Competitive Business Model in Audio-book Industry: A Case of China

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Abstract— **The book industry is undergoing a digital transformation enabled by the Internet and e-book technology, which offers a novel channel for delivering books to consumers who mostly purchase paper books from physical or online bookstores. We examine characteristics of audio-book models that can be successfully employed in developed countries. Then, we provide a case study of a competitive business model employed by Shanda, a Chinese-based interactive entertainment media company firm. It is followed by a discussion of the case. The final section provides conclusion and implications. This paper's theoretical contribution is to explain the 'hows' and 'whys' of audio-book model in China and to identify clear contexts and attendant mechanism.**

Index Terms— **audio-book, business model, Shanda, case studies**

I. INTRODUCTION

The conception of 'Listening Book' mainly came from the 'audio-book', which store the content of the paper pages in the form of sound, for people to "read" during the trip or any place which is suitable for audio information. This new way of reading has becoming more and more popular for its convenience and eyesight protection.

American audio book association defined audio-book as any recording product which contain no less than 51 percent of text content and packed as tape, high density optical disk or pure digital files [1]. In China, 'Listening Book' is not limited in audio-books. Traditional folk art forms such as crosstalk and storytelling are also considered part of it. As these traditional folk art forms are also based on text, in this paper, these two items mean the same market.

The 'Listening Book' industry is experiencing a tremendous change nowadays overseas. The status of press is gradually being weakened or replaced. More and more media are being used as carrier of the audio book, including mp3 player, e-book, mobile and many other daily hi-tech products. Terminal unit producer, for example, IPOD, has become the core force of the industry chain. E-book seller Amazon purchase AUDIBLE.COM and then produce KINDLE, successful controlling several core nodes in the audio book industry chain, such as information supplying, marketing channel and terminal carrier, to build its own whole industry chain. The new comers rebuild the pattern of the industry chain and the continuing changing business model upset the former gain sharing. The industry transformation has brought unprecedented booming to the 'Listening Book' market.

Kindle and Iphone have been succeeding with a common characteristic what Amazon and Apple have built their own value chain. For instance, Amazon has an on-line sales platform for selling electronic books, and that Kindle e-book gives Amazon an edge in the e-book market. Apple has its on-line shop, and meanwhile, I Phone grabs cell phone market share from its competitors. These two successful business models can be described as "Content Supplier-Distributor-Terminal Provider" whole business model.

In 2010 July, Shanda, a leading interactive entertainment media company in China, launched its e-book product called Bambook. It means that Shanda marches formally e-book industry. With the help of rich content of Library Cloud which belongs to Shanda, Bambook will construct a mobile reading industry chain including content, channels and terminals. We have to move forward a single step to analyze and argue that whether Shanda can achieve the Amazon and Apple business models.

II. METHODOLOGY: CASE BASED RESEARCH

This study uses a single-case research design. We used multiple data sources. We collected and analyzed extensive secondary materials. Since Shanda Interactive Entertainment Limited (Nasdaq GS: SNDA) is a leading interactive entertainment media company in China and offers a portfolio of diversified entertainment content including some of the most popular massively multi-player online role-playing games (MMORPGs) and

advanced casual online games in China, as well as online chess and board games, e-sports game platform and a variety of cartoons, literature works and music. There was a good amount of media coverage on the company.

Basically Speaking, Shanda have mainly focus on website services once established, especially the Internet Game, which earns a reputation of innovation in China and a reputation among young people. With its development, the company more and more focuses on software part including mobile handsets OS. From the year of 2008, Shanda had started to develop e-book industry especially on-line books. Several company or work group are established to enhance its content of books. During the year of 2010, even larger plan be made out. A totally open platform towards public becomes the target of company. The platform contains huge amount of services including computer games, on-line reading etc [2].
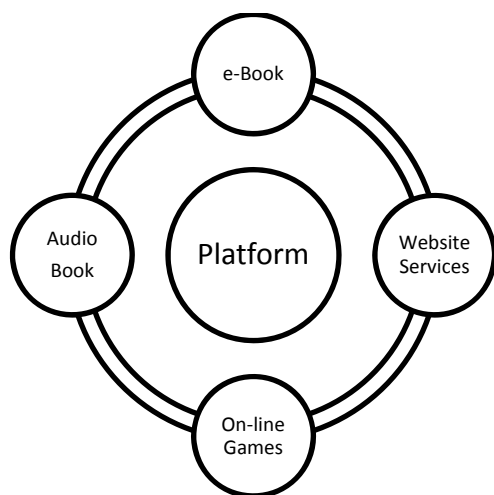

