DETERMINANTS OF BUSINESS MODELS IN THE KENYAN MUSIC INDUSTRY

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DECLARATION

This research project is my own original work and it has not been submitted for any award of a degree or diploma in any other university.

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D61/68676/2011

This project has been presented with my approval as the University Supervisor.

Signed é é é é é é .. Date é é é é é é é é é .

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DEDICATION

To the industry, to those toiling night and day to bring music into our lives, to bring sunshine into our lives. Artistes, creative, musicians.

To those who chose their destinies, and to those who choose to support them to be themselves. I salute you.

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ABBREVIATIONS AND ACRONYMS

CMO	Collective Management Organisation
EIU	Economist Intelligence Unit
PwC	PricewaterhouseCoopers
KAMP	Kenya Association of Music Producers
KECOBO `	Kenya Copyright Board
MCSK	Music Copyright Society of Kenya
PRiSK	Performers' Rights Society of Kenya

ABSTRACT

Music is an important vehicle for cultural transmission, national identity, employment and entertainment among other things. The Kenyan music industry offers employment to many professionals including performers, producers, composers, writers among others, and music has been as a tool across sectors for entertainment and educative purposes, advertising, advocacy and just entertainment. The objective of this study was to establish the business model determinants in the Kenyan music industry, and this study was guided by two theories, the Theory of the Firm and the Resource Based View. The study had a total population of the 10,215 members registered music copyright owners under the Music Copyright Society of Kenya (MCSK).The study used primary data which was collected using questionnaires and descriptive and factor analysis was used to analyse the data. Among the findings from the study, ICT has enabled for faster and cheaper distribution of music, but that live performances offered the most revenue to artistes more than music sales and royalties. A significant number of respondents also had low confidence and trust in the information they receive from their CMOs with regards to royalties, and they did not feel that CMOs had had a significant impact on policy formulation in the music industry. The study also found out that in spite the internet offering a faster route to market for artistes, radio was still the most powerful and preferred platform by artists, and many felt that more airplay would lead to higher sales and concert appearances. In light of these findings, the study recommends that policy makers in the music industry formulate policies that allow for more airplay for local music content, as this would have a multiplier effect on brand development, music revenues earned and general industry growth, since live music performances has been identified as one key source of revenue in artisteös business models, and radio as the most powerful platform for value addition and route to market. Also, the study recommends that CMOs need to invest in systems that will enhance transparency and build artisteös confidence in them, since CMOs are better placed as bodies with the mandate to influence the development of policies and structures in the music industry.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In recent years, the concept of Business Models has been the focus of substantial attention by both academics and practitioners in the area of strategy. The innovation of business models is considered as important as new products as a source of future competitive advantage, with firms paying increased attention to the ñhowò in conducting business. Management considers business models as a valuable tool for creating sustained competitive advantage and business model innovation can provide significant opportunities both during periods of rapid economic growth and in times of turmoil (Giesen, et al, 2010).

This study is anchored in two theories; the theory of the firm and the Resource Based View. The theory of the firm sets out to explain the nature and limitations of the firm as an economic institution (Phelan and Lewin, 1999), and identifies the main problem a firm must solve in order to earn above-normal returns, and reciprocally, the limits a firm faces in solving this problem(Conner, 1991). According to Holmstrom and Tirole's (1989) definition, a theory of the firm must address two central questions; (a) why firms exist and (b) what determines their scale and scope, and hence the relation to business models. The business model construct is also anchored in the Resource Based Viewôs internal and external competencies and economic modelling. Amit and Zott (2001) define a business model as depicting the content, structure and governance of transactions designed so as to create value through the exploration of business opportunities; and again, the concepts of content, structure and governance of transactions implicitly ties the business model construct to strategy.

Although exhibiting the hallmarks of a growing industry such as more diverse content and increasing revenues, the Kenyan music industry continues to be plagued by challenges. Under-investment, ineffective management of intellectual property rights, and rampant piracy have prevented the industry from realizing its economic potential and left its artists struggling to earn a living(WIPO, 2007). According to the PWC Kenya Media and Entertainment Outlook 2013-2017, revenues in the Kenyan music industry stood at USD20 million in 2013, up from USD 16 million in 2008. The Kenyan music industry remains very volatile, reliant and driven by new technologies and in spite of the growth and opportunities in digital music revenues occasioned by the advent of the internet; resultant challenges have posed difficulty to industry revenues (CNBC Africa, 2015)

1.1.1 Business Models

The concept of business models is relatively new in strategic management research. Despite an overall surge in literature on business models, scholars do not have a uniform definition of what a business model is. Researchers frequently adopt idiosyncratic definitions that fit the purposes of their studies, but are difficult to reconcile with others. As a result, cumulative progress is hampered (Zott, Amitand Massa, 2010)

There are varying definitions of business models. Morris et al, (2005) defines a business model as a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture and economics are addressed to create sustainable competitive advantage in defined markets. He further says that a business model has six fundamental components: value proposition, customer, internal processes/competencies, external positioning, economic model and personal/investor factors. Johnson et al, (2008) define business models as consisting of four interlocking elements that, taken together, create and deliver value. These elements are customer value proposition, profit formula, key resources and key processes. In the various definitions of the business model construct in this study, the concepts of value, strategy, competitiveness and competence stand out.

The study of business models answers pertinent questions and aids in understanding the workings of a particular enterprise or industry, which is an important component of strategic management. Business models are stories that explain how enterprises work. A good business model answers Peter Drucker's age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver to customers at an appropriate cost? (Magretta, 2002).

The business model construct has been a subject of a growing number of practitioner oriented studies. While there has been an explosion in the numbers of papers published, and an abundance of conference sessions and panels on the subject of business models, it appears that researchers and practitioners have yet to develop a common widely accepted language that would allow researchers who examine the business model construct through difference lenses to draw effectively on each other's work. (Amit, Zott and Massa, 2010)

In recent years, the concept of Business Models has been the focus of substantial attention by both academics and practitioners in the area of strategy. A 2010 global survey of more than 4,000 senior managers by the Economist Intelligence Unit (EIU) found that the majority (54%) favoured new business models over new products and services as a source of future competitive advantage. EIU analysts concluded that ñthe overall message is clear: how companies do business will often be as, or more, important than what they do.ö (AmitandZott, 2010). Management considers business models as a valuable tool for creating sustained competitive advantage. Business model innovation can provide significant opportunities both during periods of rapid economic growth and in times of turmoil. (Giesen, et al, 2010).

The prevailing firm-focus within business model research becomes obvious when looking at definitions of the concept. Casadesus-Mansell and Ricart (2010), for instance, state that a business model is a reflection of the firmøs realized strategy. The same is true for Baden-Fuller and Morgan (2010), who see the role of the business model in providing a set of descriptors of how a firm organizes itself to create and distribute value, and Magretta (2002), who sees business models as stories that explain how enterprises work. Onetti et al. (2010) also apply a firm-centred view and state that a business model describes the way a company structures its own activities. This firm-centred approach can be observed for a majority of current business model literature. Zott et al. (2011) confirm this and identify the business model as a firm-centric activity system

1.1.2 The Music Industry in Kenya

The roots of Kenyaøs popular music can be traced to the 1950s (WIPO, 2007). The most characteristic pop sound is Benga music, which was born on the lakeshore and originates from the Luo community. It is a crossover of traditional rhythms and instruments, such as the nyatiti lyre, the orutu single stringed fiddle, the ohangla drums, and modern dance. Benga became so popular that ethnic groups from six out of Kenyaøs eight provinces have adapted it to their own style and flavor, while retaining the pulsing beat, high energy bass, interlocking guitar riffs and recurrent voice solos which characterize the Benga genre (WIPO, ibid).

