. This broadens the product and service delivery of MF's network. The value capture increased because of the stable network structure. This is happen since stable network structure could ensure the actors configuration to decrease risk of failure from cooperation with new actors.

In vertical value net, the active network behavior is controlled by the focal firm. The active behavior could increase the value creation since it could ensure the sharing activities. The mechanism of sharing activities is formalized in the contract which aims at increasing the quantity of product/services. The active network behavior could also increase the value delivery since it could ensure the intense communication. Intense communication aims to ensure the quality of music product delivery. Increased of value capture is experienced as the sharing activity is available to stabilize the income from transaction.

Table IV.6 Evidence of proposition 4

Members	Code	Example
EMF04	ANxV	"Given the impact of black October, the CD sales were decreasing. Fortunately, we enter KFC at that time and the CD selling was really good."
EMF07	ANxV	"We tried various channel, one of them is through KFC. Since they are new, we can say that they are the first, so they have specific regulation which we have to follow. And we follow it, because they have broad distribution coverage."
IMF01	ANxV	"Besides regarding the sales, usually, we communicate regarding the promo scheduled, then we create a promo concept, campaign, which has a direct impact on sales."
EMF07	NANxV	"The contract is short. However, it's ok since we still don't know the character and consumer behavior of buying our product through this chanell. We still need to learn about it."

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Table IV.7 shows the results of analysis of proposition 5 based on evidence in Table IV.8 In vertical value nets, the presence of various value exchanges and direct value flow, enhance the likelihood of high-value outcome (proposition 5). Various value exchanges could increase value creation since it could complement each other's tangible and intangible value exchanges which then increase the quantity and quality of product. The value delivery could also increase when actors could integrate each other's tangible and intangible value exchanges. Integrated resources and capabilities could decrease the cost of delivery and time to market. This condition could be found when record labels distribute their CD product through KFC they could shorten the delivery time and cost of delivery with same scope of distribution of conventional CD store.

The various value exchanges in vertical value net could increase value capture since it could leverage each other's tangible and intangible value exchanges which then increase income from transaction and lower the cost of R&D. The focal firm has a stronger position in resources and capabilities, in this case, a nation-wide distribution channel. This finding is consistent with Möller et al. (2005), who stated that a focal firm can become a selective actor who wants to enter the strategic network. This condition makes BMI categorized in the industry breakthrough level at its time of initiation, as it could redefine the music distribution in Indonesia. It also inspires another retail store to do the same thing; opening a CD distribution. It becomes another option for the music distribution channel which surprisingly effective**.**

In vertical value net, direct value flow could increase value creation since it could safeguard the flow of product, money and information. The safeguard value flow could simplify the business process and save time and energy of actors. The direct value flow in MF's network is strictly managed and centralized to focal firm. The barrier to enter the vertical value nets is high and in line with the fact that there is no other actor in the same chain as the focal firm, and thus the value flow is very centralized to the focal firm. Direct value flow could also increase value delivery since it could control the flow of product, money and information. Focal firm determines the value flow to ensure the quality of product/service delivery. The value capture could be increased as the consequences of integrated the flow of product, money and information since it could increase asset utilization and decrease risk failure firm.

Table IV.7 Explanation of proposition 5

<table>
<tr><th>Context</th><th>Mechanism</th><th>Outcome</th></tr>
<tr><td>Vertical value nets of Music Factory Indonesia</td><td>Business model dimension:
• Value exchanges: 6-8 value exchanges available (H)
• Value flow: Direct and strictly regulated by focal firm (H)</td><td>Value dimension:
• Value creation: 5-7 from 7 value creation available (H)
• Value delivery: 4-5 from 5 value delivery available (H)
• Value capture: 5-8 from 12 value capture available (A)</td></tr>
<tr><td colspan="3">The proposition 5 is fully supported, since:
<u>Various value exchange could:</u>
• Increase value creation since it could complement each other’s tangible and intangible value exchanges which then increase the quantity and quality of product/service
• Increase value delivery since it could integrate each other’s tangible and intangible value exchanges which then decrease the cost of delivery and time to market
• Increase value capture since it could leverage each other’s tangible and intangible value exchanges which then increase income from transaction and lower the cost of R&D
<u>Direct value flow could:</u>
• Increase value creation since it could safeguard the flow of product, money and information which then simplify the business process
• Increase value delivery since it could control the flow of product, money and information which then ensure the quality of product/service delivery
• Increase value capture since it could integrate the flow of product, money and information which then increase asset utilization and decrease risk failure</td></tr>
</table>

