

**COMPARATIVE ANALYSIS OF BUSINESS MODEL INNOVATION IN
INDONESIA RECORDS LABEL, CASE: TRINITY OPTIMA PRODUCTION
AND MUSIC FACTORY INDONESIA**

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Abstract - In the past few years, records label was facing changes in the music industry that includes opportunities and threat. The opportunities are the rise of digital music that brings out several new product formats, also the partnership with partners to create new platform. Records label also faced the piracy issue as the main threat, which caused great losses to their profit. Therefore, records label, especially in Indonesia, needs innovation in their business model to overcome those changes in music industry structure. This research used the qualitative data research method by using semi-structured interview and secondary data. The respondents in the interview were the member of Trinity Optima Production and Music Factory Indonesia, especially the business development and digital team. This research revealed the business model canvas, the innovation process and the result of business model innovation implementation. The innovation process shows that both companies have initial and existing innovation that have different phases. They were successful as shown from the result that is measured from the sales unit, margin, and complexity of innovation. By the result of this research, both companies are suggested to have a deep understanding of their business model and make a mapping for the company and partner potential and capability with also evaluate the readiness of the market to accept innovations. Records label also suggested to apply the 360 degrees business model, adaptive to changes and communicate with the partners to create innovations. For the distributors in general, they should apply the super-distribution strategy to gain maximum benefit and be able to expand their distribution channel in form of digital sales or innovation.

Keywords: Business Model Innovation, Indonesian Records Label, Music Industry, Music Business Model.

Introduction

The world music industry development makes a huge contribution to the world records label development, especially in the digital era. The digital music industry began to develop at the time when society is already common with the presence of the Internet. The existence of the Internet is increasingly becoming a threat to the music industry with the rampant exploitation of the Internet potential as a network for the dissemination of information and file sharing. Easy deployment process of such information allows people to get music for free, although it is illegal. CD sales decline occurred significantly around the world. The world music industry quite shaken and start to think about steps that can be done.

A lot of innovation is done by the world music industry. The perpetrators of the music industry, particularly records label started making changes to the business model that was run. Many alternatives offered as subscription and consumption methods, providing easy and convenient access to the community, with the aim of fighting piracy. However, the world music industry still has to continuously work to find innovation in the business model because the information technology will continue to evolve in line with the times.

Records label, especially in Indonesia, needs innovation in their business model to overcome changes in music industry structure. Changes in music industry include opportunities and threat. The opportunities are the rise of digital music that brings out several new product formats, and also the partnership with partners to create new platforms. Records label faced the piracy issue as the main threat, which caused great losses to their profit. Allegedly, some innovation in business model already happened in Indonesian records label. However, such structured study was never been conducted. Therefore, this research will explain the current state of business model, includes its innovation process and results in Trinity Optima Production and Music Factory Indonesia, as the two Indonesian records label that have different focus of business model.

Literature Review

Business Model

Business model is a representation of a firm's underlying core logic and strategic choices of creating and capturing value within a value network (Shafer et al., 2005). Osterwalder and Pigneur (2009) defines that business model describes the rationale of how an organization creates, delivers, and captures value.

Business Model Canvas

The business model canvas is a strategic management and entrepreneurial tool (Osterwalder, 2009). Business model canvas help to describe, design, challenge, invent, and pivot a business model. The business model canvas is a shared language for describing, visualizing, assessing and changing business models. Based on Osterwalder and Pigneur (2009), an optimization business model can be described with nine basic building blocks that cover the four main areas of a business (customers, offer, infrastructure, and financial viability). The nine basic building blocks are Customer Segment, Value Propositions, Channels, Customer Relationship, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure.