Figure 1   The Platform of Shanda

Yin [3] suggests that case studies are epistemologically justifiable when research questions focus on reasons behind observed phenomena, when behavioral events are not controlled, and when the emphasis is on contemporary events. Other researchers argue that case method is ''appropriate and essential where either theory does not yet exist or is unlikely to apply……where theory exists but the environmental context is different . . . or where cause and effect are in doubt or involve time lags'' [4]. This study satisfies these criteria. There are persuasive arguments for thinking that audio-book research is in an early stage of theoretical development, especially in the developing world. Studies on developing countries have also put assumptions of the ''normal process'' of Internet development to a ''severe test'' [5]. Thus, the generalizability of research conducted in the developed world is questionable in developing world's context.

Multiple and single case studies have strengths and weaknesses [6-9]. Despite some disagreement, researchers agree that single-case studies are useful for inductive theory building, especially in the early

development of a field of research [10] such as audio-book in the developing world.

Case-based research requires a sampling approach focusing on theoretically useful cases [6, 10]. In particular, best practices models provide good candidates for a case research methodology [6, 10]. It is worth noting that as a leading interactive entertainment media company and the first one that trying to establish the whole business model "Content Supplier-Distributor-Terminal Provider", Shanda's model can be considered as a best practice model for audio-book in China.

Finally, there has been a good deal of debate on whether case research should be based on theory specified a priori or on grounded theory. Whyte [11] argues that, to be valuable, research should be guided by ''good ideas about how to focus the study and analyze those data''. On the contrary, Glaser and Strauss [12] suggested that evolution of a theory from the data is the basis for development of grounded theory rather than an imposition of a priori theory. Likewise, Van Maanen, Dabbs and Faulkner [13] suggested that investigators avoid prior commitment to any theory. In this study, we follow Whyte's approach. As such, the next section provides a theoretical framework related to competitive business models.

III.   LITERATURE REVIEW

A key-word search for "business model" in the business literature reveals thousands of entries. The concept of a business model has found wide acceptance in the popular business press and has received considerable attention in the academic literature as well.

The concept was popularized in connection with the dot-coms or e-commerce where a start-up's business model was a key point of interest for investors. The internet enabled firms to pursue new business models and raised the possibility that a better business model might confer a competitive advantage.

There is general agreement on the basic definition of a business model. It is simply a description of how a firm does business. It is not a complete description of the complex social system of a business that would include all of the actors, relationships, and processes. Rather, it is a description of the logic that lies behind the actual processes [14]. The business model can be seen as the conceptual and architectural implementation of a business strategy and as the foundation for the implementation of business processes [15].

Earlier authors tended to emphasize one or two components when they talked about a business model. Some focused on the sources of revenue, some focused on the means of delivering products and services, and some focused on the central business idea or value proposition of the firm. Later authors, in both the popular business press and the academic literature, have defined the concept more broadly to include all of these components (and more).

Some of these authors were focused on e-business, but a number of them have provided useful general business model frameworks. For example, Hamel [15] defines a

business model as simply a business concept that has been put into practice. He identifies four main business model components—core strategy, strategic resources, the value network, and the customer interface. The business model framework by Petrovic, Kittl and Teksten [16] is divided into seven sub-models—the Value Model, the Resource Model, the Production Model, the Customer Relations Model, the Revenue Model, the Capital Model and the Market Model. They present their framework as a description of the logic of a business system for creating value that lies behind the actual processes. Chesbrough and Rosenbloom [17] identify six functions of a business model, the value proposition, the target market segment and revenue sources, the value chain and complementary assets, the cost structure and profit potential, the position of the firm in the value network, and the competitive strategy of the firm. Morris, et al. [18] list six components with three levels. The six components are the offering, market factors, internal capabilities, competitive strategy, economic factors, and personal/investor factors. The three levels, foundation, proprietary, and rules, allow for the representation of increasingly firm specific and detailed aspects of the six components of the business model.

From the discussion above we can see that in both the popular business press and the academic literature, the business model has evolved into a comprehensive and generally useful concept for thinking about how a firm does business [19]. The objective here is to show how, with a little development, the business model framework can be used in the strategy process to design or check on how the firm is executing its strategy. We have organized and defined the components of the business model framework to reflect current thinking about strategy. We have also attempted to simplify and clarify the framework while still capturing the essential components of business models from the works cited in the previous section.

