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Abstract

Web 3.0 (refers to the decentralized Internet operating on the blockchain technology, which is the core technology of the Internet), a new idea of mobile Internet, has become a hot topic in the technology and venture capital industries. Compared with Web 1.0 (read-only web) and Web 2.0 (read-write web), Web 3.0 is a more dynamic and interactive “read, write, execute Web”, which provides a long-term picture for companies. Web 3.0 is about to gather a closed loop of economic system that consists of several subsystems: property system (NFT), financial system (DeFi), and organization system (DAO). It can be foreseen that a profound technological revolution is under way with the mobile Internet. Before the advent of the next-generation Internet, Modern Sky (founded in December 1997, is a new independent music company in China), China’s leading music company that combines business of live music performance, musician brokerage and digital user platform, has suffered repeated setbacks in its core live performance business between 2020 and 2022, which leads to its severely-hit ecosystem. Therefore, the company’s management has realized that in this increasingly competitive live performance market, it is an imperative task for them to innovate and transform the traditional business model.

Keywords

Web 3.0, Live performance, Business model, Modern Sky, Digital economy

1. Introduction

Over recent years, in the context of digitization-driven economic development, Chinese real enterprises have been undergoing tough and profound changes in response to numerous “crises” and “opportunities” in survival challenges. In the picture of digital economy, the key link is to realize the integration of digital economy and real economy. In particular, the use of digital technologies to empower traditional cultural industries provides significant development ideas and directions for enterprises in this field. At the same time, the quick rise of China’s digital economy has also brought challenges to the development and transformation of traditional enterprises. Now that enterprises seek better development in the digital economy, there is an urgent need for business model innovation. And during the process of exploring new business models, the value system of enterprises will also be restructured and transformed.

2. Current Status of China’s Live Music Performance Industry and Business Model

2.1. Current status of China’s live music performance industry

In 2020, the outbreak of the COVID-19 across the globe has brought tremendous changes to the live performance
industry both home and abroad. According to the General Report of China Music Industry Development 2020, the Chinese music industry totaled nearly 400 billion yuan in 2019 before the epidemic, with the overall size of the performance market reaching 20.041 billion yuan and the total box office revenue of music performances at 7.379 billion yuan (www.chinanews.com.cn/cj/2022/04-26/9739917.shtml). Based on comprehensive research from the China Association of Performing Arts, more than 4,000 performances were cancelled or postponed nationwide between mid-February and mid-March in the first quarter of the third year since the pandemic. In order to ensure the smooth operation of the industry, the local governments actively adjust policies and grant subsidies and preferential policies to enterprises. At the same time, enterprises are seeking innovation by actively improving their operating strategies, and carrying out online transmission of performances with the help of modern technologies. The online transmission of live performances has changed the traditional way of watching performances, which has confronted difficulties for the business model of live performances, and forced the practitioners to actively ponder the future direction of the industry.

After a long period of rapid growth, the live music performance industry has gradually formed such subdivided performance markets as theater performance, concert, and small performance, each of which plays a different artistic role. In 2007, as Modern Sky introduced the more mature overseas music festivals into China and launched branded music festivals across the country, the live performance model of music festivals was gradually scaled up, thus forming a local representative business model of live music performance. “Modern Sky Music Festival” (a large-scale open-air live rock festival held annually in Beijing, organized by Modern Sky) and “Strawberry Music Festiva” (another music festival founded by the domestic music company Modern Sky in 2009, following the establishment of Modern Sky Music Festival) have become the leading brand music festivals, driving the development and prosperity of Chinese live music performance industry.

2.1 Current status of business model in live music performance industry

In around 2015, the emergence of many online music service platforms gave the live music performance industry the “first hit”, directly attracting part of the audiences. Live music performance has formed a relatively complete value chain, consisting of the upstream “music content production”, the mid-stream “scene production” and the downstream “watching and consumption”. Each part of the value chain is composed of a series of independent or interrelated enterprises. These enterprises gradually move towards a complex circular structure, forming a complete shared value chain. For example, independent music companies like Modern Sky can fully involve in the upstream, midstream and down-stream of the value chain. The company can provide performance by their own contracted artists, sell to end users through their own live performance brands such as Strawberry Music Festival, and sell IP derivatives and physical records related to the core performance scene. There are also some enterprises only involved in one part, such as Xiao Feng Music Utopia focusing on performance scene production, and Rolling Stone Records focusing on record distribution.

