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PRICING PROFESSIONAL SERVICES
Case: Musiikkipäällikkö

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ABSTRACT

A Finnish independent company called Elements Music Oy started to conceptualize a business to business professional service called Musiikkipäällikkö in the fall 2007. The reason for the development process was to find an alternative business model to selling records as the recording industry is declining rapidly. The idea of the service is to offer companies anything related to music from one service provider. The offering includes music branding, music supervision, rights clearance and premium products.

This thesis was made as a case study for Elements Music Oy and the purpose is to find suitable pricing models for Musiikkipäällikkö's different services. The service concepts are ready but feasible pricing models have not been determined which makes it challenging to market and sell the service.

In order to find suitable pricing models for Musiikkipäällikkö, the thesis studies different methods and roles of pricing from a theoretical point of view. In addition to this, the thesis examines Musiikkipäällikkö as a service product as well as the market environment. The author of this thesis has been involved with Musiikkipäällikkö since the beginning of its development and the case study is largely based on observations during the development process. The theoretical part is based on literature on the subject as well as on interviews with people related to Musiikkipäällikkö

The findings of this thesis show that there are several different pricing methods for a professional service. These methods can be classified into three different categories which are resource based, result based and value based pricing. Furthermore, the thesis concludes that using only one of these methods is not enough for Musiikkipäällikkö's services and the best results are achieved by using a combination of different pricing methods.

Key words: Professional service Music Brand Pricing

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1 Introduction

The music business in Finland and globally has been going through some major changes during the last few years. The changes have been caused by the effect of internet to the distribution channels, marketing and to consumers' buying behavior. The diversification of traditional media and audiences has had its influence through out the music business and the different actors have been forced to re-think their business models and earning logics when physical record sales are plummeting and digital sales are not covering for the losses.

The structural change of the market creates possibilities for new companies and business ideas that are able to quickly react to change, be innovative and commercialize their know-how in an effective way. One of the emerging business areas is business to business audio branding where music and other audio are used to enhance companies' brand equity mostly through emotional effect. This business area can be seen as a transition of the music industry from a product oriented approach to a more service based one.

This thesis is made for the company Elements Music Oy for which I, the author of this thesis, am currently working. Elements Music is a Finnish independent record label and publishing company that has started to offer a business to business audio branding service called Musiikkipäällikkö. Musiikkipäällikkö consists of an audio branding service and additional supportive services. Elements Music itself does not produce music but uses collaborators such as record companies and composers to meet the customers' needs.

Selling and marketing services is difficult because they are intangible, abstract and mostly based on creating experiences. Furthermore, when dealing with professional services where the customer's own effort is crucial for success and the end result may not be easily seen beforehand, pricing them can be extremely hard.

Selling and marketing professional services can be made easier by conceptualizing them and adding them with product like qualities. This thesis studies the nature of professional services with a focus on the pricing aspect. The acquired knowledge will be then applied to discuss possible pricing models for Musiikkipäällikkö.

1.1 Background

I initially started at Elements Music as a trainee in August 2007 and after that I got recruited as a full-time employee. The development of Musiikkipäällikkö started when I was on my training period. At this point there were only initial plans and ideas. I actively participated in the development process and in the beginning of the year 2008, when my full-time employment started we began contacting potential customers to test the concept of Musiikkipäällikkö. Based on the feedback and some literature, the concept was further developed to having more product-like qualities. The case section of this thesis introducing Musiikkipäällikkö as a product is largely based on the development process and my personal experience on the subject.

1.2 Research problems

Musiikkipäällikkö as an audio branding service is a totally new in Finland and even globally there are not many companies offering it. This means that knowledge and written documents on the topic are scarce. There are no standardized models how to offer the service and potential customers are not accustomed to buying such a service. Furthermore, the nature of audio branding being a professional service by definition creates challenges in selling and marketing it in an understandable and efficient way.

Musiikkipäällikkö has gone through an internal business concept development process to address the aforementioned issues but the pricing models and strategies still remain undefined. Yet, price and its structure are crucial in any buying decision.

The main research problem for the thesis is how to price Musiikkipäällikkö. To approach this problem, the thesis will study theory on the roles and methods of pricing services in a market environment. Consecutively, the different services and of qualities of Musiikkipäällikkö will be explained for the reader to understand the concept. With the knowledge acquired by studying these two sides, the thesis seeks to apply theory into practice by discussing possible and suitable pricing models for Musiikkipäällikkö.

1.3 Methodology

The theoretical part of this thesis is largely based on literature by Jorma Sipilä with additional notions from other authors. Jorma Sipilä is specialized in strategic management, product development and has studied extensively the different aspects of services and especially professional services.

The case study on Musiikkipäällikkö and the market are based on my personal observations while being involved in the development of Musiikkipäällikkö. The analysis on how to price Musiikkipäällikkö is conducted by reflecting my personal knowledge on the case to the studied theory. The analysis also contains excerpt from open interviews with Tommi Tuomainen, the chairman of the board of Elements Music Oy.

1.4 Structure and limitations of the research

The introduction part provides background for the thesis and explains the starting point on which the rest of the thesis is based on.

The second part will create the theoretical framework for the thesis by studying what makes services special compared to physical products and why are they hard to market and sell. Business to business professional services are further studied to examine the differences compared to services targeted to consumers. The method and benefits of adding product like qualities to professional services are studied next before examining the different methods and roles of pricing services.

The third part will introduce the case Musiikkipäällikkö. A glance at the development of music industry during recent years will provide

background for the trend in the whole music industry towards service orientated business models and a brief introduction of Elements Music Oy as a company explains the internal reasons for the development of Musiikkipäällikkö. The different services included under the name Musiikkipäällikkö will then be described separately and fairly in detail. The detailed description is necessary due to the highly specialized nature of the service. After introducing the services, the important aspects of the market affecting pricing will be studied. This section contains a study on potential customers as well as on the competition the service is facing. Lastly, special issues regarding Musiikkipäällikkö's role as an intermediary between the right holders and users will be covered when discussing positioning.

The fourth part of the thesis will incorporate the studied theory on pricing with Musiikkipäällikkö's service description to present possible and feasible pricing models for the service. The thesis ends with a conclusion on what has been found on a more general level.

This thesis limits itself to not using actual numbers or budgets regarding Musiikkipäällikkö but rather discusses theory on pricing and its application to create a framework for decision making at Elements Music Oy.

2 Pricing Professional Services

2.1 Characteristics of professional services

A service is a complex phenomenon and has multiple meanings from personal service to services as products. Almost any kind of product can be transformed into a service when there is some degree of customization according to customer needs. For instance, the whole process from well designed machines to delivery and invoicing can be considered as a service. (Grönroos, 2003: 78)

The marketing of services, while sharing some similarities with physical goods, has some inherent differences. The characteristics of a service that set it apart from physical goods are intangibility, inseparability, variability and perishability. Furthermore, the criterion for satisfaction is different and the customer participates in the process. (Kotler, Hayes, Bloom, 2002:12-13)

Professional services are yet a specific branch of the service industry. Creative and unique know-how is what differentiates professional services from other services. Professional services are needed to solve complicated problems and to create new ideas or processes, and thus the service provider is required to have creativity, experience, perspective as well as good perception of concepts. The ability to execute the ideas rather than just conceptualize is also essential for professional service providers. (Sipilä, 1995: 26)

The knowledge aspect of professional services compared to other industries is illustrated in the figure 1.

KNOWLEDGE INTENSITY OF PRODUCTS		
PRODUCT TYPE	LOW	HIGH
PHYSICAL	Traditional Industry	Hi-Tech Industry
SERVICE	Normal Services	Professional Services

Figure 1: Knowledge intensity of products. (Sipilä, 1995: 26)

A specific characteristic for professional service firms is the amount of interaction with the client required to deliver the product. Professional services are usually hired to solve a problem for which the client company does not have the expertise for, yet the client still has to recognize the problem and the need to use outsourced partners to solve it. This means that the client company and the service provider have to interact closely especially in the early steps of the cooperation to define the problems and possible approaches to solve them. However, the more creativity and innovativeness the solution needs the harder it is to know the service quality before hand which again This also creates challenges for marketing and especially pricing since the client does not really know the

end result of his purchase and hence the actual buying decision is harder to make. (Løwendahl, 2005: 36-39)

One method to address the aforementioned challenges is to clearly conceptualize the services and attach product-like qualities to them. The following chapter will introduce this approach and it is the framework on which the rest of the thesis is based on.