In this paper's context, a business model is a description of a company's intention to create and capture value by linking new technological environments to business strategies [20]. Lam and Harrison-Walker [21] estimate that there are about 50 revenue-generating e-business models. Several approaches are used to describe these models. Researchers with marketing orientation use product, price, place, and promotion to describe e-business models [22, 23]. E-business models are also expressed in terms of structural characteristics around the value chain of suppliers and buyers [24], IT systems and architectures [25], technical platforms [26], and security and traffic scale [27].

Lam and Harrison-Walker [21] rigorously analyzed business models employed by Internet companies and reduced them through the use of two-dimensional models. The two dimensions are relational objectives and value based objectives. The relational objectives dimension is used to classify e-business models based on the Internet's connectivity characteristic. This dimension entails determining the target market and connectivity related objectives. Value-based objectives are related to a

value formula such as generation of revenues and others benefits (e.g., nonfinancial contributions such as increased marketing effectiveness or improvement in consumer attitudes).

Within the simplified framework we have incorporated most of the components of the more comprehensive and generalized business model frameworks cited in the previous section. Below, we discuss each of the three components to show how the framework can be used to think strategically about the way a firm does business.

IV. BUSINESS MODEL-CASE STUDIES

To state the business model Shanda was pursuing, we need to a brief review to business model, which shows the basic development of audio book at the same time. By this review, an analysis of model can be made out.
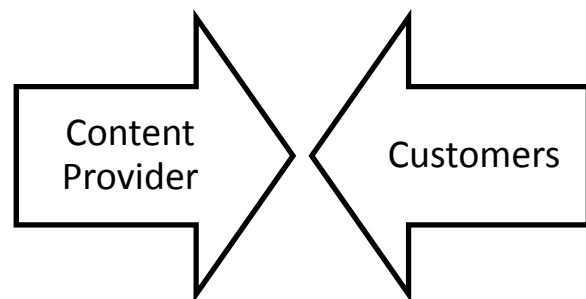
● **Traditional Model**

Figure 2   Traditional Model

The traditional form of audio book business such as AUDIBLE.COM, uses a direct model, which towards customers directly. Only two stakeholders are involved in this model. The content provider directly provides their products to customers. However, with the development of technologies and customers' demands, traditional model are not available anymore on account of copyright protection and product distribution etc.
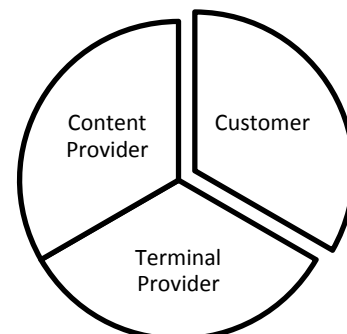
● **Closed Platform**

Figure 3   Closed Platform

Another form called "platform cooperation" appears. The classical platform can be date back to the cooperation between Apple and AUDIBLE.COM (ipod platform). Such cooperation is closed to other enterprise.

The terminal provider and content provider share their profits gained from the platform. However, the platform is not easy to be extended, which leads to the growth of customer slowed down.

● **Open Platform**
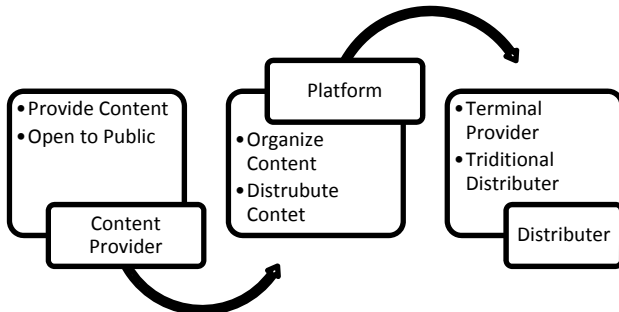

<center>Figure 4   Open Platform</center>

A new form of platform appears when Amazon decided to fully cooperate with AUDIBLE.COM. Amazon provides their on-line shop as a platform. Besides AUDIBLE.COM, more content provider can participate to the platform by offering content. Moreover, all cooperator of Amazon can get involved in this platform especially distributors. As well-known, Amazon had enough distributors cooperate with Amazon to distribute on-line book, or e-book. All of them can distribute the audio book as well since they are shared the same platform provided by Amazon. Such platform is even more energetic than the platform of ipod. Thus the platform is even more attractive.