The “second hit” on the live music performance industry is the outbreak of the pandemic in 2020. In this background, the business model of the live music performance industry has undoubtedly changed profoundly. At the beginning of the pandemic, Modern Sky took the lead to switch its business priority from offline to online and launched online projects such as “Strawberry Nebula”, “Little Strawberry Festival on the Cloud” and “Strawberry Cruiser”, forming the closed loop of both “offline” and “online” business models. In 2022, Modern Sky accelerates the process of full-scale virtual performances, with the creation of digital musician MIRO, the release of the NFT digital collection online, and the up-coming release of digital music albums created by digital musicians. The new mixed business model leaves much room for imagination. At the same time, the original business model reveals problems, such as the lack of ability to extend the value chain, and the deficit crisis that Modern Sky is still facing.


With the accelerated development of industry digitalization, in the process of integrating the value chain, the business model of live music performance has shifted from a relatively single unilateral structure (copyright transaction) to a bilateral market structure of music dissemination platform (live performance scene), and then to a multilateral structure (digital social platform), thus connecting record listeners, audience, digital platform users, advertisers and other related people to form a value-added benefit sharing model. In order to facilitate transactions in music, music platforms foster frequent interaction between producers and consumers throughout the circulation
cycle of “value insight-value creation-value delivery-value acquisition” (Jin Xuetao & Liu Yijun, 2022).

3.1 Inclination of value insight

Value insight is to find the problems and pain points to be solved based on needs of users (Chen Jin, Yang Yang, & Yu Junbo, 2022). In the multilateral market structure mainly based on digital social platform, core users are the two ends of live music delivery: content producers and consumers. In addition, there is “producer-consumer”. In a live music performance, the live audience is both a consumer and a possible producer or potential producer. The Chinese live music performance market, especially the independent music market, is characterized by an obvious vertical crowd consumption. Live music performances are often the core space to motivate and attract the target audience. And Modern Sky’s “Young Blood” program is a way to discover potential musicians from live music and cultivate them to become content producers.

The value insight is based on the premise of completing platform positioning, consumer demand analysis, and providing multiple access channels to the platform for producers and consumers. The supply of musical works by music producers should be supervised according to certain rules and provides producers with related tools and services. And according to certain rules, tools and services for consumption are provided to consumers (or producer-consumers). In addition, platforms leverage distribution tools to make their content production process smoother.

But the existing problem in the upstream of music industry is: It takes a long time to train musicians and incubate music works and it often takes 5-10 years to develop a mature musician or a band. When the remaining musicians available on the market form a circle of generations, the lineup of music performances becomes homogenized and involution begins. The value insight of live music performance falls into a state of inclination: the demand insight initiated by customers becomes the supply insight tilted to the production end. The scales of value insight tilts to the production side, so the strength and scope of the user side weaken, which becomes a problem for many manipulators.

3.2 Homogenization of value creation

Value creation is the process by which companies produce and deliver products to the market to meet the needs of their target audience (Chen Jin, Yang Yang, & Yu Junbo, 2022). The value creation of live music performance is mainly to provide content producers and users with a trading place and services for live music content. However, the commercial model of live music performance is featured by homogenization now.

In the midstream, the production threshold of live music performance is lowered, so the duplication rate is increased. The market share is divided by more competitors, leaving the target users divided. For example, between June and November 2022, 10-20 new branded music festivals shown up in the Chinese market. However, there are not many festivals, only 2 or 3, that can make innovation in content modules, celebrity lineups, scene production, and user experience.

The music festival market is characterized by weakness, competition, and homogeneity. The original top-ranked music festival brands are in an unstable position, and their overall performance is not competitive enough, which leads to the relationship between platforms and users from close to open.

Another reason is that, as a result of the development and intervention of streaming media platform, QQ music, NetEase cloud music, Xiami Music are busy competing against music copyright, which to some extent increases competition. As a “moat” of the songs of a live music performance, the problem that the live performance of the artists authorized by the artist, the platform and the streaming media platform is restricted always exists. As a result, the performance of the artists is regulated by the other party and the channel of live music performance is becoming more and more disrupted. For example, the relevant department of the government refuses to grant approval to performances before performances, suspends the performances in the course of performances; economic disputes after performances, etc. Since the “moat” has not been clarified, the brokerage and copyright make the team prefer to choose more experienced bands who have participated in more performances. Therefore, the homogenization of live music performance becomes even more intense.

3.3 Dual channels of value delivery

Value delivery is the delivery of product value to target users through channels and marketing (Chen Jin, Yang Yang, & Yu Junbo, 2022). The value of live music performance is mainly delivered by two ways: “offline performance” and “online performance”. Its business model is characterized by dual channels of live music performances
music festivals, concerts, musicals, etc.) and online music performances, in other words, “live meeting” and “online meeting”.