2.2 Professional service as a product

It is common amongst professional service providers that the perception of what is being offered is unclear. There is know-how which is being used when a customer orders something but to answer the question “What do you sell?” is very hard. To address this problem it is advisable to attach product like qualities to the service offering. (Sipilä, 1995: 17)

A professional service can be considered as a product when the offering has a clear structure and there are specific methods and procedures to perform the work. This enables a more systematical and efficient customization of the offering depending on the customer and brings organizational benefits when the more experienced employees can concentrate on more demanding task and the younger ones can perform tasks independently. (Sipilä, 1995: 17-19)

Essentially a service product comprises of three layers. The core of the product represents the benefit for the client. This can be wealth, reputation, health, convenience, or security for example. The second layer includes the basic service offering, different optional modules and a customization part which is usually defined in contact with a customer. The third layer is based on image and qualities associated with the service. This layer is

affected by external factors such as marketing and reputation. Figure 2 illustrates the layer based model of a service product. (Sipilä, 2003: 154-155)

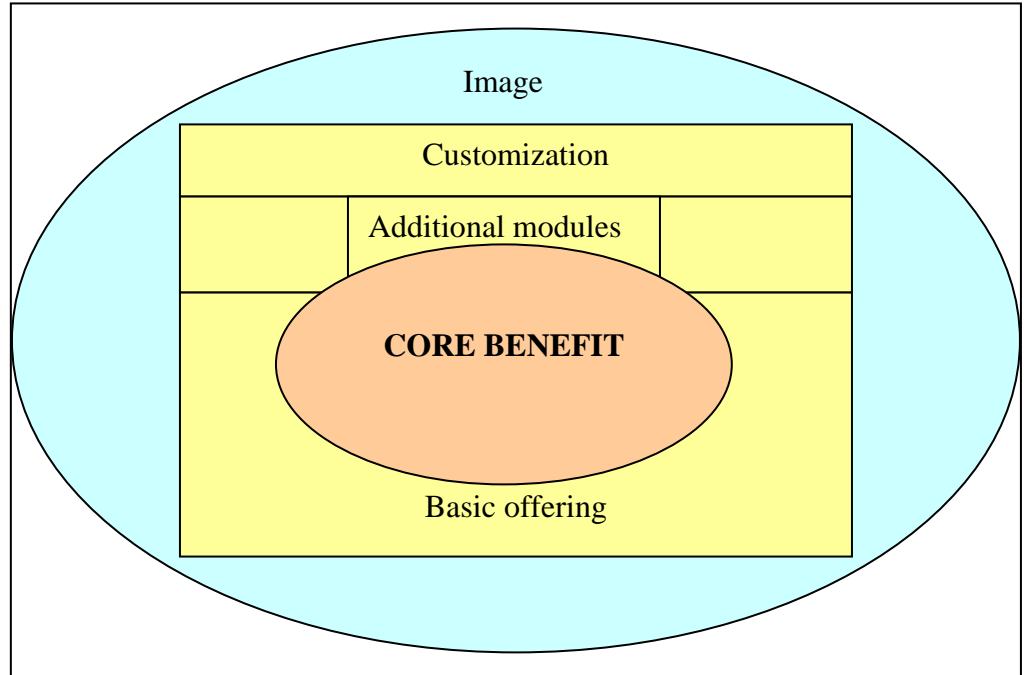


Figure 2: Basic model of a service product. (Sipilä, 2003: 155)

For the purpose of this thesis, the most important benefit from the product oriented approach is that it enables more effective marketing and especially pricing. The customer can understand the offering and compare it to other similar type of services quickly. It is also easier to put the price tag on each module of the service and thus make the buying decision easier. (Sipilä 1995: 19-21)

Still, communication between the customer and the service provider can be very complicated. It is not easy to communicate a service offering in a simple way especially when there are two professional organizations involved. The views on what is needed might differ vastly. The customer might not know the special traits of the service provider's field and vice

versa. The customer might also be short-sighted and have strong personal feelings about the subject based on superficial knowledge. (Sipilä, 1995: 27)

Due to these problems and to the fact that a customer might not know his needs beforehand and the service provider cannot offer specific solution without studying the customer's problem, the customer cannot make a buying decision. To solve these problems it is common that when offering professional services the first thing the customer buys is actually a diagnosis of their needs. (Sipilä, 1995: 27-28)

From a pricing point of view it is easier to give an offer with a fixed fee or at least give a price range for each step with a service product clearly conceptualized into different part-services or modules. In other words, a service offering can be priced step by step starting from the starting diagnosis which defines the future service needs. When these needs are clarified a price estimate for the needed procedures can be given immediately as each variation is based on combination of specific conceptualized services. (Sipilä, 2003: 204)

2.3 Roles of pricing

Pricing has many important roles for the professional service company as well as for the client buying the service. Price is the actual benefit for the service provider and pricing as a whole naturally has crucial effects on the profitability and continuation of the company. The collected fees ensure the day to day operations but in the case of professional service companies especially - as they are not usually heavy on capital investments - they should also account for the future development of the company and its

products. When pricing decisions are made correctly the business can thrive but when wrong decisions are made they can destroy the company. Every aspect of the company's existence culminates in its price setting as it essentially expresses the value of the offering for the customer. (Sipilä, 2003: 25)

Price can also be considered as a method of competition. It can be seen as a reflection of all the other qualities of the service or product. With very homogenous products price can be the only deciding factor when choosing the manufacturer thus a change in price might change market shares quite quickly. On the other hand, a highly specialized and unique service company might have to think pricing only a little, or not at all, from a competition point of view. For a service company, the pricing system itself can be considered as a competitive tool. An open and consistent pricing system can give a trustful image of the company especially in a long term client relation. The client can plan its operations further ahead with a service provider using transparent pricing systems than with a company that changes its prices all the time. (Sipilä, 2003: 25-26)

One important role of pricing is its ability to guide the customer in its own operations. In professional services this is especially important. Pricing can guide the client to make efforts to get the most out of the purchased service and encourage better planning. Better planning benefits the client for example by reducing the amount of unnecessary enquiries and too small tasks as well as encouraging the purchase of bigger service packages instead of small pieces. For the service provider this can result in a long term business relationship when the client can see the long term cost benefits. (Sipilä, 2003: 26-27)

A client can also judge the quality of a service through its pricing even before the actual service has been delivered. A high price can be seen as an indicator of better quality compared to other service providers. Therefore, price has a strong effect on the service company's image. In specialized professional services the buyer might not have prior experience on buying the specific service and thus price is the only indicator of quality. Also, when there is high risk involved, price is likely to be the foremost quality measure. (Kotler, Hayes, Bloom, 2002: 271)

2.4 Pricing methods

Sipilä (2003: 177-179) classifies pricing methods into five categories according to the essential pricing factor. These categories will be explained hereafter.

2.4.1 Result based pricing

The first pricing method is based on the end product. This could include small tasks, service processes and quoting based total fees where price is defined by the end result and not by the customer benefit. Also, cases where a percentage based fee is calculated based on the end product rather than the customer benefit are included in this category. (Sipilä, 2003: 201)

Result based pricing is used when the customer pays for every separate procedure by the service provider. This can include phone calls, meetings and presentations, for example. The procedures can also be sold as a service package including a predetermined amount of the services and the customer pays for any extras according to a unit price. . (Sipilä, 2003: 201-202)

The benefit of result based pricing is that the customer can clearly understand what he is paying for. The downside is that the total price can only be known after one knows the exact amount of procedures needed. Although the customer can be annoyed that every single procedure – even the simplest one – has a price tag, it is still based on the result rather than time and could be considered safer for the customer. From the service provider’s point of view this might be risky if the scope of the work is not clearly defined. The customer might be uncooperative or he might demand extra work included into the same fee. (Sipilä, 2003: 201; Kotler, Hayes, Bloom, 2002: 284)

As discussed earlier, professional services can be conceptualized into products benefiting the customer as well as the service provider. Prices given through the conceptualization also fall into the result based pricing category.

“When the customer is presented with tailored solutions every part of the offering has to be priced separately. When these parts or modules are assembled into a total service offering the module prices have to be adjusted to be feasible for the client” (Sipilä, 2003: 206).

It might be difficult for a professional service company to give “list prices” as the needs are very varied depending on the customer. However, in this case a list price is not meant to be a single price but rather a price range which then crystallizes when the exact needs have been determined. (Sipilä, 2003: 206\$)

2.4.1.1 Service bundles

Service bundling and its pricing is closely related to result based pricing and deserves a bit further examination. Essentially service bundles mean that different service parts are sold together as one entity with a single price. There are many options in bundling services varying from giving one price for the whole bundle or billing each part separately. The benefit for the service provider from bundling is that the customer buys more in total and thus the revenue is bigger. (Sipilä, 2003: 209).