Table IV.8 Evidence of proposition 5

Members	Code	Example
IMF01	BMxV	“The label also like to contribute to the program for example by entering a coupon in random CD with prizes “hang out with the artist,” Another example is when Kotak Band in collaboration with Gen FM give coupons for traveling overseas in their CD box. Each label race to create as many gimmicks as possible.”
EMF06	BMxV	“... NOAH band’s CD sales at that time magnificent.”
IMF01	BMxV	“We think this (Meet and greet at store) can help boost sales since consumer come to store to bought CD then see the artist, take picture together. We usually create a meet and greet in suburbs such as Cikarang , Bekasi , because it is definitely more crowded as the appropriate target market is in the C-D group

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Members	Code	Example
EMF04	BMxV	“...we once reached a record until 1.2 million CDs... Afgan has reached 250 thousand copies... Maudy Ayunda reached 800 thousand copies... The last is LILA which only reached 200 thousand copies...”

Table IV.9 shows the results of analysis of proposition 6 based on evidence in Table IV.10. In vertical value net, the high-value outcome tends to have resulted from the involvement in BMI process, types of BMI and a given level of BMI, applied in the actor’s network (proposition 6). Types of BMI could increase value creation since the addition of BMI types could add different business model which could increase the quantity of product/services. At their emergence, MF redefine the distribution of music industry and this increase the quantity of record label’s product as the number of channels increase and increase the quantity of services in KFC merchants.

Increased value delivery could also be obtained since the addition of BMI types could combine different business models which then could decrease the product delivery price and increase the quality of delivery. The product delivery in MF network is decrease as label just need to drop their product in MF’s warehouse and let MF distribute their product. The quality of product delivery in KFC merchants is also increase as the label will inform any updates of their artist or any promotional activities when and seller will inform it to customer. Type of BMI could also increase value capture since it could increase the income of records label as the consequences of new channels.

Table IV.9 Explanation of proposition 6

Context	Mechanism	Outcome
Vertical value nets of Music Factory Indonesia	**Business model innovation dimension:** • Types: 2 types of BMI available in the network (A) • Process: partners need to follow the required activity (H) • Level: industry breakthrough (at their emergence) and incremental (routine)(L)	**Value dimension:** • Value creation: 5-7 from 7 value creation available (H) • Value delivery: 4-5 from 5 value delivery available (H) • Value capture: 5-8 from 12 value capture available (A)

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The proposition 6 is partially supported, since:

Types of BMI could:

- Increase value creation since the addition of BMI types could add different business model which could increase the quantity of product/services
- Increase value delivery since the addition of BMI types could combine different business models which then could decrease the product delivery price and increase the quality of delivery
- Increase value capture since the addition of BMI types could result in different business models which could increase the income from different transaction

Involvement in BMI process could:

- Increase value creation since the combined resources and capability of different actors who could increase the quantity and quality of product/services
- Increase value delivery since the linked activities of actors could decrease the cost of delivery and increase engagement with customer
- Increase value capture since it could adjust the flexibility of the BMI thus actors can negotiate each other and increase the income and get access to broader market

Level of BMI not always result in increase value creation, delivery and capture, since:

- High level of BMI requires many adjustments in current BM compared to lower level BM. Thus, high level of BMI needs more time to process new resources and new skill in value creation activity
- High level of BMI requires new value chain or new actors to collaborate compared to lower level BM. Thus, high level of BMI needs more time to reconfigure the actors and ensure the quality of product delivery
- High level of BMI requires modified value flow, compare to lower BMI level. Thus, high level of BM needs more time to find the mutual transaction of actors and ensure the fair distribution of money and services.

Involvement in BMI process could increase value creation since the combined resources and capability of different actors who could increase the quantity and quality of product/services. The value creation of MF’s network was dominance by KFC as the owner of over 400 merchants all over Indonesia, and they have the power to control the marketing activities. Conforming to Campbell and Wilson (1996), firm, which is closer to the customer, become dominant as they can stipulate market direction to the network or by regulating of resources which support value-creating activities. Thus, the value creation in this network was more into giving the value added to the product or to increase the number of CD sales without changing the business model, as KFC was not open for any changes in their operation.

Increase value delivery could be obtained since the linked activities of actors could decrease the cost of delivery and increase engagement with customer. The value delivery activity also conducted in aims to increase the CD selling, for instance by carrying out a meet and greet and mini concert at the store. Intangible aspects that captured by the labels are the brand awareness since the promotion activity is pushed by MF and KFC also backed up by the number of channels, which is the biggest in Indonesia. The BMI carried out after their emergence is mostly in incremental levels, in terms of adjusting the offering, which resulted new services, price and product packages. Involvement of partners in the BMI varies, but mostly they involved since the beginning of the BMI. The involvement in BMI process could also increase actor's value capture since it could adjust the flexibility of the BMI thus actors can negotiate each other and increase the income and get access to broader market.

