

## **ANALYSIS OF DIFFERENT NETWORKS IN INDONESIAN MU-SIC INDUSTRY TOWARDS VALUE CREATION. CASE: GUVERA INDONESIA AND INDONESIAN NETLABEL UNION**

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**Abstract.** *The music industry is continually changing to adapt to the changes in technology, distribution platform, and also in the development of the product. In this digital era, now artists can introduce their works to the consumer all around the world easier. Currently, music industry total revenues grew 3.2 percent to US\$ 15.0 billion, leading to the industry's first significant year-on-year growth in nearly two decades. Streaming remains the fastest-growing source of income in the music industry. Revenues increased 45.2 percent to US\$ 2.9 billion, which over the five-year period up to 2015, have grown more than four-fold. The digital era is the one of the most drastic changes in music industry, with digitalization now music can be spread and listened all over the world. For those who can see this as opportunity can work their business model and system to adapt with that era. But, there is company who see this as a thread, because the digitalization of music is ruining the business. To conduct the research, network structure, behavior, and governance are required as main data to be analyzed. To find the value creation, the researcher conducted semi-structured interview approach which also involves analysis to finds its value creation. The result of this research will give an explanation about Indonesian Netlabel Union and Guvera Indonesia networks characteristic and their value creation. Also, give recommendations for both of the network.*

**Keywords:** *Value Creation, Strategic Network, Network Structure, Network Governance, Network Behavior, Qualitative Research, Indonesian Music Industry*

### **Introduction**

The music industry is continually changing to adapt to the changes in technology, distribution platform, and also in the development of the product. In this digital era, now artists can introduce their works to the consumer all around the world easier. Since, the customers now can explore music more vastly and faster compared to the previous decades. Currently, music industry total revenues grew 3.2 percent to US\$ 15.0 billion, leading to the industry's first significant year-on-year growth in nearly two decades. Streaming remains the fastest-growing source of income in the music industry. Revenues increased 45.2 percent to US\$ 2.9 billion, which over the five-year period up to 2015, have grown more than four-fold (IFPI Global Music Report 2016, 2016). There are different types of network that created on the majority of enterprises. Each of them has competitive advantages over the other, but of course, they also have their weakness. The goal of vertical value nets is an increase of the operational efficiency and developmental goals. Improvements in product or process are also an indicator of the vertical value net. The most ambitious target is to integrate the complete value system, from raw material till the distribution to the customer.

Horizontal net is identical with alliances and cooperative that aim to provide access to existing resources or to develop the new resources together. Horizontal market and channel are created when firms recognize they have something to combine and achieve a stronger position in global competition. Multidimensional value net creates its market by integrating the product and service required from a group of different types of supplier and channel firms. To achieve complex business net, usually various capability of the component is needed. Intimate relationship between each component is crucial in order to make MDVN works perfectly. The technology was one of the distinguishing factors which create a breakthrough in most successful MDVN.

In this case, researcher wants to analyze if that things are happening in real-life, especially in music industry. Because in music industry, we can see clearly that they need to collaborate in order to serve their best. Those changes can be either opportunity or a threat for the Industry itself. As, we can see now one of the biggest music retailer in Indonesia, Disc Tarra already decrease their retail shop in Indonesia, due to decline in profit (Andari, 2016). And the other issue that occurs are some Indonesian artists refuse to create new albums or songs because they feel they are not appreciated, only the pirates that got all the benefit. It was undeniable that music industry needs to adapt with current condition.

This study aims to look information and analyze the current network in Indonesian music industry and knowing their characteristics. This study also can be a reference for those who want to do studies that have relevance between network to their value creation.

#### *A Review on Literatures:*

##### **Network**

Network is a complex organizational form that is adaptive and compromise in a set of integration between organizational and social relationship (Möller & Rajala, 2007; Anand & Khanna, 2000). Sheer growth of networks is explaining that network is now widely used to pursue and expanding set of growth (Möller et al. 2007).

Roijackers et al. (2006) explain that strategic centrality based, are capable and strategic in choosing partners capabilities. Highly strategic company can look opportunities to strategically place themselves in the central position in the network, which make them granted multiple information access from the network.

The structure of the network involves the relationship pattern between the actors can be studied by analysing their network ties, network configuration, and network stability (Inkpen & Tsang, 2005). Thus elements are including hierarchy, density, connectivity which affect flexibility, and also the ease of knowledge exchange. Network stability is defined as the rate of membership change in a network.

A Network involve multi-skilled and cultural people working in different enterprises. The use of effective planning and coordination of systems and tools, supporting communication facilities, will enable the team members to share information and to synchronize the activities (O'Neill & Sackett, 1994). And Shuman & Twombly, (2010) adds that behavioral element is divided into some categories. Some of them are communication and evaluation. Also Bititci et al. (2004) add that the use of coordination system and supporting communication facilities are useful to synchronize activities of the member itself. These activities can be related to measurement for level coordination and synchronization between individual.