The value delivery is closely related to real user scenarios. And the value delivery of live music performance takes place right at the scene of music performance. The value delivering scenario mainly based on “offline performance” is because of the existence of real trading places, where performers and audiences are in the same time and space. Both parties can directly interact, communicate and emotionally connect. And offline derivative sales are featured by timeliness, service and convenience (clothing, food, housing and transportation induced by the performance can be quickly realized offline). The number of performances held is limited, but the value-added space for live profit is large. The value delivering scenario based on “online performance” minimizes the travel burden of users and shortens the physical distance of live music performances. However, “online performance” extends the psychological distance between users and performers, making direct interaction, communication and emotional connection more difficult. At the same time, it also fails to meet the diverse needs of users. In principle, there is no limit to the number of performances held, and there is plenty of room for online consumption with the expansion of user technology.

Both channels have pros and cons, and they cannot replace each other. As such, the author will also look forward to a new value delivery channel.

3.4 Segmentation of value acquisition

Value acquisition means that the products are traded from the target users, and the enterprises obtain benefits from the users (Chen Jin, Yang Yang, & Yu Junbo, 2022). The value acquisition of live music performance is reflected as a profit-making model of the platform. Under the influence of the inclination of value insight, the homogenization of value creation and the dual channels of value delivery, the profit model of the live music performance has changed from the early “diversification” to “segmentation”.

After decades of development, Chinese live music performances have developed a profit model that includes performance tickets, music rights, and commercial advertising implantation. Over the past decade, it has expanded its business into IP derivatives, traffic monetization on digital social platforms and other profit models. It forms a business model integrating “performance ticketing, music copyright, advertising revenue, IP derivatives and digital social net-working”, of which “performance ticketing” contributes to the largest profit of music performance companies, but also an inevitable part to form a commercial closed loop in the upstream, midstream and downstream of the industry. The market of “music copyright” has been divided into many parts, so the room for more profits is not large. Unlike the Internet platform, the music performance company does not have the fixed user traffic. Therefore, relying solely on commercial advertising is not solid and stable. The “IP derivatives” and “digital social” are based on the onsite ticketing business and belong to the joint value-added part. Therefore, the room for more profits is also very limited.

After interacting with each other and briefly flourishing for a period of time, the five commercial monetization channels began to show signs of independent development. This also indicates that the upstream and downstream of the value chain of live music performances had begun to separate, forming a small closed loop within the ecosystem. For example, Modern Sky’s digital social platform began launching digital products (NFT) independently, and the company strived to grab the opportunities of the Web 3.0 era, placing great hope on the monetization of virtual content.

4. Optimization, Outlook and Foresight of Live Music Performance Business Model

4.1 Optimization of the business model based on “offline performance”: the return of consumer rights

The “offline performance” is the most traditional way of music performance, which is widely recognized as a large-scale music performance event with live emotional interaction between performers and audience, such as music festivals, concerts, musicals, etc. Take Strawberry Music Festival as an example, its main profit model is to organize a music performance of 8-10 hours, either independently or jointly cooperating with the relevant government cultural and tour-ism departments of partner cities. The festival brings together a group of music performers and musical works, attracting an audience of 10,000 to 20,000 through ticketing, and providing value-added services to the audience at the venue. The profit model of “offline performance” can be summarized as: “performance ticketing, advertising revenue, government subsidy, payment on value-added experience”.

The return of the right to consume means that from the perspective of supply and demand, the value retrospective
relationship of live music performance gradually shifts from the production side (supply side) to the consumer side (demand side), forming a reverse value circulation oriented to consumers. The previous business model is oriented to the production side of the show. The audience can only watch the performance provided that relies solely on the organizer’s artistic resources, artistic media and artistic literacy. The phenomenon ignores the audience’s viewing experience and needs, thus causing the homogenization of value creation.

The optimized “offline performance” business model is focused on the needs of the audience. Producers can apply big data technology to accurately portray the user profile of consumers, combining data on consumers’ location, likes and preferences, historical watching behavior, etc. And digital twin technology can further assist producers in selecting cities and venues for performances, and previewing the choreography of performances and unexpected situations as well as improve the services at venue. Therefore, the components of the “offline performance” business model will remain basically the same, but the proportion of each item will be adjusted more. The value space of the secondary value track (payment on value-added experience) will be significantly higher than that of the main value track (performance ticketing, advertising revenue and government subsidy).

4.2 Optimization of the business model based on “online performance”: the return of production rights

Online Performance is a new way of performing after the pandemic, which greatly makes up for the shortcomings of the traditional way of performing in terms of convenience. Free online performances include: Cui Jian’s first online concert finally had 46 million viewers and Li Jian’s first online concert had 45.9 million viewers. Paid online performances include: Modern Sky - “Strawberry Nebula” live performance, whose price of its first season of 18 yuan/show. The original price of the second season is 40 yuan/show (18 yuan/show for Tencent VIP).