There are plenty of roles in an open platform. The content provider takes the responsibility to make new content. The platform needs an operator to keep it alive and ensure the amount of content providers and distributors are reasonable. Moreover, it is operator's responsibility to regulate the way to participate in the platform and quit the platform. It is also the duty of operator that attracts enough content provider and distributor. So the operator is the core of platform, which is always acted by the founder or core stakeholder of the platform. The distributors are charged for distributing all the products. Specifically, there are some distributors handing out the products only by offering service to their special terminal, which is a result of new business model and is known as terminal provider. These roles are all necessary for an open platform.

One more thing should be emphasized is that the operator itself can take any role in the platform besides operator. They can make some content to be purchased as well; they can be the distributor by offering their self-made terminals; by designing and developing their own special terminals for the platform, they can even be a terminal provider. Consider the example of Amazon, this company is the operator of platform. But they also provide terminal that made by themselves such as Kindle. They can also use their cooperation relationship among publishers to obtain some special resources.

Consider the Shanda want to build an open platform that covers even more services. The audio book platform should become only one component of the whole platform. Considering the platform of e-book Shanda had now, the form of open platform is strongly recommended. We shall use the properties of open platform to measure the advantages and disadvantages of Shanda's current state.

We will measure the Shanda's position by identifying its roles as:

● Content Provider
● Distributor
● Terminal Provider
● Operator of platform

A. As a Content Provider

Considering the development of Chinese traditional folk art, Chinese audio book market extends a wider range. Besides traditional audio books, storytelling, crosstalk, recitation, and drama and other traditional folk art forms are also parts of audio book market. Traditional culture as the important point can bolster the development of audio book market. Nevertheless, they should realize that the promotion is limited eventually because of lacking of loyal fans of traditional culture. For this reason, the primary task for content providers is to expand audio book forms. And when they construct new audio book platform, they have to solve the basic contradiction, understanding customers' needs.

Because the existing content provider of Shanda cannot satisfy the needs, it is the indispensable process that Shanda enlarges actual strength through acquisition and strategic cooperation and other ways. As the platform provider, it should strengthen content publishing to guarantee production quality. What's more, advantages of industry cluster will attract other superior content providers. On the other hand, if the content publishing team of Shanda has an important share in the market, it will have ability to bargain with other content providers.

At present, Shanda has purchased one of the biggest domestic audio book publishing company called 'TianShuTingShuWang', and seven original literature organizations. What's more, Shanda reached cooperation agreement with four publishing planning companies [29]. Nowadays, Shanda has preliminarily formed a content platform--- 'Library Cloud', which sales electronic books. 'Library Cloud' has attracted many influential large enterprises. Some famous organizers express their willing to cooperate with Shanda [30]. With abundant contents, Shanda has the initiative in hands to construct business platform.

Although Shanda claims that it stores more than 50 billion words of books, undeniably, most of them have lost copyright or have risen by regular updating online in recent years. Furthermore, due to lacking of investment in Chinese audio book market, no companies can monopolize content publishing market. It is difficult for single content providers to ensure the success of market platform. The better way is to strengthen cooperation between enterprises and look for suitable content

providers. As a consequence, Shanda should add new forms to organize content source properly.

B. As a Distributor

In a sense, distribution channel assures that a platform can be succeeded. It decides user base and influence trading volume of the whole platform. In general, a platform needs more distribution channels to maximize keeping user base. However, only some distribution channels can further ensure audio book copyright. With the development of science and technology, distribution channel carrier becomes the important factor to evaluate distribution channel. Due to Chinese legal and supervision, technology becomes the main tool to prevent piracy. Therefore, it will be the optimal distribution channel to cooperate with telecom operators and exclusive terminal retailers (e-book, ipod and so on). In terms of distributor, the biggest difficulty is to achieve copyright protection and at the meanwhile, maximum covering potential users. Obviously, the obstacle is that how to balance them.

Shanda has its unique advantages in this respect. Because it has been managing Internet business, user groups is relatively stable to accept payment service idea. If these users can be the first customers of new platform, the platform will be obtained advantaged advantages in the initial stage. And the other challenging scheme is to start a new cooperation model through existing business model of Shanda. This challenging way can get more profits for trading platform and provide a better foundation for prospective Shanda audio book platform.

However, existing marketing mode cannot satisfy the development needs of audio book market. Channels mission may lead to the lost of whole customer groups. Such as, middle and old aged customers.