Shuman & Twombly, (2010) says that, Effective governance as personal and organizational accountability can contribute in line with level of trust and transparency needed for the network to achieve its objectives. Environment that is conducive to effective collaboration (coordinating, communicating, and leveraging). Also Håkansson & Snehota, (1995) explains and adds the importance of transaction in governance mechanisms.

## **Value Creation**

Based on Bititci et al. (2004), value creation is condition where an organization satisfy-ing both customers' expectation and creating wealth for its shareholders; hence add value for both parties. Value creation in organization should create a win-win-win situation for all parties collaborated. The partnership of collaboration should benefit in-creased of internal value to their shareholder, as well deliver better value to the end-customer. Lewis, (1990), Kochhar, (2002) and Bititci et al. (2004) defines value creation can be measured by some indicators. Some of them are increase in quality and quantity of product, price minimizer, simplifier, technological integrator, customer experience, and customer knowledge. The motivation for actors to collaborate is not just the fact they want to collaborate, but to gain something positive through the collaboration.

## **Methodology**

### **Data Collecting**

Qualitative research methodology is a method that can utilized when the point of the research is to understand the other people point of view (Newing et al. 2010). The qualitative method enables the author to understand the underlying reason, opinion, and motivation of the respondents by observing or interviewing them directly. The result of qualitative method will generate the form of the word, not a number; those occur cause the sample size is typically small, and respondents are selected, not randomly chosen.

The research uses the qualitative approach to achieve the aim of the research which is to understand the relationship of Indonesian Netlabel networks. All data will be collected in the form of words. One of the interview techniques is a semi-structured interview, which mostly chosen for the two-way communication on interviewing without losing the main focus.

Respondents in qualitative research usually selected because they are likely to have knowledge or data that was useful for the research. The strategy is by making sure the respondents are credible and have the capability to answer the questions. The selected respondents are not able to be generalized statistically and won't represent each in the population individually The way of identifying the quantity of sample is by doing the interviews till all of the information are connect with each other. The Respondents are people who involved in Guvera Indonesia's network and Indonesian Netlabel Union' network. The selected person to be the interviewee are considered as people that are involved in the value creation in the network. Also, have the knowledge to answer the general question about the activities in the network.

In order to validate the result of the interview, Researcher uses cross-validation method by comparing the answer of the interview between one respondent and the others. The result is valid when the answer is consistent and support each other. While if the result is inconsistent to one another, researcher confirmed it in the interview or understanding the context of the respondent's position.

### **Data Analysis**

In this step, Author will make an analysis based on data that have been obtained both from interviews that been conducted as primary data and secondary data that have connections to the network of those companies. The data analysis will answer the research question empirically based on information those obtained during the research.

Data Analysis

Guvera's Network Analysis

<b>Network Structure</b>	How to Connect	One by One
	Initiation	Initiation by Guvera
	Stability	Binded by contract
	Member	Records Label, Telco's provider, artist, Advertiser, Skybee, Content provider
<b>Network Behavior</b>	Communication	Managed by Guvera
	Evaluation	Contract, trial & error method
	Benefit	Tangibles: Profit Intangibles: Information
	Activity	Promotion, creating event, Maintaining relationship, and analysing user
<b>Network Governance</b>	Vision & Mission	'We are Made by Music'
	Leader	Guvera Australia Top Management
	Decision Making	Discussion with top management
	Transaction	Regulated in contract

Guvera decided to have a representative in Indonesia which will become an extension of Guvera Headquarter in Australia. Guvera Indonesia currently connection net is composed of labels, artists, Guvera headquarters, advertiser, Skybee (Indonesian Guvera's joint venture company), content provider, and Indonesian network provider. Each of actors has its own role in keeping Guvera Indonesia existence. The connection between Guvera Indonesia with labels and artist are mostly related to music providing contracts and platform delivery. Since, Guvera relation with Indonesian network provider is a business partnership, it allows both of consumer to experience the feature of their products. Guvera is originally from Australia, so creating a new representative needs support from the locals, cause Indonesian laws that obligate the foreign company to have at least 20% owned by Indonesian. That is the reason Guvera Indonesia joint ventures with some company like skybee which supports them with capitals, network, and gain local experiences.

At the beginning of their expansion, Guvera has to adapt to the Indonesia's condition. So, they have to experiment to encourage a new strategy that focuses on achieving their objective (trial and error). By using this strategy, Guvera Indonesia is allowed to try a new partnership and strategy which can boost their economic performance and popularity in a short period of time. Therefore, to maintain Guvera Indonesia on track, they rely on contract or list of the target when dealing with Guvera Headquarter, which help them on focused on achieving their target. Most of their activities are advertise their product, creating events, maintaining the network, and also analyzing their user. Each of their operations has its importance in maintaining Guvera works in track. Creating event and advertising are their effort to attract and educate their consumer. These activities are paramount cause they need consumer who uses their product (apps or service) in order to gain revenue. Maintaining their network is also crucial for them, knowing that Guvera is only a mediator between the music producer and the end consumer. Maintaining contracts and information sharing are critical in Guvera's network.