As an evolving pre-independence early 60s city, Nairobi was reputed as the regionõs core musical hub. A stream of instrumentalists, composers, musicians traversed the borders of East and Central African countries like Ethiopia, Uganda, Tanzania, Zambia, formerly Zaire (now DRC), Malawi, Rhodesia (modern day Zimbabwe), Ivory Coast and Nigeria. The last stop for many of these visiting artistes was the ultra-modern 16-track Columbia Broadcasting Studio (CBS Records), then situated in downtown Nairobi. It was the sole state-of-the-art equipped recording studio this side of Africa. But later on, East Africa Records became a subsidiary of PolyGram Records label, setting up the first legal manufacturer and music records factory. By 1965, Nairobi was teeming with budding recording artistes, and an estimated average 1,000 new recordings reportedly published on monthly basis. These songs sold copies across East, Central, parts of West and Southern Africa prior to slipping through distribution labels into Europe and the US (Patterson, 2010)

The 70s were a turning point as international record labels opted to invest in Nairobi, banking on the allure of the cityõs nascent and vibrant music circuit. Several multi-national record companies went on to set up outlets until the mid-80s. However, the ominous piratesô invasion of the scene, almost overnight triggered the gradual collapse of a fledgling music sector. International labels chose to pull out in the late 80s, grounded by huge earnings and investment losses. The vice clamped shut record labels, pressing plants and various studios (Patterson, ibid).

In the early 90s, the Kenyan music business was at a low point. Diminishing sales and competition from the music pirates meant that, in a business sense, recorded music was hardly worth the effort. By the mid-90s however, a number of factors came together which set the stage for a radical departure from the styles of previous generations of Kenyan pop musicians (Patterson, 2010). Mwendwa (2014) says that Kenyan music experienced take-off with commercial FM radio. Initially, the new stations wouldn't play much Kenyan music but they did acquaint Kenyans with current styles from abroad in reggae, ragga, house, dancehall, hip-hop, and American RnB. These sounds had great appeal to Kenya's youth and young adults though they weren't totally new, having already become a distinctive feature of local public transport as on-board entertainment. At about this same time, new studio production techniques were also taking hold as computers, software, mixing boards, and so on became more affordable. Multi-track layering became the tool of a new breed of independent producers recording directly to computer hard drives for keyboards, guitars, drum machines, and other synthesized sounds and effects (Mwendwa, ibid).

Contemporary Kenyan music has evolved through various technological advances that has made it easier to record music and develop beats; hence there are many more musicians in the market today than there were in the past (Nyariki, et. Al 2009). Ironically, technological advances have come with undesirable aspect of making piracy easier, with musicians losing millions of shillings to this vice yearly. This, coupled with the lack of a clear guiding policy in the sector, has become the single most serious threat to the development of the sector(Nyariki, et. Al 2009).

The modern musical landscape of Kenya is one of the most diverse and vibrant in Africa countries (Standard Media, 2015) but under-investment, ineffective management of intellectual property rights, and rampant piracy have prevented the industry from realizing its economic potential and left its artists struggling to earn a living (WIPO, 2007). The music sector is characterized by chaos and poor planning (Nyariki, et. Al 2009) and according to Standard Media (2015), the government is giving little attention to music as a source of revenue to the Treasury and as a means of livelihood to the singers. Currently, the government, through the Music Copyright Society of Kenya (MCSK) and the Kenya Association of Music Producers (KAMP), has initiated efforts to regulate the sector. Although not the poorest country in Africa, Kenya offers little in the way of meaningful revenues for the recorded music industry (PWC, 2013).

CNBC Africa (2015) estimates that about 80 per cent of music in Kenya is pirated. Ever since the introduction of cassette tapes in the 70's, piracy has blighted the Kenyan industry. Music pirates, who copy CDs the moment they are released and sell them on the streets, have a stranglehold on the market that musicians cannot break, making it nearly impossible for them to profit from direct sales of legitimate recordings. According to PWC (2013), widespread unauthorised distribution of CDs has severely limited any prospects of establishing a growing "bricks and mortar" music retail sector. Another stark reminder of the impact of piracy is that for more than a decade now, international record labels and music companies have abandoned Kenya as a non-viable market for their product (WIPO, 2007). Technology has been used in the fight against music piracy menace by providing music at a manageable cost. Mdundo, a Kenyan term meaning musical beat, is the country's official mobile music store(CNBC Africa, 2015). According to PWC (2013), music use and the need for businesses to pay for licences are slowly being recognised.

1.2 Research Problem

The study of business models provides answers to the question of how firms over time can adapt to a changing business environments and related challenges such asthreats from within and outside the firm and changing consumer demands; in other words how to innovate the ways they do business and how to adapt a business model over time. A good business model answers the questions about who is the customer, what value the customer needs, and as well provides economic logic that explains how a business can deliver value to customers at an appropriate cost.

Music plays an important role in Kenya, including societal and business functions such as media, entertainment, advertising and cultural transmission and with annual revenues of up to US$20 million (PWC, 2013); the Kenyan music industry is a critical mass and a significant employer worth of study. Times have changed and participants in the music industry, like any other industry, are motivated by the need to make financial returns from activities in spite of the various challenges faced by the industry as presented above. Innovation and technology have undoubtedly led to new ways of production, branding, packaging and distribution of music in the industry, and artists have been exploring new ways of creating and communicating value to music consumers while continually exploring and innovating new ways of earning revenues from music.

While research on business model choices and determinants has been conducted focusing on various industries in Kenya such as Maina (2013) for the Container Freight Stations and Mutisya (2012) for supermarkets, little academic and practitioner-oriented research towards understanding what determines similar decisions in the Kenyan music industry has been conducted. The need to understand how stakeholders and entities in the Kenyan music industry have made decisions in response to challenges and changing business environment has led to a knowledge gap in understanding the business models choices and their determinants. It is for this reason that this study seeks to fill this knowledge gap by answering questions: What determines business models choices in the Kenyan music industry?

1.3 Research Objectives

The objectives of this study are:

i. To establish the business models used in the Kenyan music industry
ii. To establish the determinants of business models in the Kenyan music industry.

1.4 Value of Study

The study of business models in the Kenyan music industry will be instrumental in assisting the development of policies targeted at the music industry. Of particular interest is the on-going effort to develop a National Music Policy (latest draft 2012), and findings from this study will offer policy makers useful information on various issues such as the effect of Intellectual Property rights, piracy and content regulations on the music business.

The study of business models in the creative copyright industry where music falls is still a relatively new study area in strategic management research, and the findings in this study will be useful to strategy practitioners in understanding business model innovation in this area. Also, there exists little known research into the business models construct and business model innovation in the music business in Africa in general, and in Kenya hence this study will seek to bridge this knowledge gap.

A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture and economics are addressed to create sustainable competitive advantage in defined markets (Morris, 2005) and hence practitioners in the music industry would benefit greatly from knowledge about how the environment has influenced the choice of business models and business model innovation in the Kenyan music industry. The findings in this study would be valuable to the investors and industry players; artists, marketers and distributors in the music industry, and could offer lessons on business model innovation in the Kenyan music industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant literature on the relationship between business models and competition. It will give guided theoretical and empirical reviews related to the topical issues under investigation.

2.2 Theoretical Literature Review

This section reviews literature on two theories pertinent to this study; Theory of the Firm and the Resource Based View, and also presents literature on the determinants of business models.

2.2.1Theory of the Firm

The theory of the firm sets out to explain the nature and limitations (or boundaries) of the firm as an economic institution. The theory of the firm can be located within the broader analysis of economic organization, which attempts to explain the observed diversity of institutional arrangements in the economy. For instance, why do some transactions occur in markets, others in firms, and still others in hybrid structures such as franchises, joint ventures and strategic alliances? (Phelan and Lewin, 1999)

The study of economic organization seeks to understand the conditions that create this diversity. Ronald Coaseòs (1937) observation that firms exist because there are costs to using the market has been the touchstone for the study of organizations by economists. Attempts to identify the costs of using the market have led to fruitful developments in economics such as transaction cost economics (Williamson, 1975; Williamson, 1985), incomplete contracts theory (Hart, 1995), property rights and measurement costs (Barzel, 1989; Cheung, 1983) and agency theory (AlchianandDemsetz, 1972).

According to Holmstrom and Tirole's (1989) definition, a theory of the firm must address two central questions; (a) why firms exist and (b) what determines their scale and scope. A theory of the firm identifies the main problem a firm must solve in order to earn above-normal returns (and reciprocally, the limits a firm faces in solving this problem). The theory of the firm is embedded in five influential schools of thought namely the Neoclassical Perfect competition model, Bain-type IO, the Schumpeterian and Chicago responses and transaction Cost economics (Conner, 1991).