Business Model Innovation

Business model innovation is about creating value, for companies, customers and society (Osterwalder, 2009). Business model innovation is about re-evaluating an organization's entire business model. Business model innovation can be described as a valuable transformation within the structure of costs and/or revenues by diversifying to a new resource, developing a new source of revenue, externalizing a value chain activity, designing a modified or new activity system, relying on the combination of the existing resources of a firm and its partners to discover an entirely different business model (Demil and Lecocq, 2010; Santos et al., 2009; Markides, 2006; Zott and Amit, 2010). In this research, the types of business model innovation are categorized from the characteristics, whether it is radical or incremental. The radical innovation is the one that is disruptive and the incremental innovation also known as sustaining innovation. The radical innovation is the innovation that has a rapid growth, change social life and business practices dramatically. However, the incremental innovation is the innovation that not changes the entire business model and only classify as an addition or adaption from other trends or innovation.

Business Model Innovation Process

In business model innovation process, there are four process phases that characterize the business model innovation process. Based on Frankenberger et al., (2013), the first phase is initiation, which focuses on the analysis of the ecosystem. The second phase is ideation, which refers to the generation of new ideas. The third phase is integration, which deals with the building of a new business model. The last phase is the implementation, which focuses on the realization of the new business model.

Evaluation of Business Model

The third cornerstone of this research is the business model evaluation research. There are different indicators of a business model evaluation. Bourreau, Gensollen and Moreau (2007) construct an evaluation framework of a business model by analyzing opinions on management. Klym (2005) develops an analytical framework based on the demand analysis such as sales units, subscribers, or other information. Konig et al. (2006) make an evaluation of a business model based on the quantity, price and costs, unit sales, margin, observability and complexity of a business. Adner et al. (2002) evaluate online business model based on market expectations, time and magnitude; changing roles and new players; value of online music; adoption analysis (consumer and supply side). Kounig and Wen (2003) evaluates online business model based on its capabilities and cost of product digitalization, how digitalized product influences supply chain, influences on cost structure, influences on business model, influences on value of customers, influences on prices, influences on competitiveness. This research will adapt their technique of extracting the evaluation indicator and might adapt one or more indicator of above research whenever a business model is evaluated. Several indicators, which found measurable to this research, are sales unit (Klym, 2005), margin and complexity (Konig et al., 2006).

Methodology

Problem Identification

The first step of the research is finding the problem and getting a deep understanding of it. This research is about to compare the implementation of business model innovation in two Indonesian records label, regarding the changes in music industry structure that caused by piracy issue and the rise of digital music industry. The rise of digital music industry is considered as the new opportunity for records label in search of the new income sources. The companies in Indonesian music industry need new business model and must continue doing innovation to overcome those phenomena.

Qualitative Research

With semi-structured interview techniques, interview will be conducted to identify the existing business model and the result of its implementation. The research will use the qualitative approach because the aim of the research is to understand the business model innovation of both companies based on perspectives of employee and management. All of the data will be collected in form of words not numbers. The most common sources of qualitative data include interviews, observations, and documents (Patton, 1990). The semi-structured interview techniques is chosen for the reason that it can encourage two-way communication and could confirm what is already known and provides opportunity for learning. Besides, it is also encouraging the interviewee to relate experiences and perspectives that are relevant to their problems of interest (Wahyuni, 2012).

Semi-Structured Interview

In doing the interview, the author of this research will use the semi-structured interview techniques. Semi-structured interview technique is used to gather focused qualitative textual data. This method use a topic guide that has list of questions and topics that need to be covered during the conversation. The interview mostly composed of open-ended question in order to get lengthy and descriptive answers. In doing the interview, discussions may diverge from the interview guide because of the open-ended question, so the interview have to be recorded and transcript the records for analysis.

Case Selection

The case of this study is Trinity Optima Production and Music Factory Indonesia. The companies were chosen because of both companies are considered innovative. Trinity and Music Factory have a successful track record and already executed the business for more than 5 years. Both companies have given a lot of changes and good impact in the music industry. Trinity is the example of a records label and Music Factory is the example of a non-conventional distributor. The respondents in the interview are people who are currently working in Trinity and Music Factory and directly

involve in Indonesian music industry. The interview with Trinity Optima Production was conducted in Trinity Optima Production office at Jl. Hayam Wuruk no. 5, Tamansari, Jakarta Barat 11160. The respondents are Yonathan Nugroho as Managing Director, Irien Santoso as Business Development Staff, Eunike Elisaveta as General Manager Digital Business and Kandria Kananta as Artist & Repertoire and Music Publishing of Trinity Optima Production. The interview with KFC team was held at RICE Restaurant, Darmawangsa Square, Jakarta Selatan. The respondents are Syafia as Media and Promotion Manager, Yorie as Secretary and Media Promotion Support, Bambang Sugianto as Artist Management and Nugroho Dandy as Business Development of Music Factory KFC Indonesia.