A basic service product may be more convenient and efficient for the customer if additional services are offered. For example, the service of a lawyer is essentially consultancy in law related issues but the lawyer can also offer to handle the related paperwork. The paperwork results directly from the consultancy hence the consultancy can be seen as a “gateway” to offering additional services. The bundle is also easier to sell, as from the customer point of view it offers a total solution to a problem with one price, even though, from the service provider’s point of view there are many individual steps which, in fact, are priced separately. By offering service bundles yet having a price for the individual procedures also enables the customers to drop out the parts of the service they might find unnecessary. This can result in the customer paying bigger margins where as a bundle would mean a bigger total value for the service provider and more cost effectiveness for the customer. (Sipilä, 2003: 210-211)

2.4.1.2 Quotation based fixed fees

A common way to offer services is to quote a total fee based on negotiations with the customer. Sipilä explains that this might be very convenient when offering professional services as the exact needs of a

customer are difficult to know beforehand. The customer's problem might correspond loosely to a ready-made service offering but there is room for customization. Some aspects of the work might require extra hard efforts which cannot be included in the basic service modules and hence the price must be adjusted accordingly. (Sipilä, 2003:213)

The biggest benefit from a quoted price is that it encourages good planning from both the service provider's and the customer's part, given that the scope and limitations of the project are clearly agreed on. The most common problems in this case arise when the customer constantly tries to expand the agreed work and the provider tries to rigorously stick on to the pre-agreed work. In cases where the work load is hard to estimate beforehand and the customer still wants to have a fixed fee, the provider might have to go with a price based on a worst case scenario. One solution to this problem is to first offer a diagnosis of the problem and then agree on the solution. (Sipilä, 2003:213-214)

2.4.2 Resource based pricing

The next classification is resource based pricing where a typical example is hourly fees. In a more general notion, this means that a certain capacity is being used or reserved to accomplish a task and the costs are being held as a foundation for the pricing with a profit margin added to get the final price.

2.4.2.1 Prices Based on Cost

The cost oriented method is based on the variable and fixed costs to produce a product or a service. This model is mainly used when there is a high amount of physical products involved and the suppliers' prices are

well known. The whole pricing can be then based on the supply cost with the desired margin on top. In the branch of services the costs typically include the employee's salaries, other individual expenses and the facilities where the work is performed. When all these costs are added together the margin can be added on top to create a desired profit level. (Sipilä, 2003:182-183)

The cost oriented method for pricing is appropriate when the customer is well aware of the costs of a service and competitors use similar models. When selling items it is assumed that the production prices are diminished by increased volume. However, with professional services the issue is much more complex. The capabilities of the individual performing the work can have a huge impact on the costs to provide the service. An experienced professional can accomplish the same task in one hour, where as it would take a week for an inexperienced one to do the same work. Therefore, in professional services strictly cost based pricing is not considered to be a very feasible option. (Sipilä, 2003:183-185)

2.4.2.2 Prices based on time

Another resource based pricing method is fees charged according to used time. The most traditional example of this is hourly fees. The fee is usually created by multiplying the hourly gross wage of the employee performing the work by a certain number. There are no exact methods to come up with the multiplier but usually it is based on the employee's experience and the nature of the work. Additional expenses are usually charged separately from the customer. (Sipilä 2003:185)

For the service provider this pricing method is easy and clear. The final price does not have to be known beforehand and there are no risks in

prolonged work as it will be charged according to the extra hours. The customer also knows what he is paying for. (Sipilä 2003:186)

The negative side of time based pricing is that it does not encourage good planning. From the service provider's side it might be more lucrative to artificially prolong projects in the hope of better revenues which may irritate the customer if they think that the service provider is actually stalling. Furthermore, time based fees mean that the customer carries all the financial risk compared to result based pricing, for example. Generally, time based pricing is fitting for work that correlates well with the results but the more creative the work is, the more difficult it is to find such a correlation. (Sipilä, 2003:188; Kotler, Hayes, Bloom, 2002: 284)

2.4.3 Value based pricing

The fourth category is based on customer benefit or value. Essentially the customer pays for the added value which can be an increase in production, wealth, improved market position, an advance in career or risk minimization, for example. Risk for the customer is minimized yet the service provider has excellent potential for profits. Value based fees encourage the customer to think the benefits of the cooperation rather than costs. (Sipilä, 2003: 235-236; Kotler, Hayes, Bloom, 2002: 286)

2.4.3.1 Success fee

Value based pricing – or success fee - is especially interesting for creative industries where a well performed project might lead to exceptionally good results. Risks are high as well since there are no guarantees for success and usually a small or no fee is beforehand compared to the potential of a successful add in value for the customer. On the other hand, sometimes

offering value based pricing is the only way to get the work as financing for the project is acquired from a third party. (Sipilä, 2003: 237)

A basic way to use success fees is to charge a percentage of the customer's added revenues. This may include that a fee is charged only if the desired benefit level is reached. These are both extremes and there are many compromises. One option is to have a basic fee and a bonus fee if a desired benefit is reached or a ladder model where the bonus is gradually increased or decreased based on success. Generally for the customer to agree on success fees, the risk of failure must also be shared. (Sipilä, 2003: 239)

Success fee is an appropriate method when the results of a project can be clearly measured in increased sales or better visibility, for example. Value based pricing might also be the only feasible method when a service is unique and there are no standards on the market. The problem with success fees is that the benefits might not be obvious and can appear only after a long time, especially when there are many different companies and variables involved. (Sipilä, 2003:238)

2.4.3.2 Commissions

A common way to price sales, agency and purchasing services is to charge a commission based on the traded item's value as the final price is often unknown. A real estate agent's fee is a common example of a commission based pricing where the fee is based on the value of the transaction. This can be considered as a value based compensation since if the agent does not close the deal, there will be no compensation at all. Additionally, there can be bonuses on quick closing and for deals that are closed over the expected price. In commission based pricing – similar to other value based

methods - the actual value for the customer does not have to be monetary but it can very well be convenience, reliability or quickness for example. (Sipilä, 2003: 241; Kotler, Hayes Bloom, 2002: 285)

Despite being a fairly clear model for the service provider there are a few problematic issues related to commission based pricing. For the process to be smooth, the traded item's price has to be known quite well beforehand. This enables the agent to know the value of his work and avoid giving impossible promises to the customer. The customer can also plan his financing as he is aware of the expenses. Another issue is that basically the more valuable the transaction is the more money the agent gets. Theoretically this could tempt the service provider to overprice the sold item in hopes of better commissions. However, as the commission is tied to getting the deal closed it is in the interest of the service provider to set a price that satisfies all parties. (Sipilä, 2003: 242-245)

2.4.4 License fees

The third pricing category is based on use, or the rights to use a trademark, logo, license or franchise concept. The difference between this category and resource based pricing is that here the provider is not limited to reserving a certain capacity for the client. Although licenses are associated with many different branches of business, for the purpose of this thesis it is meaningful to focus only on the licenses associated with the music industry.

Without concentrating much on the legal aspects and focusing on the business side, according to Tommi Tuomainen, the Chairman of the Board of Elements Music (2.8.2008, interview), copyrights are used to

compensate individuals who have created a creative work. This can be a book, music piece or a painting for example. A moral copyright to a creative work is created simultaneously with the creation of the work itself and gives the creator the right to decide how the work is being used. The creator can grant licenses which ensure a compensation for the use of the work in different purposes. The licensing fee can be a percentage of sales or a fixed fee depending on the product and it is common that the scope of use in territories and media, for example, affect the fee.

2.4.5 Hybrid models

Normally using only one of these classifications is not enough to fit the pricing needs of a service and therefore it is very common to use a so called hybrid model where the pricing structure is based on a combination of the aforementioned methods. (Sipilä, 2003:179)

It is typical to use a model with a basic fee and a changing addition based on the workload. Having a pricing model that consists of several methods usually has a specific purpose for each of the parts. The purpose can be to ensure minimum profits, take advantage of volume or to encourage quality. Pricing structure can also teach the customer to see where the costs are generated and encourage long term business relationships. (Sipilä, 2003: 247; Kotler, Hayes, Bloom, 2002: 288)

3 Musiikkipäällikkö

3.1 Background information

This section will provide information about the trends in the music industry in general as well as introduce the Elements Music as a company offering Musiikkipäällikkö and the reasons behind developing such a service product.