The theory of the firm can inform the entrepreneurial process because it seeks to provide the conditions (both necessary and sufficient) for the establishment of a firm. The decision, by an entrepreneur, to start an enterprise implicitly reflects the belief that he or she can beat the market and produce a product more effectively through a firm than via a set of market contracts. Similar considerations apply when an existing firm decides to vertically integrate or enter a new line of business. By offering plausible explanations for the existence and boundaries of the firm, a theory of the firm becomes capable of offering prescriptions for both the founding of new enterprises and adjustments to the horizontal and vertical boundaries of existing firms.

Several explanations for the existence of the firm have been offered in the Knowledge theories of the firm literature. The literature, however, makes a strong distinction between explicit knowledge in the public domain and tacit knowledge. Tacit knowledge cannot be easily codified and can only be learned through observation and practice (Kogutand Zander, 1992; Grant, 1996) and is a valuable resource because it cannot be directly appropriated and attempts at imitation will be costly in terms of time. Explicit knowledge, on the other hand, is extremely easy to transfer and contracts protecting knowledge are difficult to enforce (Liebeskind, 1996). Liebeskind (ibid) argues that the firm exists because it is more efficient at protecting (explicit) knowledge. For example, employment contracts hinder knowledge transfer by requiring exclusivity, confidentiality, and restrictions on competitive behaviour. Similarly, the threat of dismissal may also deter attempts to transfer knowledge.

The options-based theory of the firm formalizes Conner and Prahaladӫs (1996) insight that flexibility is valuable to a firm (Barney and Lee, 1998; Foss, 1998b; Sanchez, 1993; Sanchez, 1998). In finance, an option is the right, but not the obligation, to trade a security at a fixed price (the exercise price) over a given period of time. The right is valuable because the market price of the security may rise or fall over the life of the option contract. The holder of a call (put) option will exercise the option if the market price rises above (falls below) the exercise price. If the market price moves contrary to the option holderӫs expectations then the loss will only be limited to the premium (i.e. the initial price of the option contract).

Options-based theory also discusses the boundaries of the firm: Firms should internalize only a few inputs that 1) are exceptionally difficult to obtain through markets and 2) are capable of generating superior options values for the firm (Foss, 1998, p.7) hence the decision to acquire a resource must ultimately depend on a) its premium (or acquisition price), b) its current value to the firm, and c) its ability to be recombined with other resources to create value ï the expected value of future gains represents the resourceӫs option value. A commitment to learning about the ways in which resources may be combined increases the value of options (Barney and Lee, 1998). However, unless a difference of opinion exists between the seller and acquirer of the resource, in a competitive market the acquisition price will tend to reflect the current and future value of the asset to the acquirer.

Firms and markets are alternative modes of the organisation of production and exchange. Consequently, they may be looked upon as adapting and reshaping organisations reacting to economize on transaction costs in a world of bounded rationality and incomplete information. The relative level of transaction costs determines the size and scope of a firm, thereby its boundaries. Compared with that the production process of a firm is not included in the consideration. Dynamic aspects such as learning and technical innovations are not taken into account concerning the decision in favour of markets or firms, too (Hodgson, 1998, p.188).

To summarize, in institutional theories nearly all problems of economic organization originate from conflicts resulting from individual incentives either in advance of drafting a contract or afterwards by organizing a governance structure (Foss, 1999, p.732; 2005a, p.32). Neither theory comes with an answer regarding firm heterogeneity and a dynamic perspective on the boundaries of the firm, except for transaction costs.

2.2.2 Resource Based View

Wernerfelt (1984) developed a theory of competitive advantage based on the resources a firm develops or acquires to implement product market strategy, where he explores the usefulness of analysing firms from the resource side rather than from the product side. The RBV emerged as a complement or dual to Porterøs theory of competitive advantage (Barney and Arikan, 2001). Initially, Wernerfeltøs (1984) primary contribution to the RBV literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in implementing product market strategies (Barney and Arikan, 2001). A different perspective is presented by Rumelt (1984) who focuses on economic rents and created a theory of rent generation and appropriating characteristics of firms (Barney and Arikan, 2001). Moreover, Rumelt (1984) in his strategic theory offered many characteristics which were later associated with the RBV. For example his view on firms as collections of productive resources as well as his suggestion that the imitability of these resources depends on the extent to which they are protected by an isolation mechanism (Barney and Arikan, 2001). The third resource-based article in the field of strategic management was published by Barney in 1986. Barney introduced the concept of strategic factor markets as the market where firms acquire or develop the resources they need to implement in their product market strategies. As a result, Wernerfelt (1984), Rumelt (1984) and Barney (1986) are the three corner stones of what was later known as the resource-based theory.

In the meantime, while resource-based theory was developing, a parallel stream of resource-based work was being developed in the area of competitive advantage (Barney and Arikan, 2001). The most significant contributors of this parallel stream is Itami (1987), Prahalad and Bettis (1986) and Prahalad and Hamel (1990). Itami's (1987) theory of invisible assets suggests that invisible assets, e.g. information-based resources such as technology, customer trust, brand image, control of distribution, corporate culture, and management skills are necessary for competitive success. Accordingly, invisible assets are the real source of competitive advantage because they are hard and time-consuming to accumulate. Further, they can be used in multiple ways simultaneously, and are inputs and outputs of business activity. Itami (1987) continues to argue that people are both accumulators and producers of invisible assets. Visible assets, on the other hand, must be present for business operations to take place, but it is the invisible assets that lead to competitive advantage.

The work of Itami (1987), Prahalad and Bettis (1986) and Prahalad and Hamel (1990) has had a great impact on the development of the RBV. In fact resource-based theories of corporate diversification has been one of the most popular ways to empirically test resource-based logic (Barney and Arikan, 2001). Moreover, resource-based theory is based on the assumption that firms are fundamentally heterogeneous regarding their resources and internal competencies. It deals with the problem of how firms can exploit their internal resource base and capabilities to obtain sustained competitive advantages (Barney, 1991; Hamel andPrahalad, 1994).

According to Barney (1991), a firm is argued to have a competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time. Moreover, a firm is argued to have a sustained competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991). However, in order for a resource to have the potential of being a sustained competitive advantage, it must contain the following four attributes: Firstly, it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firmọs environment, secondly, it must be rare among firmọs current and potential competition; thirdly, it must be imperfectly imitable and fourthly, there cannot be any strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 1991).

2.3 Determinants of Business Models

Casadesus-Masanell and Ricart (2010) contend that business models are composed of two different sets of elements: (a) the concrete *choices* made by management on how the organization must operate, and (b) the *consequences* of the choices. They further explain these possible choices to include compensation practices, procurement contracts, location of facilities, assets employed, extent of vertical integration, or sales and marketing initiatives. According to Casadesus-Masanell and Ricart (ibid), every choice has some consequence. For example, the provision of high-powered incentives (a choice) has implications regarding the willingness to exert effort or to cooperate with co-workers (consequences). Likewise, pricing policies (choices) have obvious implications regarding sales volumes, which in turn, affect the economies of scale and bargaining power enjoyed by the firm (two consequences).

The need for a firm to stay competitive is a business model determinant. Casadesus-Masanell and Ricart (2010) identify drivers such as globalization, deregulation, or technological change as profound game changers in competition. Scholars and practitioners agree that the fastest growing firms in this new environment appear to have taken advantage of these structural changes to compete ñdifferentlyò and innovate in their business models. IBMøs 2006 and 2008 ñGlobal CEO Study,ò for example, show that top management in a broad range of industries are actively seeking guidance on how to innovate in their business models to improve their ability to both create and capture value.

Giesen et al (2010) also state the need to exploit on-going industry transformation as a business model determinant. A joint IBM and Carnegie Mellon Tepper School study analyzed the 2007 and 2008 financial performance of business-model innovators that participated in the IBMøs Global CEO Study 2008. This analysis found the strongest margin performance was realized by those companies that entered the downturn with significant financial means and leveraged their resources to drive industry-model innovation. Giesen et al (ibid) further state that during periods of extensive industry change, companies can choose to shake up their industries by harnessing disruptive technologies, going after new customer segments or dislodging competitors, and those that donøt respond quickly will likely become uncompetitive in short order.