Communication between Guvera Indonesia and the Guvera Headquarter quite intensive. They regularly communicate with each other to discuss company related information, like strategy, financial report, and monthly report. Excellent and integrated communication is Guvera's goal in communicating with their actors in the network. This information integration between Guvera and their actors are their

additional competitiveness feature because that information integration allows the actors to be adaptive to their target market with Guvera’s customer data. Guvera enlarges their capacity by creating a representative, the third country that choose to have a representative is Indonesia. Guvera’s vision is ‘Guvera will continue revolutionizing the music and entertainment industry to ensure there’s a future that encourages artists to create and audiences to listen. A genuine respect for creativity and enjoyment is the foundation upon which Guvera is built. We are made by music.’ (About Us: Guvera, 2016), as explained by the head of operation and marketing Guvera Indonesia itself. He adds, that ‘We are made by Music’ was their tagline and foundation in every action that Guvera makes. In making a decision, the actors that contribute or joined the collaboration are done by discussing it with all the collaboration member. Even though in Indonesia they have their management, some decision and action are still controlled by the headquarter in Australia to keep their tracks.

#### INU's Network Analysis

<b>Network Structure</b>	How to Connect	Forum
	Initiation	Joint initiative of 5 founders
	Stability	Dynamic, members joining and leaving the network
	Member	21 Netlabels, journalist, curator, artist, specialised copyright lawyers, writers, researchers
<b>Network Behavior</b>	Communication	Email, WhatsApp, Facebook group
	Evaluation	After creating a major event, or when a trouble occurred
	Benefit	Tangibles: Intangibles: Connection, knowledge, spirit, information,
	Activity	Creating event, educating people, creating awareness, info sharing through forum
<b>Network Governance</b>	Vision & Mission	Becoming a place for Indonesian Netlabel to network with each other, and also educate Indonesian people about Creative Commons.
	Leader	No leader, just activist
	Decision Making	Through discussion or consensus
	Transaction	Not regulated in the contract. Only knowledge transfer, No money related transaction.

INU is a place where Indonesian net label to connect with each other. Currently, INU consisted of netlabels which spread all over Indonesia. Every netlabel is welcomed to join INU, and they do not restrict anyone who wants to join as long they have Lisensi Creative Commons (Creative Commons License) and want to contribute to INU. INU also welcome musician who is willing to produce music digital that are free and legal for internet user. In the beginning, INU was initiated by a group of Indonesian netlabels (Hujan! Records, Inmyroom Records, StoneAge Records, Mindblasting and Yes No Wave Music) who want to create a community that can be a place for them to network and coordinate with each netlabel all over Indonesia. Currently, they have connected 21 netlabels, journalist, curator, artist, specialised copyright lawyers, writers, researchers and representatives from networks that also connected with INU.

Each actor in INU have their own rules in managing their label, and by joining INU, they do not have a particular obligation that they need to contribute. Hence, most of their contribution are often a voluntary action that represents their participation for joining the network. They think INU is incredibly

helpful for them, and they believe they can educate Indonesia people about the Creative Commons as media which spread are legal and free works.

INU internal communication is conducted mostly by mail, WhatsApp, and Facebook group. This communication is considered not particularly active for most of the time. The group is only media to share some event or news that shared by the member of INU itself. Most of INU evaluation is only occurs after they are done creating the scheduled events, which is conducted once per 2 years or when a trouble occurs. Some actors considers that evaluation schedule was too infrequent. Especially in the times where the members are losing focus in maintaining the network goals, INU needs to change some of the systems which keep the member activities on the right track. Whereas most of in network activities are voluntary based not professional like working in a company, the people in charge is expected to have the initiative and drive to keep up with INU's target. Most of the activist feel that their contribution is not burdening, instead of having a positive feeling cause they can learn something new and connect with other actors in the network even though they do not get any money in making the contribution. In deciding, INU members apply voting system. Hence, community decision will determine all matters that involves INU's behalf. A member mentions that actually for a non-vital decision it is only like 'minta restu' or ask for permission to the other member. While for a more vital decision, all member should contribute votes even though sometimes they found out that it is hard to get a consensus or unanimous decision.