3.1.1 Recent developments in the music industry

The global recording industry has experienced tremendous problems during recent years in the form of plummeting record sales. However, the Finnish music industry has not been struck by the phenomena to the same extent due to a strong national identity and the consumption of local music. In the year 2007 the record sales were diminishing in Finland as well, but not tens of percents as in several other European countries where the language issue is not as relevant in popular music. Last year, the record sales went down approximately 8 percent. (www.ifpi.fi) The digital sales of music are grew 55,5 percent during last year but the revenues will not be even close to cover the losses in diminish sales of physical products. The total sales of the Finnish record business are little less than 50 million euros and have been decreasing during several years. Domestic music makes for over half of the total sales. (IFPI Finland, Estimated total market 2007)

The problems of the record industry are mainly due to the decreasing sales of the international repertoire. The biggest reason behind this is that music

can easily be acquired through illegal P2P (peer-to-peer) services for free as well the attitude of consumers that it is more acceptable to download international artists' music via these illegal channels compared to local artists' music. Similar development can be observed outside Finland as well. The market is shattering to smaller and smaller groups consuming more local and marginal music.

The condition of the record industry is not the situation in the whole music business, however. While record sales are going through the sink the live music business is thriving. Income from live performances is replacing the lost revenue from album sales for artists and the good economical situation in Finland has affected people's capability to attend concerts.

Cooperation between music industry professionals and company branding has been an evolving branch of music business during last few years. SonyBmg, which is one of the four big record companies, has recently established a separate business unit for this so called branded entertainment business. The goal is to exploit artists in brand building and advertising. Also, the cooperation between brands and music business was one of the main themes at the international music industry event Midem in 2008. This development of the music business from a product to service oriented is likely to continue in the future as well. (Jalonen, 2.8.2008, interview)

3.1.2 Elements Music Oy

Elements Music Oy is a small independent record label and publishing company situated in Helsinki, Finland. The company was founded in the beginning of 2005. Depending on the needs of a particular project, Elements Music can operate in various roles - and, if necessary, combine

areas of responsibility to suit the project. The aim is to scout and develop musical talent, and turn the talent into a professional agenda for the artist / writer. The company can act as a record company, a publisher or a management. (www.elementsmusic.fi)

Musiikkipäällikkö started off as a project during the fall 2007 as the structural change of the whole music business, mainly due to diminish record sales, had forced record companies to seek other means of income. Elements Music had done various consulting projects for different companies and organizations which were, however, not the core business of a record label. The idea was to conceptualize an appealing and, foremost, sellable business to business service product which would cover the kind of services Elements Music had already offered in its consulting projects.

One important factor for Elements Music in favoring a service product over record sales is predictability. The future revenues are far more predictable when offering business to business services rather than being dependent on the fluctuating and ever diminishing market of consumer oriented record sales especially as releasing recorded music is a very capital intensive business.

The market is in a transitory phase and the future is unclear for the whole industry. As a small label Elements Music has the flexibility to use this favorable time to explore completely new business models. The model where companies invest huge amounts of money to develop and market new talent in order to sell physical records is very likely coming to its end. (Tuomainen, 2.8.2008, interview)

3.2 Services

Musiikkipäällikkö is a professional business to business service using music to help companies to enhance and reinforce their brand identity. The main concept of Musiikkipäällikkö is to find answers and provide solutions to the question “What does your company sound like?” The service makes the use of music easier and provides expertise in the different areas of music business. This business idea is somewhat established globally but totally new in Finland.

Music can create strong emotions, collectiveness, bind target groups together as well as leave a positive, strong and lasting perception of a brand into consumers’ minds. Musiikkipäällikkö believes that his translates into higher sales and thus revenues.

Musiikkipäällikkö’s core competency is in understanding music and its relation to consumers. Music branding – as any professional service business – is very people oriented and relies on employees’ personal skills rather than physical assets. Music is an intangible product and understanding the factors which make a specific music piece appealing to some and repulsive to others comes only by experience. Moreover, the ability to identify the key building elements of music which relate to a specific target group, whether it is the rhythm, melody, arrangement or production, requires very specific expertise.

To guarantee efficient and flawless service Musiikkipäällikkö has an extensive network of contacts in the music business. This includes record companies, catalog owners, composers, production companies, CD manufacturers, booking agencies as well as physical and digital distributors. Musiikkipäällikkö is not dependent on any music catalogue

but represents them all equally and can thus operate solely to maximize the client's benefit.

Musiikkipäällikkö has been conceptualized into four, mutually supportive services, following Jorma Sipilä's methods of conceptualizing professional services as described in his book 'Asiantuntijapalveluiden tuotteistaminen' (Sipilä, 2005). This combination of services enables the client to get anything related to music from one provider effortlessly and cost efficiently. The client can concentrate on their core competencies as Musiikkipäällikkö's competency is music. The conceptualization itself enables the client to better understand the offering which can be considered quite complex and unique in Musiikkipäällikkö's case. Moreover, with this approach it is easier to price the different parts of the service and make the buying decision easier for the customer, as discussed previously in this thesis.

Depending on the project a client may choose to use one or a combination of the following services:

Music branding

Music supervision

Rights clearance

Premium products

The following sections will examine these services in more detail.

3.2.1 Music Branding

The main – and most complex - service of Musiikkipäällikkö is audio branding comprising of different aspects of utilizing music to enhance

customer-based brand equity. Keller (2008: 53-54) explains that customer-based brand equity is built when the consumer has a high level of awareness and familiarity with the brand and can associate to some strong, favorable and unique brand qualities in memory.

The most important aspect of building a music brand is to support the company values with a strategically planned and coherent use of music and other audio. In addition to this, the strategy has to be implemented in all the situations where a customer encounters the company via music. These situations can include advertising, retail stores, public premises, customer events and business gifts, for example. (Jackson, Fulberg, 2003: 9)

There are numerous companies that offer branding services including advertising agencies and consultant companies but none of these provide direct and in-depth music branding as part of the offering.

Musiikkipäällikkö's music branding service aims is to exploit this relation to music by linking it with brand equity. The value to customers is created by offering a highly specialized service enhancing memorable and powerful brand experiences. The service addresses specifically four different building blocks of brand equity which are brand identity, brand positioning, brand recognition and brand awareness. These building blocks are examined from a musical point of view dividing the service into three parts which are: *Musical Brand identity, Musical Positioning and Musical Touch-Points*

Brand identity can be defined as a unique set of brand associations that the brand strategist seeks to create or maintain. These associations represent what the brand stands for and imply a promise to customer from the organization members. Brand identity should help establish a relationship

between the brand and the customer by generating value propositions involving functional, emotional, or self-expressive benefits. (Keller, 2008: 174)

People's reaction to music is usually emotional but music can also be seen as a strong means of self-expression. Hence the use of music aims foremost to strengthen the emotional and self-expressive characteristics attached to the brand identity. The musical brand identity is constructed on the existing brand identity to support the desired qualities. The goal is to form a base on which the future musical decisions will be made. This requires a comprehensive dialogue with the persons responsible for the client company's brand in order to understand which qualities and feelings the brand wants to communicate.

The cohesiveness of the brand identity depends on the extent to which the brand elements are consistent. Ideally each of the elements is chosen to support the others, thus creating a guideline which all other aspects of the brand follow. (Keller, 2008: 174)

Music branding is a step by step process that starts from an analysis of the present situation. After the analysis has been done, a competitor analysis regarding the use of music will be performed. This helps with positioning the customer music wise. The next step is to define the actual strategy: what kind of music will be used and what will be left out. The strategy is a simple guide into selecting music for the company. The strategy will then be used to create an actual collection or sampler of songs that fit the brand. After this step the different touch points where music can – or should – be used will be explored. Finally the rights holders will be contacted to negotiate the terms of using their music.

3.2.2 Music Supervision

The most important task for a person responsible for music supervision is to aid the visual story telling by making it more interesting and enhancing the desired feeling. It is hard to create strong feelings by just images and thus music comes to play. (Adams, Hnatiuk, Weiss 2005: 12) In practice, a music supervisor selects songs to fit scenes in a movie or TV series. It is a highly creative process and therefore requires in-depth knowledge in different music genres, styles and their audiences.

In the United States, Music Supervisor is a common professional title in TV and movie productions but in Finland it is not as established. This is mainly due to the limited market and budgets of the domestic productions. Also, music as an investment is generally undervalued. Production companies acknowledge the value of music but limited budgets prevent a more holistic approach to using it.

Musiikkipäällikkö does not limit itself to providing music supervision services only for the movie and TV production companies but also to the companies producing advertisement films and TV spots. The music supervision process provided by Musiikkipäällikkö is strongly based on the music branding principles and applies into practice what has been defined in the music branding process. Music supervision is a natural part of music branding when a company advertises in TV and the music message has to be consistent.

However, it is not always the case that a company wants to buy music branding but only music suggestions for a TV spot. This is also possible and the reason why Music Supervision is a separate service. Whatever the

case, Musiikkipäällikkö still aims at selecting music that appeals the target market.

3.2.3 Rights Clearance

Clearing of rights is a support service to solve any problems associated with the often perceived complicated bureaucratic side of using music. The bureaucratic side involves copyrights and master rights which are owned by artists, record companies and music publishers.