Table IV.10 Evidence of proposition 6

Members	Code	Example
EMF05	BMIxV	"The drastic change is mostly in distribution method. Instead of distributing CD through CD store, now we distribute our product through unconventional channel, like KFC, etc."
EMF04	BMIxV	But the changes of CD selling from the usual CD store to KFC brings a lot of differences...first, KFC has more than 400 stores spread across Indonesia... second they apply push selling method constantly to their customer...in contrary to that, the regular CD store just waits for the customer to come..."
IMF03	BMIxV	"We regularly do a brainstorming with the business development team, human resources team and customer orientation team to figure out the best innovation we should make."
IMF01	BMIxV	"We contact all production houses because they see KFC as we can give them a lot of media to promote such as LCD TV, banners, so we cross the promo. Why they chose us is to be able to promote at KFC."
IMF01	BMIxV	"We are first fast food restaurant that offers a CD selling system in the merchants, more than that, we also create a sustainable program not only become a distributor, we recruited the unreleased band and created a compilation and much more."

The level of BMI not always result in increase value creation, delivery and capture in vertical value net. The high level of BMI requires many adjustments in current BM compared to lower level BM. Thus, high level of BMI needs more time to process new resources and new skill in value creation activity. MF's business model is still attached to the current BM of KFC, thus is does not requires much time and effort to start the new BM. High level of BMI usually

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requires new value chain or new actors to collaborate compared to lower level BM. Thus, high level of BMI needs more time to reconfigure the actors and ensure the quality of product delivery. MF's network changed their partners from unsign artists to Indonesian big records label. However this changes is not a major changein their business model although they need to adjust their offering and small part of their business process. Since the high level of BMI often requires modified value flow, the implementation of new BM took longer time. Focal firm needs to refine the transaction of actors and ensure the fair distribution of money and services.

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IV.4 Conceptual Model Applied in Vertical Value Nets

To summarize the findings of vertical value nets' case analysis, the generic visualization based on the conceptual model of this research is presented in Figure IV.10. The visualization is provided to facilitate reader understanding the model. The relationship explained in proposition 1a-6 is simplified on the visualization. Based on the analysis of MF's case study, the single ownership of MF and KFC Indonesia makes MF as the focal firm has high determinacy over the actor's network. They were aware of the demand, which makes them quite confident in running the unconventional music distribution through their merchants. Moreover, the KFC merchants become the main resource on this business model, which is critical and necessary for the network's operation. According to Hillman et al. (2009), this condition could lead to the dependence of members to the focal firm. However, the network member of MF was refused to be dependent to KFC particularly when the owner of KFC and MF appears to show they high determinancy over the network. Owner of KFC redefine the structure and governance of MF network and changed the MF's name to JMSI (Jagonya Music and Sport Indonesia). This condition leads to the network restructuring where not all network members agreed with the new network governance. Most of the network members were leaving the network. The record labels now finding the other alternatives to distribute their product besides through KFC. In other way around, instead of distributing the CD of the big records label, JMSI prefer to release and produced their own artists, although the distribution model is stil open for the other records label.

Most of the industry now facing the complex business environment, which is less predictable (Reeves et al., 2016). As the focal firm, MF manages the environmental uncertainties through the determination of the collaboration period, review and evaluation, and decision making of the actor's network. The environmental dynamics also adapted through the incremental changes in the business model. This effort aligned with Reeves et al. (2016) whose advise the company to "create feedback loops and adaptive mechanism" as one of the six strategies for robust, complex adaptive system. The short period of collaboration with the records label, which is three until six months, was managed as each artist usually, has a different life cycle and market response. Instead of focusing on releasing one artist and face the risk of uncertain market respond, MF prefers to release ten artists per year to safeguard the cash flow. Whether the sales of an artist is succeeded or not, the contract is only applied for three months, since the new artist is waiting to be released after that. To avoid inefficiencies in decision making due to many decision makers in the network, MF decides to take over all decision-making in the network, which sometimes complained by the members.

The review and evaluation always conducted monthly according to the sales report. The bad result of sales or other aspects of an artist will become the consideration of further partnership. The review and evaluation also give input to the next strategy carried out by the network to always catch up with the current trend that matches with their customer behavior. The result of review and evaluation could also become the input for the BMI activity. Particularly when the current business model no longer fit with the current environmental development. For instance, when MF changed their focus from releasing unsigned band in compilation form to partnering with big records label and selecting the artist who already have a significant fan base. The changes in the MF network business model were carried out to decrease the uncertainty of market acceptance of one artist.