Giesen et al (2010) cites economic turmoil as a business model determinant. They further say that enterprise model innovation often occurs during economic downturn as companies seek new ways to gain cost and flexibility advantages and by adopting new partnering models such as new service models or even outsourcing, organizations are able to more effectively scale down operations during a downturn, but also create the additional access to resources to quickly scale up as new opportunities arise.

Advances in information and communication are also a business model determinant. According to Casadesus-Masanell and Ricart (2010), many e-businesses constitute new business models. Shafer, Smith, and Linder present twelve recent definitions of business model and find that eight are related to e-business and even though not all business model innovations are IT-driven, e-commerce has led to a significant interest in business model determinants.

Changing customer preferences is also a business model determinant. Casadesus-Masanell and Ricart (2010) say that firms continually develop new value propositions and pricing models to fit customer preferences. Revenue-model innovation may not deliver an advantage that is as sustainable as industry or enterprise-model innovation. According to Geisen et al (2010), new strategies for the bottom of the pyramid in emerging markets have also steered researchers and practitioners towards innovating business models. Academicians working in this area agree that for firms to be effective in such unique environments, they need to develop novel business models. Geisen et al (ibid) further say that socially motivated enterprises that aim to reach the bottom of the pyramid constitute an important source of business model innovations.

2.4 Business Model Types in the Global Music Industry

Since 1999, the Internet has drastically altered the production, distribution and consumption of music. The global music industry has undergone a shift of its business model from the ñTraditional Business Modelò with the classic distribution of a physical product via brick-and mortar retailers over a ñRenegade Business Modelò based on illegal P2P music trading to a ñNew Business Modelò with legal digital consumption of music via, for example, pay-per download and music subscriptions (Vaccaro & Cohn, 2004). The traditional ñbrick and mortarò business model in the music industry includes the mass production and distribution of physical goods (Hughes & Lang, 2003). This model includes the record labels that manufacture the product (mainly CDs) and distribute it via bricks-and-mortar stores, direct mail clubs, and online retailers, as well as artists selling their CDs at concerts. The traditional model includes the history of the industry from the early 20th century through the present (Hull, 1997; Rivkin & Meier, 2002).

The renegade business model is based on illegal, unauthorized peer to peer (P2P) music file trading of digital MP3 files via the Internet; this activity is enabled by organizations providing software that empowers millions of consumers to become unauthorized mass distributors of music for free. Between 1999 and 2000, the pioneer Napster was the first renegade organization to garner brand recognition and loyalty, with more than 60 million users worldwide, before it was shut down by the U.S. court system (Greenfeld, 2000). Because the record industry was bypassed and there was ñno tollgate for collecting payments and royalties (it became) a runaway worldwide bazaarò(Maney, 2000). Soon after, other unauthorized services entered the market; by 2003, Kazaa was the new renegade leader and like the pioneer Napster, it became a lawsuit target. The popularity of renegade P2P file trading continues to grow as part of the emerging trend on the Internet of self-organizing, emergent digital community networks (Hughes & Lang, 2003).

The new business model includes legitimate online digital music services. Legitimate online music services are part of the native Internet business model category of digital products and digital delivery (including music) that often have strategic alliances with access providers (Bambury, 1998). The first legitimate online music services began to appear on the Internet in 1995, but none of the early services were very successful (Rivkin & Meier, 2002). When Apple computers introduced its iTunes service in April 2003, it marked the first major success for this new business model; within its first 6 months of operation, a record number of 14 million songs were purchased for download. In July 2004, iTunes reached its 100 millionth download (ñiTunes Tops,ò 2004). In the European market, there are more than 30 legitimate online services that offer music either by pay-per-download or by subscription (IFPI, 2004).

The subscription business model is where a company that offers some services to the customers to facilitate their communication and interaction. The traded item would be service/immaterial and the service is dependent on both sides that have the same nature, therefore it has a content ownership. In case the company offers some special products, which should be paid in advance, the offered product or data is considered as goods and the ownership is production. In all cases the revenue is generated according to the subscription fees, however, if the company publishes advertisements on the website, then it would also be a commissioning type of revenue.

2.5 Review of Empirical Studies

Searle (2011) conducts a study on the changing business models in the creative industry by examining the business model response to the change from analogue to digital in the creative industries. While looking at both traditional and emerging business models, the project focuses on three sectors: television, computer games and music. A series of six case studies, two from each sector, provide illustrative cases of the business model response to challenges to enforcement of copyright and the advent of digital technologies. The research findings show that the creative industries are in a state of business model experimentation and that the roles of intermediaries are changing. Furthermore, the evidence suggests that the Intellectual Property (IP) framework may be secondary to other influences on business models.

Ahrens and Kreidenwiess (2012) conducted a study to investigate how industries can undergo a successful business model innovation, with a focus on the Swedish music industry, and to derive key success factors. Findings from this study indicated that technology built the base for Swedenǿs success and that business model innovation was spurred through a positive interplay of network architecture, consumers and the market offering. Within these four areas, seven key success factors were identified as willingness to change, favourable market size, technological foundation, beta licenses, anticipative solution, emancipated consumers and fast-adopting consumers.

Maina (2013) conducted a study to establish the business models adopted by Container Freight Stations and to determine the factors that influenced the adoption of particular business models. The literature reviewed indicated that a good business model focuses on who the customer is, the value a company offers to the customer that enables the customer to pay and hence allow the organization make profits. The findings of the research indicated that most of the CFS's had changed their way of doing business in response to changing business environment and measures such as diversifying sources of revenue had been undertaken. Among the recommendations was that investors should only join the market if they have a unique value preposition to offer.

2.6 Summary of Literature Review

The literature reviewed has demonstrated that the concept of business models is related to strategy and by extension the firmǿs competitiveness. A business model is a reflection of realised strategy; firmǿs logic of creating and delivering value. Traditional theories talking about a firmǿs competitiveness are I/O and RBV, which are essentially disparate theories, but these can be unified under the study of business models, since firm competence is important in ensuring competitiveness. While I/O states that the firmøs resources are homogenous and highly mobile in the market (Porter 1981) RBV ï based on the idea that firms are fundamentally heterogeneous regarding their resources and internal competencies (Barney, 1991).

The literature presented and examined has illustrated the foundation of the business models in strategy theories, and as well examined the various studies carried out in this area. Studies into the choices made by firms in adoption of business models have been presented, hence showing the importance of business models as a response to changes in the business environment. With a focus on creative industries, literature has illustrated that creative industries are in a perpetual state of business model innovation, in response to issues such as IP issues and piracy, as well as changes in technology (Searle, N 2011) which has altered production and distribution of music. While studies have been undertaken focusing on business models in various industries, there are few studies that have been undertaken with a focus on business models in the Kenyan music industry and this study addresses this gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on research techniques and methods that were used to validate the study objectives. It includes research design, sampling and methods of data collection and analysis.

3.2 Research Design

The study was a descriptive cross-sectional survey. A cross sectional survey attempts to describe of define a subject often by creating a profile of a group of problems, people, or events through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated (Dooley 2007). Cross-sectional surveysare aimed at finding out the prevalence of a phenomenon, problem, attitude or issue by taking a snap-shot or cross-section of the population

This method was suitable for this study since the aim was to find out how different participants in the music industry make decisions on their business models as well as describe their reasons for these decisions, and a cross sectional survey was most ideal at answering these questions.

3.3 Population of the Study

The population in this study were individuals and entities registered under body that administer the Kenya Copyright Act (Cap 130) and are duly registered under the Kenya Copyright Board (KECOBO). Owners of copyright to creative music works are by law registered as members of collective management organisations (CMOs) which are in turn registered under the operate under the Kenya Copyright Board (KECOBO), which has been constituted under the Kenya Copyright Act (Cap 130).

The population of this study were all registered members of the Music Copyright Society of Kenya (MCSK). As of August 2015, MSCK has 10,890 registered members.

3.4 Sampling Design

Simple random sampling was used to select the sample in this study. Simple random sampling is a probability sampling procedure that gives every element in the target population, and each possible sample of a given size, an equal chance of being selected. As such, it is an equal probability selection method (EPSEM). A sample size of 50 respondents was selected for the study. This number was arrived at with considerations to the cost and time constraints in this study.