In Finland Teosto ry provides licensing products for many kinds of music usage but there are special occasions where Teosto does not manage these issues, namely situations concerning music supervision and premium products. In these cases Musiikkipäällikkö takes care of finding and contacting the rights holders, licensing the music and consulting in the price negotiations. This is convenient for the client and will let him concentrate in his core business.

Rights clearance is also closely related to premium products, which are discussed more in the next section.

3.2.4 Premium products

Premium products are an extension to the offering that involves the design and compilation of, for example, physical products such as CDs or pre-loaded mp3 players and digital downloads. Premium products are not limited to the music itself but can also include the planning of a client event for example. One example of a premium product is a tailored compilation CD containing music already played in a company's retail outlet to be given away to customers. In this way the musical brand

experience from the outlet can be continued without the company's direct presence. The customer can listen to the music in his car or at home which enhances brand awareness and makes the brand more memorable. Every time the customer listens to, or even sees the CD it will most likely be associated with the brand. This is even more likely when the song selections for the compilation have been made by following the whole music branding process.

The production of a premium product basically consists of music supervising, rights clearance and managing the actual manufacturing and there are a couple of variations how the production can be arranged. Musiikkipäällikkö can handle the whole process from selecting the songs clearing the rights and having the art work created to getting the product to manufacturing. Another option is that the customer selects the songs and Musiikkipäällikkö takes care of all the rest. Basically the division of responsibilities can be anything with these variables.

4 The Market

4.1 Customers

Musiikkipäällikkö divides its customers to four different segments. The common nominator between these segments is that they are all involved with music in their business activities directly or indirectly.

Musiikkipäällikkö's customer segments are the following:

- 1) Advertising agencies
- 2) Advertisement film companies
- 3) TV and movie production companies
- 4) Large companies (brand and marketing management)

These four segments have slightly different needs from each others and will be examined separately in the following chapters.

4.1.1 Advertising agencies

Advertising agencies use music primarily in advertising campaigns that include TV-spots, radio commercials and fairs, for example. However, despite being actively involved with music, based on the experiences at Musiikkipäällikkö's sales meetings, the agencies do not often think music from a wider branding perspective but rather as a necessity taken into account at the last minute before the campaign is aired. This opens up a possibility to offer a specialized service concentrating only on the music choices but with the "big picture" in mind. Based on the meetings and

discussions with several Finnish top advertising agencies, their customers often give a rather big responsibility of the branding to the agency. This means that the offering for advertising agencies is the whole range of Musiikkipäällikkö's services: music branding, music supervision, clearing the associated rights and premium-products. A natural way to start cooperation with the advertising agencies is to get involved with a single campaign and then continue with a wider spectrum of projects.

The ideal would be to get a continuing contractual relationship with an agency so that every project using music would be consulted with Musiikkipäällikkö. This would ensure a long-term cooperation and make the use of music more systematic and planned. For Musiikkipäällikkö, a contractual relationship with a customer would grant predictability and continuity for the business.

The challenge with advertising agencies is to convince them of Musiikkipäällikkö's necessity and the ability to convey the value for their business. Despite the status of many advertising agencies offering "total brand management", music is often not one of their core competencies. Still, traditionally the agencies have dealt with music issues by themselves and they might see an outside creative service as being a competitor. One option to alleviate these fears is to stress the co-operational aspect of the business relationship as well as promote transparency in the process.

4.1.2 Advertisement film companies

Advertisement film companies are usually small-sized companies employing 2-10 persons. They work in close co-operation with the advertising agencies by producing and filming the campaigns assigned to

them. Their role, when it comes to music, is usually rights clearance and price negotiations. During the meetings with advertisement film companies there has been clear indications that the rights clearance process is not something they would like to do but is rather an annoyance. Their core competence is not clearing rights but producing films.

Even though advertisement companies usually handle the rights clearance, currently they are often responsible also for the music choices for the productions which has been a role bestowed upon them by habit. As the advertising agencies are responsible for the customer's brand management, the creative work of selecting the music according to the set parameters of the brand should also be conducted within the agency and not the production company. The production companies are used on demand basis when there is a TV spot to be filmed, for example. Moreover, often there are several production companies competing for the work which only enhances the case-by-case nature of their services preventing them to concentrate on extensive search for music to support the brand strategy. This poses a challenge for Musiikkipäällikkö's service since it requires some extent of education to convince the advertising agencies and film companies to adapt to new habits.

4.1.3 TV and movie production companies

With movie production companies Musiikkipäällikkö's offering is focused on music supervision. A film director might have a need for a recorded song to enhance the special feeling of a scene. However, the film director having many other responsibilities might not have the time to go through different possibilities for a fitting song. Musiikkipäällikkö can offer help in these situations by selecting a list of songs for the scene. The final selection still usually rests in the hands of the director. Consequently,

Musiikkipäällikkö can naturally offer to handle the related rights clearing process as well as possible productions for alternative versions of the song.

With TV production companies the situation is often similar. They might need help in creating the right atmosphere for a snowboarding document or a soap opera, for example. By having Musiikkipäällikkö as a collaborator the production company can save time and have a more systematic way of using music.

4.1.4 Large companies

For Musiikkipäällikkö's interests large companies are those that have usually over a hundred employees and the time and money to invest into brand development. In these cases it would still be advisable that the company already has some degree of brand development done so that Musiikkipäällikkö would not have to start from scratch. Even though the smallest companies of this category might not have huge amounts of resources to invest into branding, the use of music can be a very cost effective way in creating brand awareness.

A natural way to approach large companies is to get involved in single campaigns and then broaden the cooperation. Although, branding is usually done in close cooperation with advertising agencies it would still be good if the company itself is aware of what kind of music is being used and why. The advertising agency that a company is using can change over time so the company itself should identify with the music strategy.

4.2 Competitors

Musiikkipäällikkö's service concept as such is unique in Finland. There are no companies offering professionalism in the different areas of music

related issues as widely as Musiikkipäällikkö does. There have been discussions about the need for such a service for quite some time but the plans have been around companies specializing in only one of the services such as music placement to movies or clearance. These plans have not developed further as they have been too small for the market. Still, it cannot be said that Musiikkipäällikkö does not have competitors. (Jalonen, 2.8.2008, interview)

While not offering exactly the same service, many actors in the market compete indirectly with Musiikkipäällikkö. As mentioned earlier, there are companies offering sound and other audio design for TV and movie productions. These companies – while being subcontractors for Musiikkipäällikkö – also offer their services directly.

Also big record companies have started to more actively seek new sources for revenue by trying to offer their artists and repertoire for TV commercials and movies, for example. Big record companies do not have to worry about getting them known and they own big catalogs of music. However, the ultimate agenda for record companies is to exploit their own repertoire of music for bigger revenues which is the biggest differentiating factor and competitive edge for Musiikkipäällikkö. Musiikkipäällikkö seeks to find the best solution for the *customer* and can operate independently, representing any repertoire as compared to the big record companies tied to their own repertoire.

Although, one of Musiikkipäällikkö's most important customer segments is advertising agencies, they can also be considered as competitors. Advertising agencies usually have a fairly big – if not total – responsibility over a brand and hence an external actor such as Musiikkipäällikkö can be considered as a threat. “The challenge for Musiikkipäällikkö is to penetrate

advertising agencies who consider themselves to be the foremost experts in total brand management. However, this is actually not the case. When the agencies know this – even subconsciously – they tend to be arrogant towards new actors.” (Parkkinen, 3.6.2008, interview)

4.3 Positioning

Musiikkipäällikkö positions itself as an intermediary between the music providers and music users. This is the case regardless of the offered service as Musiikkipäällikkö does not produce any of the music it uses in its services. In other words there is a dependency on record companies, composers, artists and other music providers who also - in addition to the actual content - control the legal rights for the use of their music. Figure 3 illustrates Musiikkipäällikkö's position between a simplified example of music provider and a music user with the arrows showing the communication between the different parties. While in this illustration the music provider side comprises of closely record company related parties, it can also include audio design companies, individual composers and other parties creating music.