Protocol of Interview

A topic guide usually has a list of the key questions and topics that need to be covered during the conversation, with some useful prompts to encourage the respondents to talk about specific issues that do not come up spontaneously. The prompts are useful to explore more about the short answer that has no additional information from the respondents. The topic guide and the prompts of this research are all written in the protocol of interview. The protocol of interview will be used as a basic guideline of the entire interviews.

Table 1. Protocol of Interview

PROTOCOL OF INTERVIEW				
No.	Variable (Research Objectives)	Sub Variable	Question	Outcome
1	Existing Business Model	Value Proposition	What bundles of products and services are you offering to each customer segment?	Type of Offering (Products and services)
		Customer Segment	For whom are you creating value?	Type of Customer
		Customer Relationship	What type of relationship does each of your customer segments expect you to establish and maintain with?	Type of Relation
		Channel	How are you reaching your customer?	Type of Channel (Direct/Indirect)
		Revenue Stream	For what value are the customer really willing to pay?	Type of Activities that generate cash for the company
		Key Resources	What key resources do your value propositions require?	Most important assets required
		Key Partner	What are your key partners? Or who are your key suppliers?	The network of suppliers and partners
		Key Activities	What key activities do your value proposition require?	Most Important things to do
2	Process of Business Model Innovation	Cost Structure	What are the most important costs inherent in the business model?	Earnings from each of Customer Segment
		Innitiation	How do you understand and monitor the surrounding ecosystem?	Identify relevant drivers Identify players (customer, supplier, competitor, government, etc) needs
		Ideation	How do you overcome the current business logic? And, which methods are used to develop new business model ideas?	The transformation of opportunities to concrete ideas
		Integration	How do you develop a new business model based on promising ideas identified in the ideation phase?	The integration process
3	Results of Innovation Attempt	Implementation	How do you implement the new business model?	The pilots, trial-and-error and experiment
		Sales Unit	Is there any increase or decrease in sales unit?	Increase or Decrease in Sales Unit percentage
		Margin	Is there any increase or decrease in margin?	Increase or Decrease in Margin percentage
		Complexity of Implementation	Do you think that the implementation of Business Model Innovation is easy to be done?	Type of Complexity

Data Collection and Analysis

Business Model of Trinity

Table 2. Business Model Canvas of Trinity Optima Production

<u>Key Partner</u> Artist (singer, musician, song writer, producer, composer, etc) Distributor (Disc Tarra, KFC, Telco, Guvera, etc) Brand (Endorsement)	<u>Key Activities</u> Master exploitation) <i>Production:</i> Talent Scouting, R&D, Producing, Marketing, Selling	<u>Value Propositions</u> Product Variance: Physical and Digital Product Artist; Artist Management and Strategic Marketing Get things done: Helping the artist to make things easier Newness in terms of B-to-B	<u>Customer Relationship</u> Communities (Fans Club): Merchandise, Off-air events, Meet and Greet Co-creation programs or initiatives with partners	<u>Customer Segment</u> B-to-B: RBT, Streaming, Conventional or Physical (CD), Brand (Companies), Sponsorship and partnership B-to-C: Off-air events, Merchandise (Fans Club)
	<u>Key Resources</u> Master (Content)		<u>Channels</u> Partner Store: - Distributor <i>for physical and digital products</i> - Streaming platform	
<u>Cost Structure</u> Fixed (Building, employee, etc) Production Cost Marketing Cost (promotion) Publishing Cost			<u>Revenue Streams</u> Publishing Strategic Marketing (partnership): Advertising, Endorsement Artist Management Digital: RBT, streaming	