3.5 Data Collection

The study relied only on primary data collected through the questionnaires developed in line with the objectives of the study. The questionnaire was in three sections; the first section collected the demographic information, the second part collectsed information about business models while the third section collected information on the determinants of business models.

The questionnaire was preferred as it offered considerable advantages in its ease of administration, and considerable ease of accumulation of data. The questionnaires were administered to individual respondents via the drop and pick later method, internet and email solutions.

3.6 Data Analysis

Data analysis was conducted using descriptive statistics; measures of central tendency such as frequencies, percentages and mean score will be used so as to offer a description of the business models used by the various players in the music industry. Frequency distribution was used to illustrate business model decisions amongst the different sector players in the music industry. Findings were presented using tables, graphs, bar and pie charts.

Factor analysis was used to analyse and present the determinants of business models used by participants in the music industry. Factor analysis describes variability among observed variables in terms of a potentially lower number of unobserved variables or factors. As phenomena co-occur in space or in time, they are patterned; as these co-occurring phenomena are independent of each other, there are a number of distinct patterns and factor analysis takes measurements and qualitative observations and resolves them into distinct patterns of occurrence (Rummel, 2002). Factor analysis was selected for this study because it made explicit and more precise the building of fact-linkages between the decisions made and the underlying determining reasons or factors.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is a presents findings obtained from the data collected in the field. The data is broken into two parts. The first section deals with the background information of the respondents, while the other four sections present findings of the analysis, based on the objectives of the study and discuss the issues.

4.2 Respondents' Demographic Data

Out of a target population of 50 respondents, 38 usable questionnaires were received and analysed, indicating a response rate of 76%. This study analysed 37 factors that were the determinants of the choice of business models and 27 factors that constituted the business models.

4.2.1 Gender of Respondents

The study sought to establish the gender of each of the respondents, and this was measured by respondents selecting their gender on the questionnaire and this data has been shown in Table 4.2.1.

Table 4.1 Gender of respondents

Gender	Frequency	Percentage
Male	24	63.2
Female	14	36.8
Total	38	100

Source: Research Data, 2015

63.2% of the respondents in this study were male and 36.8% of the respondents were female, and this shows that there are proportionately more males than females working in the music industry.

4.2.2 Level of Education

The study also sought to find out the level of education attained by the respondents, and respondents were asked to state their highest level of education. This data has been presented in Table 4.2.

Table 4.2 Level of Education

	Frequency	Percentage
Post Graduate	8	21.1
Graduate	8	21.1
Diploma	10	26.3
Secondary	7	18.4
Primary	5	13.2
Total	38	100.0

Source: Research Data

The study found out that 68.5% of the respondents had a minimum of diploma education, and this means that the population under consideration was well informed to give the relevant and informed data. From this data, we can conclude that participants in the music industry are reasonable well educated.

4.2.3 Time Commitment to Music

The respondents were asked whether they pursue music as a fulltime or part-time economic activity. The aim of this was to establish the level of the respondentsô involvement in the music industry, and this data has been presented in Table 4.3

Table 4.3 Time Commitment to music

	Frequency	Percentage
Full Time	25	65.7
Part Time	13	34.3
Total	38	100.0

Source: Research Data

From the data, 65.7% of the respondents were pursuing music full-time while 34.3% of the respondents were pursuing music part-time. From these findings, a majority of the respondents were full-time players in the industry, hence they were reliably informed to offer reliable data.

4.2.4 Industry Experience

The study sought to identify the number of years the respondents had been involved the music industry and respondents were asked to state the duration of time they had been working in music. These findings have been presented in Table 4.4.

Table 4.4 Industry Experience

Industry Experience	Frequency	Percentage
1-4 years	5	13.2
5-8 years	6	15.8
9-12 years	10	26.3
over 12 years	17	44.7
Total	38	100.0

Source: Research Data, 2015

From the data, 71% had worked for more than 9 years, implying that they were reliably informed about issues in the industry, and hence well placed to respond to the questionnaire.

4.2.5 Music Activity

The respondents were asked to state the chief musical activity they were involved in and options were either as a composer, performers and producers. These findings have been presented in Table 4.5

Table 4.1.5 Music Activity

Music Activity	Frequency	Percentage
Composer	7	18.4
Performer	24	63.2
Producer	7	18.4
Total	38	100.0

Source: Research Data, 2015

From the findings, a majority (63.2%) were performers and producers were 18.4% same as the composers, and this is a reflection of how the industry is constituted in Kenya, where performers form a significant population.

4.2.6 Music Genre

The study also sought to establish the main music genre that the respondents were involved in and the aim of this was to find out the spread and popularity of genres among music industry players. These findings have been presented in Table 4.6.

Table 4.6 Music Genre

	Frequency	Percentage
Afro Pop	5	18.4
Benga	6	15.8
Hip Hop	6	15.8
Jazz	7	13.2
EDM	2	5.3
Trad/Folk	4	10.5
Afro Fusion	6	15.8
Reggae	2	5.3
Total	38	100.0

Source: Research Data, 2015

From these findings, a majority (18.4%) were involved in Afro Pop followed by Benga, Hip Hop and Afro Fusion who tied at 15.8%.The responses were spread well across all music genres which was good for the study to get varied responses cutting across.

4.2.7 Music Genre Classification by Religion

The study also sought to establish the classification of music by religion, and here respondents had to state whether their music was gospel or secular. The purpose of this was to establish the market targeted by participants in their music activities. This data has been presented in Table 4.7.

Table 4.7 Religious Genre

	Frequency	Percentage
Gospel	9	23.7
Secular	29	76.3
Total	38	100.0

Source: Research Data, 2015.

From the findings, 23.7% were involved in Gospel music while a majority 76.3% were involved in secular music. This means that the secular music genre forms a significantly larger sub-sector of the Kenyan music industry.

4.2.8 Means of Delivery

The means of delivery of the music content was sought by the study and various responses were established, as shown in Table 4.8.

Table 4.8 Means of delivery

	Frequency	Percentage
Vocal	15	39.5
Instrumentalist	9	23.7
Both	14	36.8
Total	38	100.0

Source: Research Data, 2015.

From the data, a majority with 39.5% were vocalists while those involved in both the instrumentalist and vocals followed with 36.8% while those using instruments only were last with 23.7%. From these findings, we can conclude that a significant number of musicians in the industry are vocalists, and they form a significantly bigger number than instrumentalists.

4.3 Business Models

Twenty seven factors that constituted the business models were subjected to analysis using both descriptive and factor analysis.

4.3.1 Descriptive Analysis

In total, 29 factors were subjected to ranking and a Likert point of scale was used, with the strongest factor scoring five points, whereas the least scored one point. The mean and standard deviation scores were computed as shown in Table 4.9. Among the factors determining the business models in the music industry, new music expenses on audio was found to have the highest mean score of 4.37. New music expenses on performances, expenses and video followed closely with a mean of with a mean score of 3.97.

The next ranked determinant was engagement and publicityplatforms and radio had a mean of 3.76; social media platform had a mean of 3.42, distribution expenses on new music with a mean of 3.34. The others were TV platform and revenue merchandise on sales with 3.32 and 3.03.The least ranked Music Sales Channel, Revenue from Product Endorsements, Promotion Activities, use of a Public Relations firm as a PR medium and use of a Management Firm for PR with means 2.37, 2.18, 2.11, 1.47 and 1.26 respectively.

Table 4.9 Business Models

Determinants of Business Models	Mean	Standard Deviation
New Music Expenses in Audio production	4.37	.883
New Music Expenses to organise live performances	3.97	.716
New Music Expenses for Promotion activities	3.97	.716
New Music Expenses for releasing new Videos	3.97	.716
Radio as an engagement and publicity platform	3.76	1.173
Use of Social Media as an engagement platform	3.42	1.368
Expenses in distribution of new music	3.34	1.457
Use of TV as an engagement and publicity platform	3.32	.989
Revenue from Live Performances	3.03	1.404
Use of Print Media as an engagement and publicity platform	2.97	1.365
Revenue from Music Sales	2.89	1.371
Revenue from Royalties	2.89	1.290
Revenue Merchandise Sales	2.79	1.143
Artists directly approached for music gigs	2.71	.802
Artists conduct PR activities by themselves	2.63	1.364
Revenue from Commissions	2.39	1.198
Music Sales as a distribution Channel	2.37	.852
Revenue from Product Endorsements	2.18	1.504
Artists conducting promotion activities for new music	2.11	.953
Artists using a PR Firm for PR activities	1.47	.603
Artists using a Management Firm for PR activities	1.26	.446

Source: Research Data, 2015.