C. As a Terminal Provider

Bambook is a new generation hand-held terminal reader which is developed by innovation groups of Shanda Corporation. Shanda literature is Banbook content provider and operation main body. Bambook has many functions like 3G, Wi-Fi and USB connection to Internet. In order to make for Internet applications, Bambook applies WebOS system developed by Andriod. With the help of connection to 'Library Cloud', Bambook can provide new content continually for customers, just like Portals, Search-engine, Community and other Internet productions.

When a firm enters a field, it is probably limited due to only existing in one link of industry chain. Whatever Kindle or Iphone, they all use platform to maintain development of hardware. As a typical internet corporation, hardware is never great strength for Shanda. In order to increase content discursive power, Shanda makes hardware by itself. Though this way, the content can appear at the first time, and Shanda can fumble the optimal model. It is not important that Shanda gets profits from Bambook terminal. The core is the consistently gain from content terminal. The fundamental goal of making hardware is to sell content. Lower price hardware can attract more customers, thereby Shanda can expand content of sales channels.

Currently, Shanda relies on Bambook saling its platform product. Obviously, the single terminal marketing strategy is not efficient. Single terminal means relatively small potential customers. As a great platform, it is necessary to develop diversified channel distribution. In term of domestic conditions, at the period of triple play and 3G development, many kinds of terminals emerge in endlessly. It could attract more customers to combine these resources.

D. As an operator of platform

The operator of platform acts the role of managing all contents and distributing them to the customers. Moreover, it is the responsibility of platform operator that to keep customers are eager to buy products by a specific platform. To achieve this, cultivating the behavior of customers is very important. In China, most people are not willing to pay for audio book and other services. How to persuade them to pay is the most important problem that all platform operator need to solve.

In Shanda's case, it is their duty to take the role of operator of the platform since they are the organizer of platform. Basically speaking, Shanda will benefit from the cooperation with so many other companies as content provider. However, due their prior services, the lack of distribution channel is a big barrier. As we mentioned above, the distributor needs to get the payment. More distribution channel means more people get a chance to pay. But consider Shanda's case, the distribution channel they used are just Internet and some other traditional media. To attract even more people, new distribution channel must be employed.

E. Summary

Thinking about the background and currently business status, Shanda corporation audio book platform has many advantages, such as good basis, many original works and so on. Its weakness is also apparent, like single product, single channel distribution. As a full service operation enterprise, Shanda has ability to manage audio book platform from enterprise scale and business model. In order to obtain more profits, Shanda should make changes about business model innovation and broadening material source and that distribution channel.

V. DISCUSSION

By analyzing Shanda, we can find some limitations that prevent the "whole business model" in China. In fact, what Shanda has done or trying to do is constricted with market conditions. Here are the main constrained conditions in audio-book market nowadays.

A. Imperfection of legal system of intellectual property right protection

The comparatively more rigorous protection of digital audio copyright and the more effective supervision mechanism makes the suppliers abroad more enthusiastic, which makes it possible for the entile market to develop

rapidly with the impulse of supplier. At present, the spread of the audio books in our country is mainly relied on traditional carrier such as CDs, and assisted by paid download. As a result of the lack of Intellecture Property Law on protecting copyright of audio books, the majority of the audio books can be downloaded from internet freely. 'Listening Book' market in our country still spread through traditional media and can't develop rapidly because of the influence of piracy.

In addition, it has become a barrier in our country to identify the property right of products in areas including audio, especially some traditional folk opuses. Having been performed by actors of several generations, there's also controversy on the ownership of correlative rights. However, it rarely happens in foreign market. Meanwhile, the purpose of most of the audio book in our country is entertainment (or English study), and it is not a sufficient incentive for people to pay for the books. Worse still, the legal sense of our citizens is comparatively faint. . In view of the actual conditions of China, the supervision of piracy has become a difficult technical problem under consideration.

B. The average cost of production

Except for convenience, entertainment and artistic quality are the core contributions for the attractiveness of audio-books. Audio book is not simply about putting text into a reader, instead, it needs complex format conversion, proofreading, artistic connotation for audio books and digital music, high-cost property right and human resources. After remodeled by the reciter, audio-book is integrated with emotion to some extent. Consumers can obtain more vivid and deeper impression from listening than reading books. Therefore, the reciter's tone, expression style and other factors influence the perception of audience to content, which makes the reciter becomes one of the fatal factors of the product. With the help of sound effect, audience can be like personally on the scene when they listen to the audio book. In the foreign countries, audio books are manufactured by professions, including directors, audio engineers, reciters (the author or professional reciters). A successful reciter is just like a famous actor or a singer, who has great impact on the promotion of the product in the market.