From the nine building blocks in the business model canvas of Trinity, it shows that Trinity's business is not just a records label. Trinity has five main business units and four of the business unit role as the revenue stream for the company, such as Publishing, Artist Management, Strategic Marketing, and Digital. Because of their various business units, Trinity has a lot of Key Partners. All of their business units also doing a lot of activities like production, promoting and selling. Basically, what they are doing is exploiting the master as their key resources. They do all of the production process like talent scouting, producing, marketing, R&D, and selling. The customer segment of Trinity is diversified and can be divided into two parts, B-to-B and B-to-C. Trinity maintains the relationship with the customer by making an intense approach to communities or fans club of their artist. They also make a co-creation with their key partners to ideate an innovation to help the company growth.

Business Model of Music Factory

Table 3. Business Model Canvas of Music Factory

Key Partner Label	Key Activities Delivering and selling product Produce CD (Optional) Partnership	Value Propositions CD: Conventional or Physical Accessibility (Easy Access) and	Customer Relationship Co-creation with label: Marketing Gimmick Visit Store from KFC singer/bands	Customer Segment B-to-C: Loyal Fans of KFC singer or
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	(Network)	Performance: high number of KFC stores Risk Reduction: Risk of CD distribution and promotion	Meet and Greet Tour	band KFC Customer
	Key Resources Physical Product (Compact Disc)		Channels KFC Stores all over Indonesia	
Cost Structure Fixed (Building, employee, etc) Producing or Publishing Cost Advertisement Cost Other Variable Cost		Revenue Streams Asset Sale (Physical Product or CD Selling) Agency or Production House in using song from KFC singer or band as movie soundtrack, advertisement back sound, etc		

The business model canvas of Music Factory comes up with a very different result. Most of Music Factory's activity is actuating an exclusive partnership with the labels. They are not just a distributor for the label to sell a physical product like Compact Disc (CD), but they are cooperating with the labels by supporting their program with a contract system. Music Factory has a standardized mass market in all over Indonesia. In this business model, label is considered as the content provider and key partner to the company. Music Factory regularly co-creates marketing gimmick with label to maintain the customer relationship.

Comparative Analysis of Business Model

From the existing business model, we can conclude that Trinity Optima Production and Music Factory Indonesia have a very different focus of business model, showed from the business units they run. The only similarities they have is the cost structure variable. The main business of Trinity Optima Production is master exploitation that made production as their key activities in optimizing the intellectual product called master as their key resources, by collaborating with artist, distributors, and brands as their key partners. In the other hand, Music Factory Indonesia is doing product delivery by selling physical products to customer. The product comes from the labels as their content provider.

Variable	Trinity Optima Production		Music Factory	
	Similarity	Difference	Similarity	Difference
Customer Segment	B-to-C	- B-to-B - Diversified: <i>Serving more than two related customer segment (B-to-B and B-to-C)</i>	B-to-C	Standardized Mass Market
Value Proposition	- Physical Product - Get things done: <i>help artist to get</i>	- Digital Product - Newness <i>in terms of B-to-B product innovation</i>	- Physical Product - Get things done: <i>help labels to</i>	- Accessibility and Performance: <i>Easy Access – high number of KFC stores</i>

	<i>new income sources</i>	- Artist; <i>Artist Management and Strategic Marketing</i>	<i>distribute CD</i>	- Risk Reduction
Channels		Indirect: <i>Partner Store</i>		Direct: <i>Own Store</i>
Customer Relationship	- Communities - Co-creation		-Communities - Co-creation	- Personal Assistance: <i>Front Liner in KFC stores</i>
Revenue Stream	Asset (product) sales	Licensing: <i>Usage of Master exploitation products</i>	Asset (product) sales	
Key Resources		Intellectual: Master License		Physical Store
Key Activities	Delivering Product	Production Service to artist (B-to-C) and company (B-to-B)	Delivering Product	Network: <i>Partnership with Labels</i>
Key Partner		Artist Distributor Brands		Labels
Cost Structure	- Fixed; <i>Building, employee, etc</i> - Variable; <i>Production, Marketing, Publishing</i>		- Fixed; <i>Building, employee, etc</i> - Variable; <i>Production, Marketing, Advertising</i>	