4.3.2 Factor Analysis

Further analysis was conducted to classify the various business models. The Bartlettôs test of sphericity performed on these factors indicates that they are adequate for analysis. These factors had a KMO of 0.581 indicating that they were reliable for analysis, as shown in Appendix II (a). Normally a KMO value of 0.5 and above is considered good for analysis Heir, Black, Babin and Anderson (2010). Seven broad categories of measures were identified after twenty five (25) iterations, with a total component loading of 20.397. Table 4.2.2 shows the six classes and the respective variables in each class.

The analysis indicates that, process of releasing new music revenue had the highest factor loading 4.787 followed sources on music earnings which had the factor loading of 4.573 followed by platform on fan engagement with a factor loading of 3.193, channel of selling music had a factor loading of 2.952 and the last two factors were PR and Marketing activities and promotion activities with factor loadings of 2.165 and 2.727 respectively. These classifications are shown in table 4.2.2. A classification done in a study by Patterson, Grimm and Corsi (2003) did not show a significant difference from this.

Table 4.10 Classification of the Factors on Business Models

Business Models	Factor Loading	Sum of Factor Loading
Factor One: PR and Marketing Activities		
PR Firm	0.773	
Self	0.856	2.165
Agent/Publicist	0.536	
Factor two: Platform on fan engagement		
Platform Print Media	0.643	
Platform TV	0.811	3.193
Platform Social Media	0.904	
Platform Radio	0.835	
Factor Three: Revenue sources on music earnings		
Live Performances	0.815	
Sale of music	0.640	
Sale of Merchandise	0.367	
Revenue from Commissions	0.579	3.173
Product Endorsements	0.334	
Royalties	0.438	
Factor Four: Channel of selling Music		
Audio Tapes	0.968	
CD and DVD	0.992	2.952
Digital Downloads	0.992	
Factor Five: Process of releasing new Music		
Audio	0.968	
Video	0.992	
Live Performances	0.992	4.787
Promotion	0.992	
Distribution	0.843	
Factor Six: Promotion Activities		
Media tours	0.953	
CSR Activities	0.918	2.722
Releasing music Videos	0.856	

Source: Research Data, 2015.

4.4Determinants of the Choice of Business Models

Thirty seven factors on the determinants of the choice of business models were subjected to analysis using both descriptive and factor analysis.

4.4.1 Descriptive Analysis

The respondents ranking was analysed by computing mean scores and standard deviation. The respondents felt that IT enables faster and cheaper distribution of music with a highest mean score of 4.53. This was followed by participants saying that they create music content based on how they feel about issues in society with a mean of 4.39 which tied with popular communication medium, musicians using more live bands than they used 5 years ago was a factor that followed closely as a determinant to the choice of a business model with a mean of 4.30.This is shown in Table 4.3.1.Piracy being a threat and content based on market trends were last with means of 2.0 and 1.89 respectively.

Table 4.11 Determinants of the Choice of Business Models

	Mean	Std. Deviation
IT enabling faster and cheaper distribution of music	4.53	.951
Artists make decisions on music content based on issues in society	4.39	.755
Artists choose the most popular communication medium	4.39	.887
More musicians are using live bands in performances as compared to 5 years ago	4.30	.702
Targeting a particular demographic than the general audience makes better business sense	4.29	.835
A marketing agency would play a significant role in artist management, the existence of social media notwithstanding.	4.21	.474
Social media and online platforms are faster in pushing new music than DJs and radio	4.11	.875
Music videos are more important as a marketing tool than as independent music content.	4.03	.492
Value creation for a particular market segment is important.	3.92	1.217
Audiences aged below 25 years are more likely to buy music online	3.84	.638
More radio airplay leads to higher revenues in concerts	3.84	.495
YouTube currently plays a bigger role in advertising my new music as compared to radio and DJs	3.76	.820
Kenyan music is played more in clubs than on radio	3.76	.590
Building a brand as a group is easier than building a brand as an individual	3.71	.802
Music videos lead to higher sales of audio content and concert appearances	3.63	1.051
I choose the most convenient communication medium when reaching audience	3.63	1.172
Music videos lead to a higher number concert appearances and attendances	3.61	1.104
Online platforms act as middlemen	3.61	1.054
More radio airplay leads to higher income	3.53	.687
Expected returns than investment costs	3.42	1.154
Artistes performing with a live band offers a better product than those without	3.39	1.405
Social media popularity translates to higher revenues from sales and live performance attendance	3.37	.852
Live performances and concerts offer more revenue than music sales	3.37	1.364
Aartistộs profile, rather than artist management, is more responsible for higher earnings	3.26	1.083
Online platforms pay fair for content	3.21	1.094
Artists managed by a label earn higher earnings than those who manage themselves	3.08	1.148
Online platforms have helped fight piracy	2.87	1.379
CMO have helped in formulating policies	2.84	1.242
Satisfied with the way my CMO is managed	2.84	1.603
affordable communication medium	2.66	1.258
financial information influences music production decisions	2.53	.979
Kenyan DJs are generally prefer Kenyan music to music from outside Kenya	2.29	.956
Artists who manage themselves get higher earnings than those who employ managers	2.27	1.194
A live band is important but not essential in offering a quality concert.	2.21	1.212
CMO gives accurate information	2.21	1.234
Piracy is less of a threat today than five years ago	2.00	1.356
Releasing content based on market trends	1.89	.831

4.4.2 Factor Analysis

Further analysis was done using factor analysis with the aid of SPSS. The Bartlettôs test of sphericity performed on these factors indicates that they are adequate for analysis Heir et al. (2010). These factors had a KMO of 0.724 indicating that they were reliable for analysis as shown in Appendix II(b). The results of factor analysis show that the benefits are categorized into six groups of related factors. The factors had a cumulative factor loading of 27.11.

The respondents identified communication and value creation as their determinant for business models this had a factor loading of 6.022. The factor of performance had a loading of 5.771 as CMO and airplay had a factor loading of 5.768.IT and online engagement, marketing and finally returns and earnings had 4.828, 4.721 and 3.864 factor loadings respectively. The results are shown in table 4.3.2

Table 4.12A Determinants of the Choice of Business Models

Determinants of the Choice of Business Models	Factor loadings	Sum of factor loadings
Factor one: Communication and Value Creation		
popular communication medium	0.872	
affordable communication medium	0.794	
content based on market trends	0.668	
content based on issues	0.665	
financial information influences music production decisions	0.646	6.022
value creation for music segment	0.612	
piracy a threat than five years ago		
effective online platform to fight piracy		
Factor two: IT and online engagement		
IT enabling faster and cheaper distribution of music	.985	
online platforms act as middlemen	.978	
online platforms pay fair for content	.948	
YouTube currently plays a bigger role in advertising my new music as compared to radio and DJs	0.958	4.828
Social media popularity translates to higher revenues from sales and live performance attendance	0.983	
audiences aged below 25 years are more likely to buy my music online	0.961	
Factor three: Performance		
Music videos lead to higher sales of audio content and concert appearances	.961	
Music videos lead to a higher number concert appearances and attendances	.973	
Live performances and concerts offer more revenue than music sales	.985	
More musicians are using live bands in performances as compared to 5 years ago	.884	5.771
A live band is important but not essential in offering a quality concert.	.985	
Artistes performing with a live band offers a better product than those without	.983	

Source: Research Data

Table 4.12B: Determinants of the Choice of Business Models

Factor Four: CMO and airplay		
CMO is accurate .973	**0.973**	
CMO formulates policies	**0.978**	
Satisfied with the way my CMO is managed	**0.985**	**5.768**
more radio airplay leads to higher income	**0.928**	
more radio airplay leads to higher revenues in concerts	**0.969**	
social media and online platforms are faster than DJs and radio	**0.935**	
Factor five: Marketing		
Music videos are more important as a marketing tool than as independent music content	**0.950**	
Marketing agency would play a significant role in artist management, the existence of social media notwithstanding	**0.957**	
Kenyan music is played more in clubs than on radio	**0.855**	**4.721**
targeting a particular demographic than the general audience	**0.976**	
Building a brand as a group is easier than building a brand as an individual	**0.953**	
Factor six: Revenues and earnings		
Artists who manage themselves get higher earnings than those who employ managers	**0.959**	
Artists managed by a label earn higher earnings than those who manage themselves	**0.971**	**3.864**
Artist management, is more responsible for higher earnings	**0.987**	
Artists consider expected returns rather than investment costs when making decisions on new music content	**0.947**	

Source: Research Data

4.5 Discussion of Findings

This study was guided by two objectives; to establish the business models used in the Kenyan music industry and to establish the determinants of these business models. From the findings of this study, Musicians use a mix of different business models in the Kenyan music industry, depending on what they are trying to achieve at a given time, costs and target market. Varying models used simultaneously in the industry, and participants do not select only one model at a time, but rather what works at that time.