Value Creation table

Variable	INU	Guvera
Product Quality	+	++
Product Quantity	++	++
Lower Prices	-	+
Technology Integrator	-	++
Simplifier	++	++
Customer Experience	++	++
Customer Knowledge	++	+

This value creation table describes the signifacancy of value creation variable to each network. With- indicates low impact, + indicates a significance, and ++ for a high signifacance output to the network value creation variable. Guvera adds product quality in their network by increasing the service. By collaborating with multi-channel, Guvera enables to give ease to their customer. By creating collaboration event or promotion, Guvera and their partner can compromise with their initial margin in order to achieve their greater target, which is an increase in product quantity and provides lower prices. Guvera's multi-dimensional network are integrating technology's benefits that allow their user to enjoy music on their smartphone. It also becomes a simplifier for the customer that used to download or purchase music file to enjoy it. Guvera's multi-dimensional network are also creating an impact to their customer, both experience and knowledge. Guvera increases their customer experience by making use of their integrated information so that they can design more tailored experience, engagement, and stimulus for the customer. Also, working and doing an event with their partner can expose more people to the brand itself.

Increased product quality in INU is not occurred instantly. They learn to produce better quality by learning the listener preference, or by learning from the other labels. In increasing product quantity, members in INU utilize their connection to increase their current capabilities. By connecting with each other, they can create more release in a shorter term because they are collaborating. INU's events or the

annual 2-year event are also contributing to their quantity product sales. There is no significant improvement on lowering the prices, cause basically members on INU's products are digital music, and digital music is free. INU usage of collaborated website and social media has become a simplifier for INU customer. It simplifies the people who traditionally need to visit individual netlabel one-by-one, to instantly provide it into one place. Value creation in INU not only occurs in the internal section of the network, but it also happens in the external of the network, which is a customer. Members of INU agree that by joining INU, they feel they can increase their customer experience and knowledge. Most of them believe it is easier to create awareness if they do it together compared than they do it individually. Also, by creating bigger events and also more coordinated, they feel the customer will also get a better experience.

## **Conclusion**

### Network of Guvera

Guvera's multi-dimensional value net consists of many different actors in it. Guvera itself does most of the initiation or initiated by both of the parties. In Guvera's network there is a contract that bound them for some period of time. In the network, actors are doing exchanges like information, data, and also money. Guvera's evaluation is conducted periodically due to their multi-channel network requires Guvera to make an adjustment to each of their networks actors. In Guvera Indonesia network, the decision making in this network is usually made by discussion between the collaborating parties. Even though the leader of the Guvera Indonesia is the top management of Guvera headquarters.

### Network of Indonesia Netlabel Union

INU horizontal network that connects 21 netlabel all over Indonesia creates an environment that accommodates their members to join the network without hassle. Most of the communication in the network is done by sharing information in the forum, which enables exchange of information fast, and reachable for everyone that registered in the forum. Evaluation in this network was considered too infrequent by some of the actors, which is conducted every two years period after the event, or if there is a problem. There is no leader in this network; INU network only consisted of activist which become the person in charge in a particular task. Moreover, in decision making the network use the forum to include all the member in the discussion, and the consensus will be the decision maker.

### Network of Indonesia Netlabel Union and Guvera Differences

The strategic network of INU and Guvera is different. INU strategic network is horizontal value net, which makes the network actors are equal in status. While, Guvera strategic network is multi-dimensional value net, which structurally they are connected with a different kind of relationship in the network. The differences not only occur on the strategic network, In each component (structure, behavior, and governance) the difference are quite significant between them. Structurally, INU is more open since they are not bound by contract for a period of time. On the other hand, to stabilize their network actors Guvera use the contract to reduce the leaving actors in a unpredicted time. In behavior, Guvera communication is intensive and more tailored for each actor. INU uses mass communication to share the information with their actors. But its all depends on the network needs; INU goal is to create a place which can connect netlabel in Indonesia to collectively promote Creative Commons License. Guvera's goal is creating a more engaging music experience for the customer.

### Value Creation

Both of the company creates value in their way. Most of their creation are made from the synthesizing the capabilities between an actor in the network. Some of it were resulting an incredible result, some of it only make the condition or situation better than before, and also maybe joining the network does not

affect anything. From the analysis, every network has its own strength; no such a perfect network fits all condition. Maybe in INU they are not adding value in technology integrator. On the other hand, most of the reason the members of INU join are learning and in-crease their customer awareness which is currently on the right track on achieving it. As well Guvera, they are positively creating value in every aspect. These aspects are not a guarantee of success, but it is more like an indicator of performance in an organization or network which mean indicated both INU and Guvera are creating a positive output from their network.

#### Recommendation

Evaluation in the network is vital, especially in the fast-moving music industry that follows the technology trends. It is better to do an evaluation between the actors at least every six months periodically. Maintaining communication between the actors in the network also can be very useful. Since one actor needs another actor in the network, they need to be able to collaborate their ideas to create the solution for the problem occurs. The government has a significant role especially in making the policies to support the networks in Indonesia. A simpler procedure can help the actors in the Indonesian music industry to join or create network that can help them grow.

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