Innovation Process

Innovation Process of Trinity Optima Production

Initial innovation is the first innovation that conducted by Trinity Optima Production to overcome the threat in Indonesian music industry. The initial innovation is turned to be a radical one because it changed the entire business of Trinity Optima Production. As for the innovation process in the business model are initiation, ideation, integration and implementation. In the initiation process, Trinity Optima Production was monitored the surrounding ecosystem, made a co-creation with partners to create new platform, and ideated the 360 degrees strategy as their new income sources. They also developed the methods and tools to transform innovation to the realization of new business model in the ideation process. After the ideation process, they did the integration process by integrating their business model with the partner's business model. The implemented innovation was the 360 degrees business model, expanded distribution and market knowledge.

The existing innovation of Trinity Optima Production is the innovations after the initial innovation. The existing innovation was not changed the entire business model and mostly was an adaption from international trends. The type of innovation in existing innovation is incremental as the innovation is sustaining. The innovation process in the existing innovation is not really complex. There is only the initiation and implementation process. Trinity Optima Production is continuing the initiation process by knowing trends, co-creation with partners, and also making their artist as a brand as they are implementing the 360 degrees strategy business model. The implementation of innovation will be on the form of case study and experiment.

Innovation Process of Music Factory

The initial innovation of Music Factory also categorized as a radical (disruptive) innovation. The innovation process includes initiation, ideation, integration, and implementation. In the initiation process, the company was getting a deep understanding personality of target market by think out of the box, survey, and observe trends from social media and daily habit. The ideation phase was occurred when there was a discussion with KFC headquarters in America. Music Factory modified the business model by integrating changes and adding music to fried chicken retail store (KFC Indonesia) in the integration phase. After all the innovation process, they did an experiment in their retail stores all over Indonesia.

The existing innovation of Music Factory considered as an incremental (sustaining) innovation with the fact that the innovation was only a future improvement for existing product. In the existing innovation, Music Factory was eliminated the ideation process. Knowing the needs of the market formed in the initiation process. Music Factory created advantages from buying CD with a lot of marketing gimmick and gave added value of a CD. They also forced to get feedbacks from the market in the integration phase. The implementation process includes the trial and error, experiment, and monthly evaluation.

Comparative Analysis of Innovation Process

Table 5. Contrast Table of Innovation Process

	Trinity Optima Production		Music Factory	
	Initial	Existing	Initial	Existing
Type of Innovation	Radical (Disruptive)	Incremental (Sustaining)	Radical (Disruptive)	Incremental (Sustaining)
Process	Initiation, Ideation, Integration, and Implementation	Initiation and Implementation	Initiation, Ideation, Integration, and Implementation	Initiation, Integration, and Implementation

Both companies once made a radical innovation that changed the entire business process. Trinity figured out many new ways in distributing music so the customer can enjoy music online and free but the company still gets income from it. Music Factory discovered a very effective way for labels to distribute their physical products by utilizing their KFC stores all over Indonesia with interesting bundling and package with the chicken.

In running the business nowadays, Trinity has a lot of innovation that made by co-creating with their key partners by knowing the customer needs and trend. They do not need the ideation and integration process in this innovation because what they are doing is as simple as bringing the trend and imitate the business model that was applied abroad.

In contrast, Music Factory still needs the initiation, integration and implementation process. They only eliminate the ideation process, which is not really needed in making the business model works. The ideation process is skipped in the existing innovation because they already had the KFC international headquarters' permission to do any innovation in music when they successfully ideated and executed the initial innovation.