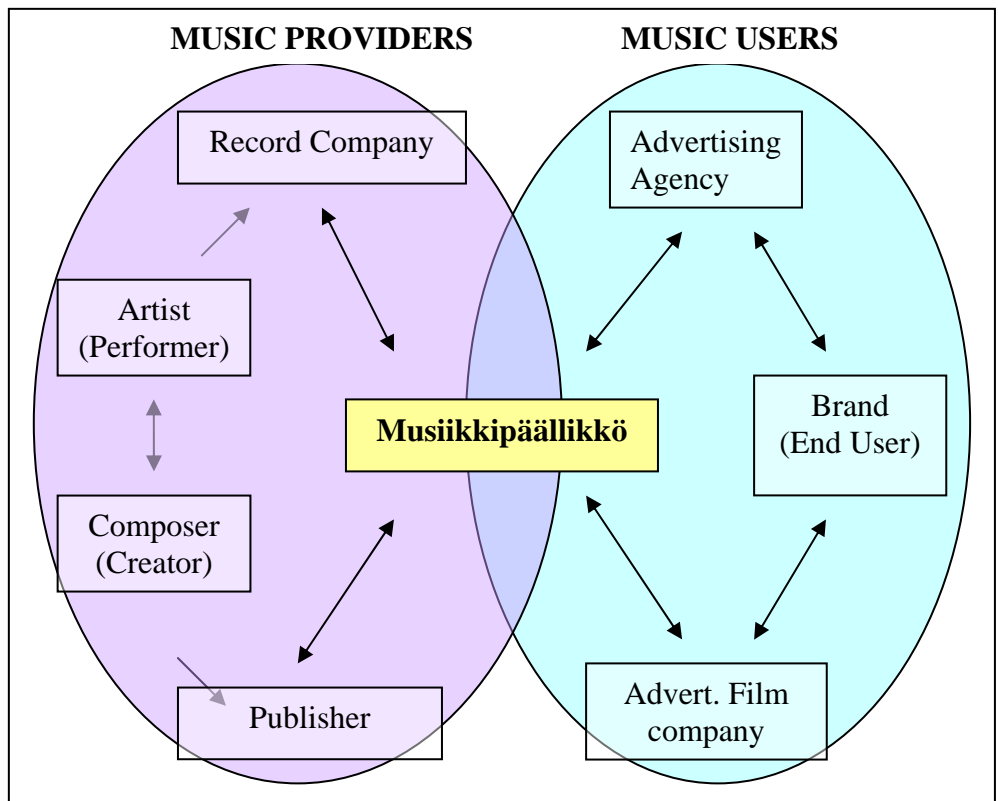


Figure 3: Musiikkipäällikkö's position between music providers and music users.

While figure 3 shows what the music provider's side as well as the music user's side consists of, the illustration can be elaborated to show Musiikkipäällikkö's position in the whole market with several entities of music users and competitors at the same time. Firstly, figure 4 shows the market situation without Musiikkipäällikkö.

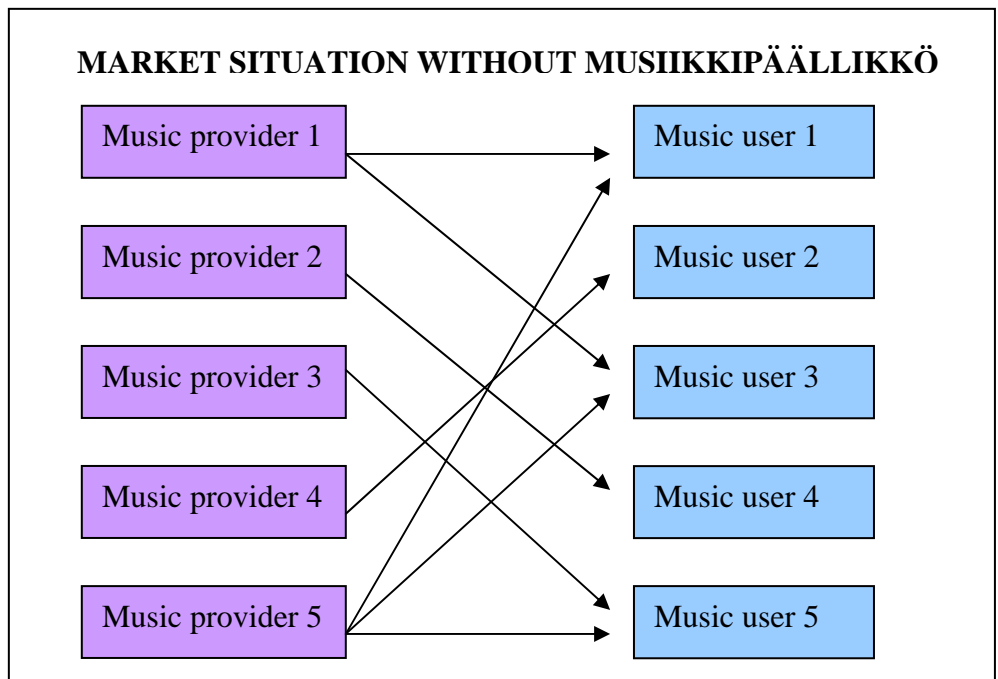


Figure 4: Market situation without Musiikkipäällikkö.

As illustrated in the figure 4, without Musiikkipäällikkö the music providers and music users interact independently. This means that the music users have a need for music which the music providers try to fill. The situation here is that - as explained before - the music users might not be able to identify which kind of music is fitting for their needs and the music providers are trying to market their own repertoire without considering their competitors' repertoires to be an option. This might lead to no-one thinking the customer's benefit.

As a comparison to the previously described market situation, figure 5 shows the market situation with Musiikkipäällikkö present.

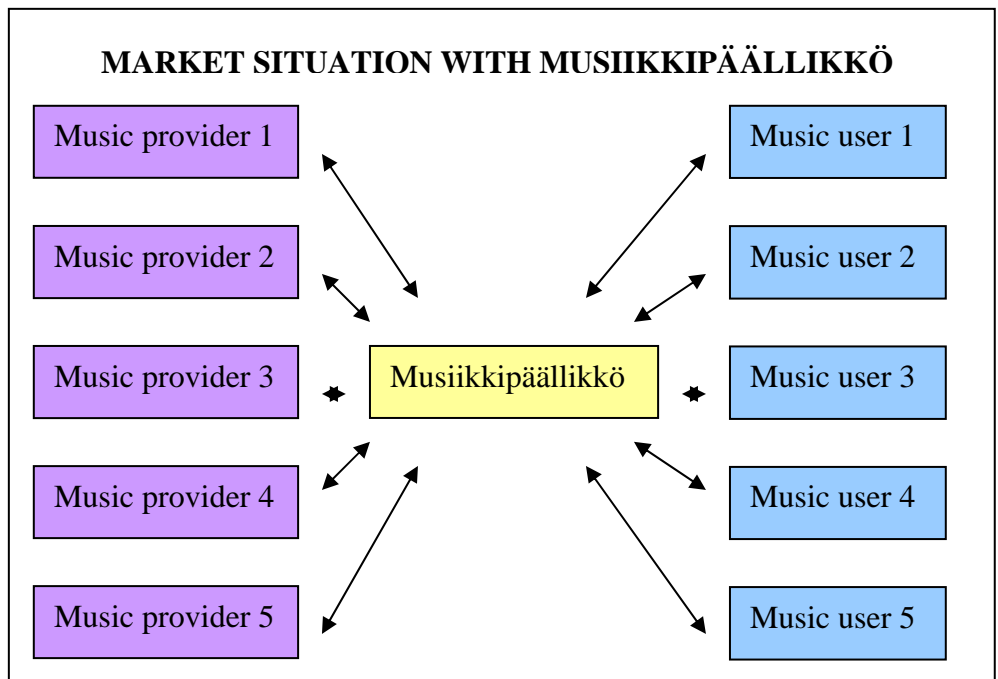


Figure 5: Market situation with Musiikkipäällikkö.

The figure explains how Musiikkipäällikkö can be considered to be a wholesaler of music. It seeks to bring together the music providers and users to create an efficient market situation. In this situation there is an instance that is thinking the customer's benefit as well as marketing the repertoire owners equally. With this in mind, Musiikkipäällikkö can also be considered to be a "sales office" for all of the music providers.

5 Pricing Musiikkipäällikkö

Having studied the different roles and methods of pricing professional services as well as Musiikkipäällikkö as a case, it is now my intent to apply theory into practice. This part of the thesis explores possible pricing structures, methods and their implications specific to Musiikkipäällikkö's different service areas. The suggested pricing models are based on my participative observations in the service development and interviews with Tommi Tuomainen, the Chairman of the Board of Elements Music.