“Online performance” is a blend of traditional live performance and live e-commerce. Its main profit model is: the organizer of the performance independently, or with the online video platform jointly planning, operating, investment, holding a 2-3 hours of music performance activities. It is played regularly through an online video broadcasting platform, attracting online users with an online page portal, and providing value-added services such as e-commerce transactions during performance hours, while users can book the event in advance. The profit model of free online performances can be summarized as: “advertising revenue and payment on value-added experience”; the profit model of paid online performances can be summarized as: “performance ticketing, advertising revenue, value-added experience payment”.

The return of production rights means that the value of live music performances gradually returns from the consumer side (demand side) to the production side (supply side), forming a producer-oriented value circulation. The business model of online performance is fundamentally differentiated from Internet content distribution, and user-centered is the core basic view of Internet content platform, and the content is more inclined to the public appreciation of performance content. With the user-oriented idea, the producer sets the content of the show according to the user's preference and selects the right lineup. Relying on different levels of user demand at the consumer end of the performance production, it is easy to cause a mixed environment of online performance consumption or low-quality content brought about by excessive catering.

The optimized business model of “online performance” will be oriented towards the supply of performance productions. Producers may explore and supervise the new mode of “online performance” by establishing a professional alliance of online live performances, implement the system of classified and graded management on performances and avoid such issues as low level of the transmission of online performance content. The components of the “online performance” business model reduce the “government subsidies”. However, similar to “offline performances”, the value space of the secondary value track (payment on value-added experience) is significantly higher than the main value track (performance ticketing and advertising revenue).

4.3 Outlook of the business model of “online plus offline” integration development: the return of the platform value

Given the immaturity of the current “online performance” model and the fact that “online performance” has never been able to replace “offline performance”, the future of live music performance will be dominated by the exploration of “online performance” and the restoration of “offline performance” for a long time. With the development of XR (AR, VR, MR), the form of online virtual concerts will also be further realized. However, both the “online” and “offline” business models adopt the “production-consumption” model with a single content. In order to achieve coordinated and integrative development of “online plus offline”, value creation should be centered on the
“platform”. From the perspective of the supply and demand market, the live music performance industry needs to serve both ends (concert production and consumption) and an integration platform emerges based on the content of live performance.

In particular, it is pointed out that the role and function of the digital user platform is weak in the previous business model. It is only a branch of the live performance ticketing to complement the small port of user experience, providing performance ticketing transaction service and the interaction function of the first generation of community users. In the “online plus offline” business model, the role of digital user platforms is gradually amplified, which has evolved into a sandwich model: the middle layer-live performance content (can provide online viewing portal and playback content, offline viewing ticket portal, etc.), the upper layer-musician creation and expression space, and the lower layer-audience/user creation and expression space. And it forms a large digital interactive community with the core of the viewing content. Its profit model combines multiple values, in addition to the value track mentioned above (performance ticketing, advertising revenue, government subsidies, payment on value-added experience). The platform model can also create more monetization items.

4.4 Foresight of Business Model in Web 3.0 Era: Value Chain Subversion and Creating Shared and Connected Platform Ecology

Even with the introduction and evolution of the “platform model”, the business model of “online plus offline” integration is still a product of the Web 2.0 era. The interactive nature of the Web 3.0 will totally change the traditional one-way production and consumption relationship and help enter the era of “universal creation” of co-creation and sharing. In the era of Web 3.0, the problem of confirmation of rights will be effectively guaranteed and solved, and the right of creation will return to each user. If the “online plus offline” business model forms a single platform ecosystem, then the era of Web 3.0 is a multi-platform ecosystem where people can connect, interact, create and share.

As the largest independent music enterprise in China, Modern Sky has driven and led many important changes and waves of music across the country. In the era of Web 3.0, with its strategy and vision, the company has the ability to “become the largest provider of live music performance in China”. Not only can it be the first to become the middle layer of a single platform ecology and build a large digital interactive community for musicians and users. The company establishes a physical and virtual base of “live music performance” in several major cities in China. Finally, it can link multiple large communities. At the technical level, Modern Sky not only needs the tracking and foundation of 5G, 6G and other basic network technologies, but also needs the ability to effectively integrate digital twin, NFT, XR and other technologies. Relevant technical capabilities may be acquired through investment and merger with relevant technical teams.

In this ecosystem, the identities of creators and users are truly dissolved, and the two can achieve multiple identity transitions. Modern Sky has become a real bridge connecting users, and its main profit model is the superposition of the value chain of multiple systems. On the whole, the live performance industry will return to the “national copyright transaction”.

References