At present, there are two major source of the material of audio books in China. One is from the independent compiled texts of the presses. The press will find corresponding language experts to record the audio according to different levels of readers. What's more, some that contain video clips have to, be manufactured in corresponding studios. The other is to import audio and video property rights by discussing with foreign publishers. However, both of the two ways cost too much. In China, the imperfect protection of property rights makes traditional publishers worry that the audio books can be downloaded freely before they make profits from them. Hence, property rights and the problem profit are two main barriers of domestic audio books industry throughout. As a consequence, a large number of companies have to give up the market due to reasons including little profit.

C. Network speed and communication tariffs.

As we know, mobile phones have functions to listen audio book. In the future, it is the trend to download MP3 format audio book to our cell phones for listening. However, currently our wireless network communication is been upgrading from 2G to 3G. The network download times are too slow to download large capacity audio book. Moreover, higher cost currently of wireless communication data service leads to lower popularizing rate of cell phones audio book service in China. So, now companies face the greatest bottleneck to develop this business. Nevertheless, it is probably that audio book will become the main carrier for reading while the network improves and communication tariffs decrease.

D. Extent of the network payment.

In the future, download from Internet will become the main channel to sell audio book. And e-commerce buying patterns should be supported and guaranteed. However, our online payment has many problems, such as diseased laws, nonstandard credit system, and incomplete security certificate and so on. They all have bad influence in selling audio book by Internet. From a consumer's point of view, they worry about the existing security problems of the network payment. On the other hand, the level of an enterprise is related to audio book online sales, like the degree of perfection and security about the financial information system.

E. Public infrastructure construction.

In the US, public libraries can be seen everywhere. In 2002, there were 9046 public libraries in the 50 states and Washington D.C.. About 97 percent of U.S. population can enjoy this service. Only in Houston, the number of public libraries approximated seventy. That is why many manufacturers regard libraries as their selling points, like Recorded Book, Chivers Audiobooks, and Blackstone Audibooks. But looking back to China, public and social libraries construction is in the initial stage with large gap which is compared to developed countries. As a result, consumers are lack of an important channel to get audio book, and that enterprises lose a selling channel. This could restrict the further development of audio book market.

F. Reading habits.

'Listening book' has quite a history in western. However, at that time, listeners hired tutors or others to read for them. Therefore, when the industrialization era came, westerners could accept the production--- audio-book, which has the similar function as hiring tutors. Oppositely, Chinese are lack of this traditional culture and reading habits. Only young children and the blinds may use this way to 'reading' books. Most adults in China enjoy individual reading which gets books information through reading, not listening or other ways. They advocate the reading atmosphere, but not just get information from books. Hence, in order to promote

audio book, enterprises should solve the problem that how to make Chinese consumers to develop 'listening book' habit.

VI.   CONCLUSION AND IMPLICATIONS

Considering our consumers spending habits, it is difficult to charge for audio books. (At present, most of our consumers get audio-books by free way.) So in order to solve our audio-book situation that city is priceless, we have to build effective business models and commercial platforms.

It's wise for Shanda to establish the platform for e-book and audio-book. Shanda is the first one to do this practice which has been successfully employed in foreign. The diffusion of audio-book depends on two factors: the consumer's adoption and the business adoption. From the consumer side, the price of audio-book, the ease of use and the value of product are the key elements. From the business side, the scale of market and the profit of product are the determinant attributes. To build an open platform can attractive old customers as well as new ones to buy audio-books. Even more, Shanda play an important role in the whole value chain and make assurance with profit. Even it costs time to wait for scale customers, Shanda takes the advantages to control the new market.

The current domestic 'Listening Book' market business platform is based on two levels of enterprise. One is telecoms companies (including broadcasting and television enterprises). Because of the chance of triple play, it will bring new opportunities in these companies to create new markets. Digital TV set-top box CA (Conditional Access) can achieve good copyright protection. It can place audio-book in the back-end to broadcast (Video on demand). Telecom operators service can make users get audio-book resources which they need at any time, any place. Though this way, 'Listening Book' will become the accompanied product that is same as traditional MP3 and radio in the future. This greatly increases the terminal amount of audio-book, and broadens the distribution channels.

And the other one is the Amazon as the representative of the e-commercial platform. They can be extended by using existing platform, and attract more mature customers (There is no need to develop new customers like telecoms companies), especially the formal operation can avoid many copyright problems.

With fierce competition in the audio-book market, all kinds of business may enter this market. New business models will come into being.

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