Music branding

The music branding service of Musiikkipäällikkö falls into the category described in chapter 2.2, where the customer cannot know what he is buying beforehand and sometimes the specifications of the purchase have to be negotiated extensively with the customer. As these negotiations might take time, one option would be to set an hourly fee and hence apply the resource based pricing method. However, the music branding process has been divided into phases according to Sipilä's methods to clarify the process for internal execution as well as for the customer. With this in mind, it would be logical to set a price tag for each of the phases based on the result of the work. The first phase of music branding is an analysis of the present situation – a diagnosis – as described in chapter 2.2. A feasible possibility would be to set a result based fixed fee for the diagnosis after which the customer's specific needs would be clarified and a selection of services could be offered. A customer could purchase for example the diagnosis, competitor analysis and a music strategy, but leave the touch

point analysis out. The final price would then be the sum of the phases or they could also be offered as a bundle so that there is a discount when buying several service parts together. Tuomainen concurs that if an hourly fee would be set to conduct the diagnosis the customer might be wary of the unknown total price leading him to not buying the service. (Tuomainen, 18.11.2008, interview)

Tuomainen continues that also the selection of the sample songs for the music strategy is essentially a creative process. As sometimes a creative decision could take weeks and sometimes it might only take a few seconds, a time based compensation would not be fair from both the customer and Musiikkipäällikkö's point of view (Tuomainen, 18.11.2008, interview). Also in this light, setting a result based fixed fee would be well grounded and it would also act the role of customer guidance as described in chapter 2.2.

One aspect that has to be considered is that there can be a great deal of variance in the needs of company based on their size and market, for example. This is important when offering music branding. Although a fixed fee might be a good option for the initial diagnosis, the results from the diagnosis might indicate that a company acts in numerous geographical areas and cultures and the musical choices must be made respectively. This might require extensive work and hence a strict "list based" fixed fee for each of the phases is not flexible enough to cover the needs of a varied clientele. A solution to this problem would be to offer a quotation based fixed fee where the actual price can be adjusted according to the workload ahead. This should be fair for both the customer and for Musiikkipäällikkö. Tuomainen explains that most of Musiikkipäällikkö's cases will probably require tailoring since the needs are so varied. Hence, the pricing must be flexible enough to account for these variations. Tuomainen continues that

in this case the limitations of the work have been clearly agreed upon so that the customer cannot demand extra work to be done with the same price. (Tuomainen, 18.11.2008, interview).

While result based pricing seems to be a favorable option compared to time based pricing, a fixed fee does not take into account the core benefit of music branding for the customer. The core benefit is that music branding guides the customer to meaningful and systematic use of music and can be considered to present long term benefits for the customer as a clearly defined music strategy should help the customer in building their brand equity and at least minimize the risk of selecting music that affects the brand image unfavorably. This is how music branding creates value for the customer and hence the pricing could also be value based. This would be achieved for example by setting a success fee based on the increase in a brand's awareness, recognition or any desired variable. Tuomainen thinks that in practice this would require some kind of measuring in order to know if anything has changed. Musiikkipäällikkö would need a partner to conduct consumer surveys on brands from the music point of view. This would provide results on which the value based pricing structure could more easily be justified to the customers. (Tuomainen, 18.19.2008, interview)

To summarize, a feasible option to price the music branding service would be to have a fixed fee for the starting diagnosis after which the price for the needed services would be a fixed fee based on quoting. Additionally, a success fee would be added to compensate for the customer benefit. This model is illustrated in the figure 6.

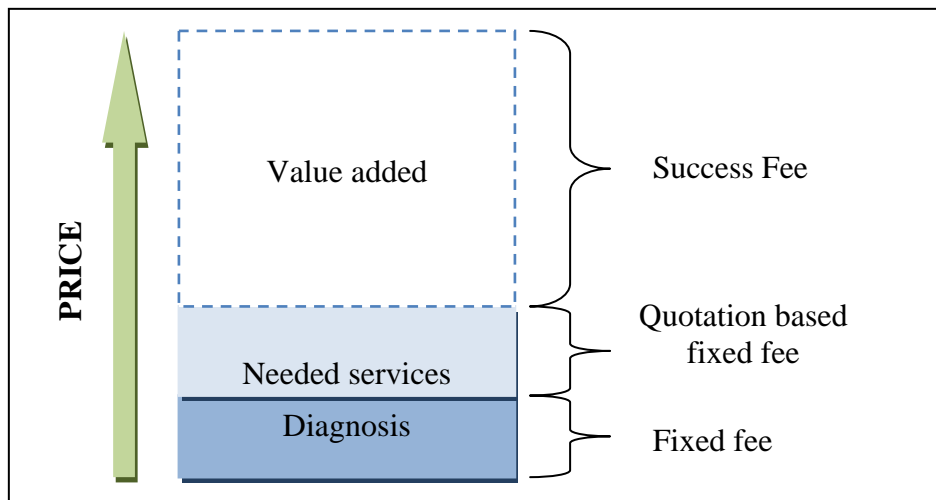


Figure 6: Pricing model for Music Branding

Figure 6 shows the potential revenues from music branding proportionally to the progression and success of the service. While the diagnosis part is risk free revenue, it is proportionally smaller compared to if additional services are sold. Furthermore, if the results from the services are proven to be successful, a success fee will be added. The actual value of the success fee is theoretically unlimited depending on the size of the project.

Music Supervision

In music supervision the variables are not as vast as in music branding. Usually there is a need for a song for a particular use and it is the job of Musiikkipäällikkö to find a fitting one. Sometimes there are more detailed specifications of what is needed and sometimes Musiikkipäällikkö has more creative freedom in the selection but generally there are no extensive negotiations. As mentioned before, the selection process can sometimes take hours where as sometimes a perfect idea might come up within seconds for which reason hourly based pricing could be considered an option as it would compensate if the person selecting the song is engaged to the job for a longer period of time. However, from the customer point of

view this is very risky as it can never be known how long it will take to come up with a good solution. In fact, it might drive the customer to not using the service there are no guarantees unless there is a fixed time to perform the work.

If it would need a fixed time to convince the customer to using the service, one might as well set up a result based fixed fee for selecting the songs. One option would be for example to offer the selection of 1-3 songs for a fixed “list price”. This would push the financial risk to Musiikkipäällikkö, but on the other hand the client would be more assured and likely to buy the service as it is in both parties’ interest to find a solution in a decent timeframe. Tuomainen thinks that the fee should however be low enough for the customer to use the service at all as in most cases the customers are TV or movie production companies who have done this kind of work by themselves earlier. By using the music supervision service they are paying for creativeness and convenience. Essentially this is an outsourcing decision. (Tuomainen, 18.11.2008, interview)

One important aspect of having a fee for separate song enquiries is that it encourages the customer for better planning. Music supervision could be offered as a supportive service for music branding handling the song selections for individual campaigns and tactical advertising in general. This would be natural as the music strategy has been already created by Musiikkipäällikkö and the song selections would then only follow the guidelines. When bundled this way, individual song selections might have lowered fees which should, for its part, encourage the customer to buying the music branding service as well.

Value based pricing could also be considered an option for music supervision but Tuomainen thinks it might be challenging to convince the

customer to accept this as conducting surveys based on individual campaigns might prove expensive. This could however be assessed case by case. (Tuomainen, 18.11. interview)

Rights clearance

Rights clearance is close to music supervision in the sense that it done one a task basis. When a song is to be used in advertising for example the respective rights have to be cleared for a license from the rights owner to use their piece of music for a specific purpose. Compared to selecting songs, the rights clearance process can be divided into parts based on the level of progress in the process. This makes it possible to set result based fees for each of the steps. Charging hourly based fees would not be very feasible as the enquiry needs to have all the relevant issues covered based on expertise but time wise might only take two minutes when it is done by email. The initial phase where the possibility to use a certain song is scouted can have a fee and when the process progresses to price negotiations an additional payment can be charged. When the deal is closed a third and final fee would be in place.

There is a major problem in this model however regarding workload and also potential profits. The song in question can be a song by an unknown artist or it can be a worldwide hit by a popular artist. This usually has a huge impact on the price that is being asked for the rights. According to Tuomainen, the workload correlates directly with the price of the license: the more popular – and hence expensive – the track is, the more demanding is also the procurement process for the license (Tuomainen 18.11.2008, interview). If a customer wants to use a big hit that costs

hundreds of thousands of Euros and the price for clearing it is based on fixed fee, there is no upside in this difference.

One possibility to get advantage of this would be to charge a percentage based commission on the price of the license. If the license costs 20000 or 50000 Euros and the commission is 10%, the charged fee would be 3000 or 5000 Euros respectively. However if the license costs ten times more, the commission is also adjusted accordingly which presents the upside.

Figure 5 illustrates this model with three phases in the clearing process and a value based commission on the license fee.