Result of Business Model Innovation

Table 5. Table of Business Model Innovation Result

Variable	Trinity	Music Factory
Sales Unit	Increasing	Increasing
Margin	Increasing	Increasing
Complexity of Implementation	Not Complex	Complex

The sales unit and margin of Trinity Optima Production were conducted from the total revenue percentage. The overall addition of the company revenue is about 10-20%. It is all assumed from the total revenue because they have no written data about the sales unit, as they have many business units. In the early stage of RBT trends, the revenue from the digital music was very high but there was a drastic decrease on the sales unit of digital music, so the 10-20% revenue increment is considerably high on percentage. The other business units (publishing, artist management, and strategic marketing) have a good development until today. The sales unit is not facing any problem. The sales are good and even tended to rise. Basically, the new business units that are considered as the innovation of Trinity Optima Production posed as a substitution for the declining product.

For the Music Factory, there is a significant number in sales unit increment. In the first month of distribution in 2007, Music Factory only sold 3.000 CDs and that was not even easy. In consequence, Music Factory did an innovation and tried to figure out ways to trigger the customer to buy any CD in KFC stores. The sales unit multiplied gradually from 5.000, 10.000, 50.000, 60.000 until 100.000 CDs in the first year and made the major label curious and interested to join. The sales in KFC stores were really good and help labels to distribute their physical products (CDs) in order to overcome the piracy issue. High sales in KFC stores was proven by Agnes Monica achievement with 1,9 million CDs, followed by Indah Dewi Pertiwi and SMASH with 1 million CD, within 3 months maximum selling. Now, Music Factory can regularly distribute and sell 850.000 until 1 million CDs in a month. From the given data, noted that the market sales increase 10-20% in line with the new stores addition and also, the number of customer increased 10-20%. For the net profit, there is 33% intercalation by reason of 31% rise in sales in the first year, after the implementation of business model innovation.

Discussion

Records label and distributor companies must have a deep understanding of their business model and make a mapping for the company potential, capability, resources, and potential network or partner with also evaluate the readiness of their target market to accept the innovation. After the implementation of innovation, both companies should also able to maintain the business model evaluation and be reactive to the result. For further improvement, records label in Indonesia suggested to apply the 360 degrees business model to overcome the piracy issue and the rise of the digital era. With that type of business model, records label will get more income and revenue in several aspects. In addition, label should always be ready to make changes and innovation with adapting new technology, following the trends, and knowing customer needs. In addition, records label are also forced to be adaptive to changes and communicate with the current and potential key partners to create innovations that can be implemented in the future. For the distributors in general, they should adapt and apply the super-distribution strategy in their business model to gain maximum benefit, aside from performing their duties as CD or other conventional product distributors. Distributors should also be able to expand their distribution channel in form of digital sales or innovation.

In conclusion, Trinity Optima Production applied multi business models in doing their activities. The label is doing the 360 degrees business model and also the super distribution for other services to get more income sources, not only from the physical products. The 360 degrees business model is important to maintain more business relationship with the artist and to get record loyalties or add revenue stream for the company. Music Factory, as a non-conventional distributor, concerned their business to the product distribution. Music Factory really helps records label to distribute their physical product (CD) sales, when the piracy issue was being a serious issue for the company and made a great loses when it comes to profit. Music Factory is actuating an exclusive partnership with the labels and cooperating with them to support program with a contract system. The entire innovation process of Trinity Optima Production and Music Factory, which classified as disruptive innovations, are the one that made on the initial development of the company. The initial innovation has been changed the whole business structure of both companies and made a big impact on it. The existing innovation process of Trinity Optima Production eliminates the ideation and integration process and made up only with the initiation and implementation phase. The existing innovation process of Music Factory is the same with Trinity Optima Production but still have the integration process in it, as they still have to get the feedbacks from the market. From the result, known that the sales units of both companies are increasing as well as the margin. The total revenue also experienced an increase when the innovations were implemented. The total revenue increment is about 10-20% for Trinity Optima Production and 33% for Music Factory, in the first year. The innovation process in Trinity Optima Production is considered not complex because of the implementation basically is just a trend adaption from overseas and a new method was not required to implement the innovation. Contrarily, the innovation of Music Factory is considered complex over the difficulty of getting headquarters' permission and the unending rejection from the customers in the beginning of implementation.

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