In terms of developing their music product, a majority of the respondents stated that they create new music content based on how they feel about issues in society rather than what the market trends dictate. Still artists also agreed that it makes more business sense to target a particular market that to seek to appeal to the mass market. Also, most respondents agreed that music videos are more important at a marketing and value addition aspect to music than independent music content. Artists greatly strive to create value for their market, and this was reflected in their cost and the highest ranked factors in the costs of creating new music content were expenses on creating new audio content, expenses on organising performances and expenses on creating new videos. All these are aimed at enhancing the music product and creating great value for the music clientele.

On communicating value, artists in the Kenyan music industry preferred radio as the preferred route to market. Radio was still the most preferred medium because of its popularity and wider reach as compared to social media, which is based on internet access. Inasmuch as the respondents had embraced technology as a means of reaching out to the market, the limitation in spread and use of the internet in the country means that a more traditional medium like radio still offers a more powerful platform.

Distribution channel was also another consideration in this study on business models, and here the respondents gave varied responses. On most part, respondents used two main distribution channels to sell music; the online platforms as well as in hard copy through CDs and DVDs. These are used simultaneously in the industry, and this points to various business models. For example, the new music industry business model is being used in Kenya: where the internet is used as a legitimate distribution tool. Most respondents had a profile on online platforms like iTunes and Mdundo, where they directly sell their music. At the same time, the traditional Brick and Mortar model is still in use in Kenya, whereby artists still sell hard copy of music via CDs and DVDs at concerts and in music shops. One of the reasons for using the mix of models was because the artists felt that older audiences would most likely prefer to buy music in hard copy, and hence the use of that particular model to reach that market.

The study also looked at the revenue models of the respondents, by seeking to establish which avenues of sale constituted the most significant revenue streams for artists in Kenya. The most significant revenue stream was live performances, followed by sale of music. The least significant revenue stream was from royalties, product endorsements and commissioned work. Most respondents stated that live music as the significant revenue stream and this has affected other aspects like product value addition through the use of music videos and value communicating through engaging with fans online and on social media.

Royalties was an issue that was tied to another part of the this study, where respondents had to give a confidence rating for the CMOs, which are the bodies legally mandated to collect royalties on behalf of artists. Asked whether they were satisfied with how their CMOs were managed, this attracted a lowly rating response of 2.88, and many respondents felt that CMOs were not transparently managed, and also that they had no significant impact on music policy in Kenya.

On the determinants of business models, thirty seven factors on the determinants of the choice of business models were subjected to analysis using both descriptive and factor analysis. Here the study sought to find the different factors and how they affected business model choices among the respondents. From the responses, most respondents agreed that Information technology had enabled faster and cheaper distribution of music in Kenya, and as already stated, most respondents had a presence on the online platforms selling music. They also agreed that more artists are using live bands today than they were 5 years ago, and this points to the already discussed perspective about the importance of live performances as an income stream, and hence the importance of having a great product that will offer a great live performance experience. Respondents also said that they target particular markets with their music products, and that social media has greatly lowered the barriers of entry by offering a fast and affordable platform for publishing and promoting new music.

Some factors that scored low were record and management labels, as a majority of respondents prefer to manage themselves. Also, the responses indicated that respondents did not feel that a management label or management firm would necessarily translate into higher earnings, but rather that a strong brand is key for earnings.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations from this study, and as well offers suggestions for further study.

5.2 Summary

A descriptive study was conducted to establish the determinants of business models in the Kenyan music industry. The study had a response of 76% and this was considered sufficient for analysis. From the findings, 68.5% of the respondents had a minimum of diploma education, meaning that the population under consideration was well informed to give the relevant and informed data. 55.3% of the respondents pursue music as a full-time activity while the rest pursue music part-time. Also, 71% of the respondents had worked in the music industry for more than 9 years, implying that they were more conversant with the music industry and they were well informed to respond to the questionnaire. A majority of respondents (63.2%) were performers while producers and composers were tied at 18.4%, and they covered several music genres including Afro-Pop, Hip Hop, Benga, Jazz and Afro-fusion among others.

In terms of business model determinants, the respondents ranking was analysed by computing mean scores and standard deviation. Most respondents felt that Information Technology had enabled faster and cheaper distribution of music, followed by participants saying that they create music content based on how they feel about issues in society as opposed to trying to appeal to market trends. Also, more musicians using more live bands than they used 5 years ago. From the responses, many artists scored low confidence and trust in the information they receive from their CMOs with regards to royalties, and they did not feel that CMOs had had a significant impact on policy formulation in the music industry. The factor that financial information influences music production decisions also scored quite low, meaning that artists do not factor in financial information into decisions made when producing new music content.

Many respondents also did not feel that DJs prefer Kenyan music to music from outside Kenya, and also did not feel like piracy was any less a threat today than it was 5 years ago. On music videos, many respondents agreed that music videos are more useful as a promotion tool for new music than as independent content, and also that YouTube and social media played a pivotal role in advertising of new music. Respondents also felt that music videos led to higher sales of audio content and concert appearances. On the use of live bands in performance, most respondents felt that more artistes were using live band today as compared to 5 years ago, but that live bands were essential but not compulsory in offering quality live performances. On artist management, respondents did not feel that artists who are managed by a record or label had higher earnings than those who manage themselves..

5.3 Conclusion

The Kenyan music industry is undoubtedly an important vehicle for culture and employer to a significant population. The use of Information and Communication Technology (ICT) has had a huge impact on marketing and distribution of music, and as well an important means of value communication and value addition to the music product. Social media for example, has enabled many artists directly reach their fan bases and push new content in a faster and cheaper way than through traditional music channels. Many artistes still feel however that the sale of music via online platforms has not had a discernible effect on piracy, and that piracy is still as much a threat than it was 5 years ago.

Music artistes have also adopted the making of music videos as an important branding and marketing tool, hence redefining the use of the same as independent content. Music videos are now used to promote new music, and in the process promote the artisteŏs brand, in the anticipation of higher attendances for concerts and higher earnings there from.

The music industry in Kenya is also still largely informal, with artists managing themselves and running their shows, most artistes have not developed confidence and practise in formal structures like keeping financial records, trusting the CMOs, working with management labels, PR companies, etc and the uptake of these remains low. Most artists also do not make business decisions based on financial information and market factors when developing new content, but rather choose to create content based on how they feel about issues. Also, not many artistes have endorsements from products or make significant revenues from the sale of merchandise, perhaps because it is not market practise, or because their brands have not grown to that level.

In terms of promoting new music content, radio still is the strongest platform to showcase music in Kenya, more so because artistes feel that DJs have preference for music from outside Kenya, despite the internet offering a cheaper option through social media and YouTube. This is because radio still enjoys a much wider reach than social media and YouTube since a larger population have access to radio than those that have access to the internet.

5.4 Recommendations

From this study, there are a number of recommendations for the industries. The CMOs in Kenya need to do more to earn the trust of the players in the industry, by setting up more transparent structures especially for reporting revenues and royalties information, as well as improving management to boost public confidence. Also, the

CMOs need to communicate their value better to artistes so that artistes really understand what CMOs are out to achieve.

There is also a management gap to be filled, particularly in management and administration of artistes and management firms interested in managing music acts could have a great impact if they are able to communicate their value proposition. Conversely, artistes would benefit from learning a bit more about the rudiments of managing themselves, since they are not using management firms but rather managing themselves.