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From member’s perspective, the motives of joining the network are to acquire access to various resources Hillman et al. (2009), in this case, the KFC’s merchants all over Indonesia. Through the high coverage of KFC merchants all over Indonesia, the operational efficiency will be increased. Furthermore, the members of MF’s network such as records label, artist management, production house, intend to enter the network to acquire market position and gain the entry timing (Burgelman, et al., 2001). The primary objective of a record label joining the network is to earn the higher income from the CD sales through KFC. From the KFC and MF’s perspective, the motives of the network formation are to give the value added to the KFC product, which could differentiate them from competitors. Moreover, the objective of network formation is also to gain income from other sources, which is from CD sales consignment fee.

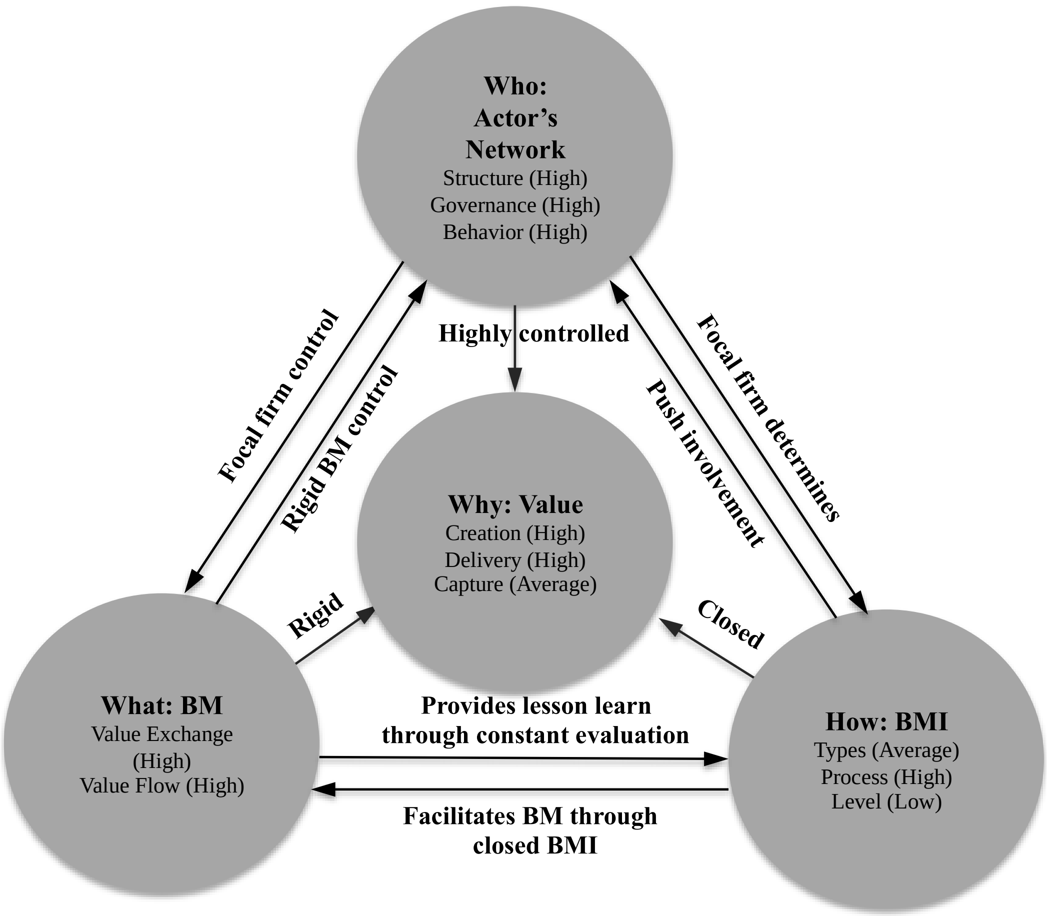

Figure IV.10 Vertical value nets BMI in network perspective

To makes the business model of this network effective, the focal firm need to be “able to manage tension of existing and new business model while achieving

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performance” (Zubaedah and Fontana, 2016). Although the implementation of the new distribution model through KFC merchants was confused the KFC staffs at the beginning, the management has successfully trained all staffs and reduce the error of product offering. In the BM implementation, the focal firm needs to be more open and allow room for discussion with the partners instead of pushing a one-way instruction, as partners might bring the unidentified source of value or good ideas that might improve or increase the network’s performance. The evaluation of the business model needs to be carried out together with focal firm and partners to ensure the two ways communication and visible improvement plan, as this business model is easy to be adapted by other fast food chains.

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