There also needs to be policies that enable more airplay for local content, as this will boost earnings for musicians from improved brand growth and higher attendances and frequency of live performances. Promoting local content will undoubtedly lead to industry development, and since radio is the most popular platform.

5.5 Limitations of the study

The findings of this study should be viewed in light of a few limitations. The efficacy of questionnaires to gather relevant information on the determinants of business models could be enhanced if used alongside interviews. This would enhance the richness and depth of future studies.

In some cases, the administering of questionnaires was regarded with suspicion because of the assumption that divulging financial information would then be used the tax collector Kenya Revenue Authority to claim unpaid taxes from musicians, since most operate informally and do not file tax returns. There is also the time and logistical constraints in this study, since the music industry is a broad scope and would need a lot of time to cover, time which was not afforded under the time available to conduct this study.

5.6 Suggestions for Further Research

This study looked at the determinants of business models at firm level in the music industry. It would be useful to go further and conduct an industry-level business model innovation for the overall music industry in Kenya, so as to gauge how the industry as a whole has responded to challenges and innovated a working model.

This study was only able to gather data from respondents living and working in Nairobi. It would be useful however if this study would be conducted in other areas of Kenya since music is a county-wide activity.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

Dear Respondent,

QUESTIONNAIRE: DETERMINANTS OF THE BUSINESS MODELS APPLIED IN THE KENYAN MUSIC INDUSTRY

Dear Respondent,
My name is MacKinlay Mutsembi of Reg no. **D61/68676/2011** at the University of Nairobiộs School of Business. I am conducting a study titled ***"Business Model Determinants in the Kenyan Music Industry"*** for my Masters of Business Administration degree.

Thanks so much for agreeing to fill this questionnaire. This study is for academic purposes only, and all responses will be treated with utmost confidentiality. Please do not write your name anywhere on this questionnaire. There are no wrong or right answers.

Once concluded, findings from this study can be shared on request by emailing macmutsembi@gmail.com

Please tick (ã) appropriately.

SECTION A: Demographic Information

1. Gender
[ ] Male [ ] Female

2. How old are you?
[ ] Below 25 years [ ] 26 ï 35 years [ ] 36 ï 45 years [ ] Over 45 years

3. What is your highest level of Education?
[ ] Post Graduate
[ ] Graduate
[ ] Diploma
[ ] Secondary
[ ] Primary

4. Is music your primary full-time economic activity?
[ ] Yes
[ ] No

5. How long have you been in the music industry?
[ ] 1-4 years

[ ] 5-8 years
[ ] 9-12 years
[ ] Over 12 years

6. What musical activities do you undertake?
[ ] Composer
[ ] Performer
[ ] Producer

7. What genre of music do you compose/produce/perform?

[ ] Afro-pop	[ ] Benga
[ ] Hip Hop	[ ] Jazz
[ ] Electronic Dance Music (EDM)	[ ] Traditional/Folk
[ ] Afro Fusion	[ ] Genge/Kapuka
[ ] RnB	[ ] Neo-Soul

Other (please specify) ____________________________

8. Please describe your music by religious affiliation
[ ] Gospel
[ ] Secular

9. Please describe your music by means of delivery
[ ] Vocal ï Singer/Rapper
[ ] Instrumentalist
[ ] Both

10. Are you singed to a record label/management agency or are you an independent (indie) artist
[ ] Independent
[ ] Label signed
[ ] Other (please specify) ____

11. If YES above, which label are you signed to? _________________________

SECTION 2: BUSINESS MODELS

1. Do you keep financial records about your earnings from music?
[ ] Yes
[ ] No

2. Estimate your monthly gross income from music in Kenya Shillings
[ ] Below 100,000
[ ] 100,001 ï 200,000
[ ] 200,001 ï 300,000
[ ] Over 300,000

3. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate how often you conduct your PR and marketing activities?

	1	**2**	**3**	**4**	**5**
Self					
PR Firm					
Agent/Publicist					
Management/Record Label					

4. In order of preference, please select your most preferred platform to engage your fans and market
1=Least Preferred 2=Rarely 3=Always 4=Certainly 5=Most Preferred

	1	**2**	**3**	**4**	**5**
Social Media					
Print Media					
Television					
Radio					

5. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate how the following revenue sources frequently contribute to your earnings.

	1	**2**	**3**	**4**	**5**
Sale of music					
Live Performances					
Sale of Merchandise					
Product Endorsements					
Royalties					
Commissioned work (eg film scores, movies, etc)					

6. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate **how often you sell your music through these channels**

	1	**2**	**3**	**4**	**5**
Audio Tapes					
CD and DVD					
Digital Downloads					

7. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate **how often you undertake the following promotion activities**

	1	**2**	**3**	**4**	**5**
Media tours					
CSR Activities					
Releasing music Videos					

8. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate how often you incur these expenses in the process of developing and releasing new music

	1	2	3	4	5
Audio production					
Video production					
Promotion activities					
Organising live performances					
Music Distribution costs					

9. On a scale of 1 -5 where **1 = Never, 2 = Rarely, 3 = Occasionally, 4 = Frequently, 5 = Most Frequently**, rate **how do you land most of your music gigs**

	1	2	3	4	5
Through booking agent/Manager					
Approached directly by clients					
Traffic from media e.g. website, social media					
Through networks and friends in the industry					

SECTION 3: DETERMINANTS OF THE CHOICE OF BUSINESS MODELS

1. To what extent are the following statements true on a scale of 1 to 5 where **1= strongly disagree, 2= somewhat disagree, 3=neutral, 4= somewhat agree and 5= strongly agree**

	1	2	3	4	5
I choose a communication medium thatôs most popular with target audience					
I choose a communication medium that is most affordable for me					
I choose a communication medium that is most convenient to use					
I make decisions on new music content based on what the market trends dictate					
I make decisions on new music content depending on how I feel about issues in society					
Financial information influences my music production decisions					
I am more keen to create value for a specific market segment than to achieve mass appeal					
Piracy is less of a threat today than it was 5 years ago					
Online platforms have been an effective tool to fight piracy					
IT has enabled faster and cheaper distribution of music					
Online platforms still act as middlemen in music distribution					
Online platforms pay me a fair percentage for my content					
I fully trust information I receive from my CMO as accurate with regard to amount earned in royalties					
Apart from administering royalties, CMOs have played a significant role in formulating policies for the music industry					
I am satisfied with the manner in which my CMO is managed					
More airplay on radio leads to higher income from music sales					
More airplay on radio leads to higher revenues from concert attendances					
Social media and online platforms offer the fastest marketing platform for new music platform as compared to DJs and radio					
Kenyan DJs are generally prefer Kenyan music to music from outside Kenya					
Kenyan music is played more in clubs than on radio					
YouTube currently plays a bigger role in advertising my new music as compared to radio and DJs					
Music videos lead to higher sales of audio content and concert appearances					
Music videos lead to a higher number concert appearances and attendances					

Live performances and concerts offer more revenue than music sales					
More musicians are using live bands in performances as compared to 5 years ago					
A live band is important but not essential in offering a quality concert.					
Artistes performing with a live band offers a better product than those without					
Music videos are more important as a marketing tool than as independent music content.					
Social media popularity translates to higher revenues from sales and live performance attendance					
Building a brand as a group is easier than building a brand as an individual					
A marketing agency would play a significant role in artist management, the existence of social media notwithstanding.					
Artists who manage themselves get higher earnings than those who employ managers					
Artists managed by a label earn higher earnings than those who manage themselves					
An artist's profile, rather than artist management, is more responsible for higher earnings					
I feel that audiences aged below 25 years are more likely to buy my music online as compared to older people					
It makes more business sense to release music targeting a particular demographic than targeting the general population					
When making decisions about developing and marketing new content, I am driven more by expected returns than by investment costs					

APPENDIX II - KMO and Bartlett's Test

KMO and Bartlett's Test[a]

	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.581
Bartlett's Test of Sphericity	Approx. Chi-Square	999.566
	df	406
	Sig.	.000

a. Based on correlations

Appendix II (b) KMO and Bartlett's Test

KMO and Bartlett's Test[a]

	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.724
Bartlett's Test of Sphericity	Approx. Chi-Square	1298.648
	df	378
	Sig.	.000

a. Based on correlations