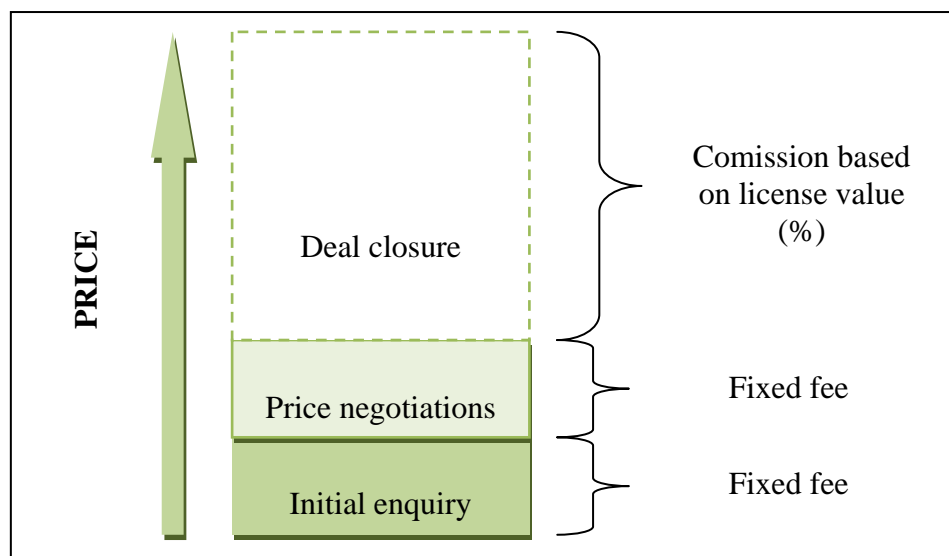


Figure 6: Pricing model for Rights Clearance

The question is who would be charged for this commission? Theoretically the commission could be charged from the rights holders but in practice this might prove challenging as the whole idea of Musiikkipäällikkö is to offer services for music users and not for the music providers. Tuomainen explains that Musiikkipäällikkö's customers want to know what they are paying for and charging a commission from the music providers would be unacceptable to them – unless Musiikkipäällikkö's service would be

exclusive to the provider. However, this is not how we work. (Tuomainen 18.11.2008, interview)

The commission could also be charged from the customer. There is however a problem with this model as theoretically it would then be in the interest of Musiikkipäällikkö to go for more expensive deals as it would increase the commissions as well. However, the customer might be willing to pay the commission if there is a trustful relationship with the customer and the percentage is low enough. A low enough percentage would mean that there is no meaningful difference between deals that are in the same scale. This model could be justified by the convenience and long term benefits that Musiikkipäällikkö offers by handling all music related issues and thus having certain leverage over the rights holders.

Tuomainen explains the issue in the following way: “We need to find a balance between the customer value and the commission level to avoid the conflict of interest. We also need to be explicit of the criteria that the price is based on. Transparency is of essence but we still need a pricing model that compensates for more demanding deals”. (Tuomainen 18.11.2008, interview)

Premium products

Premium products are the most tangible aspect of Musiikkipäällikkö as they mostly involve physical products or items that can have a unit price. For example a compilation album has a clear manufacturing price from the supplier and hence the cost for the production can be well known beforehand. These qualities create the possibility to use cost based pricing where a desired margin is added on top of the minimum price level based on total costs, as explained in chapter 2.4.2.1.

The variable costs which are important to premium products will be discussed here by using a tailored compilation album made for a customer as an example. Tuomainen explains that costs in this example include the manufacturing of the physical CDs and the license fees for the content. The manufacturing costs are tied to the amount of copies that are being pressed and the license fees are dependent on the popularity of the track, total amount of the tracks on the album and the number of copies made. All but one these costs can be known beforehand as there are list prices from the CD manufacturers and the amount of tracks is fully dependent on what is ordered. Only the popularity of a track is harder to evaluate but the general price level can be learned by experience. (Tuomainen, 18.11, interview)

By adding these costs together and taking account the fixed costs one gets the breakeven point which sets the minimum price on top of which the desired profit margin is added. The figure 7 illustrates this model in a more general context.

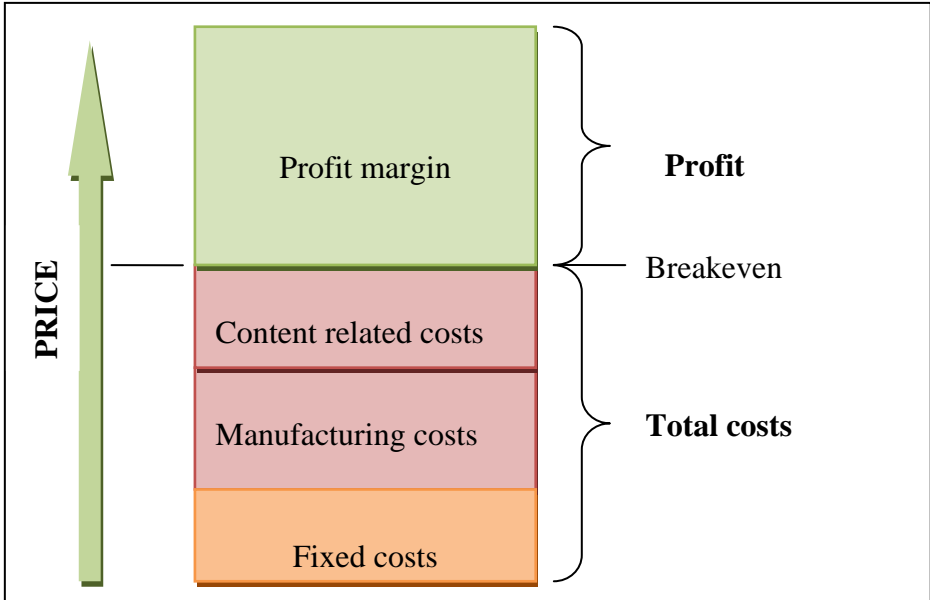


Figure 7: Pricing model for premium products

As explained in chapter 3.2.4, the production of a premium product basically consists of music supervising, rights clearance and managing the actual manufacturing. The content related costs and manufacturing related costs can include the workload for the aforementioned services so that the customer only gets one price per unit or a total price for the whole purchase. This can be the case also if the customer wants to take responsibility of the creative work in selecting the songs for the product. However, Tuomainen thinks that one has to be careful in this case. An offer for the premium product has to be limited to including a fixed amount of tracks for which the licenses will be acquired. Any additional enquiries have to have a price tag in order to avoid situations where the customer is indecisive with the songs and the project risks to prolong because of this (Tuomainen, 18.1..2008, interview). As with music branding, here price can also be seen as a method of customer guidance as explained in chapter 2.3.

6 Conclusions

The recording industry has been in decline for a few years now as the distribution channels have drastically changed due to internet mainly. Illegal downloading is common and even the legal downloads do not compensate for the losses in diminished physical record sales. The changing music business has forced record companies to look for alternative sources of income. This involves extending the offering and reaching for totally new earning logics.

One of these record companies is Elements Music Oy. As a response to the plummeting record sales Elements Music started to conceptualize a consultancy based professional service in the fall 2007. The service is called Musiikkipäällikkö and its essential idea is to help companies to brand themselves with the use of music. Musiikkipäällikkö has gone through a business concept development process which defines Musiikkipäällikkö as a product but its pricing model has still remained unknown. The purpose of this thesis was to find suitable pricing models for Musiikkipäällikkö. To do this, theory on professional services and their pricing was studied and Musiikkipäällikkö's services were examined in detail. The market environment was also studied in order to define Musiikkipäällikkö's positioning between customers and competitors.

The theoretical part of this thesis revealed that adding product like qualities to a service makes it easier to market and its pricing can be also be structured in a more understandable way. Musiikkipäällikkö's service is divided into four different, but mutually supportive services which are music branding, music supervision, rights clearance and premium

products. These services are being offered to advertising agencies, advertisement film companies, TV and movie production companies as well as to larger brands. Musiikkipäällikkö's position in the market is to act as an intermediary between the music users and the various music providers.

Theory on pricing methods revealed that there are essentially five foundations on which pricing can be based. Pricing can be resource, result, usage or value based. The fifth model is a hybrid of these four. In order to find a suitable pricing model for Musiikkipäällikkö, each of the services were analyzed in the context of the different pricing methods.

The result of the analysis was that resource based pricing is only feasible with premium products due to its high level of tangibility, which is in accordance with the studied theory. A suitable pricing model for music branding was determined to be fixed fees based on results and an additional fee based on customer value. Rights clearance service could use a similar model where a commission is charged based on the license value. Although value based pricing is potentially the most profitable pricing method, these two services were found to be the only ones with the possibility to using it. Music supervision was found to be best priced with fixed fees as using value based models would require customer surveys which are too expensive for music supervision's scope.

In addition to the role of making profit, pricing was found to be in the important role of customer guide which is especially important for Musiikkipäällikkö. Charging a fee for small enquiries and tasks encourages customers to better planning and ensures better use of time. It also encourages customers to buy larger bundles of services as the price can be lowered this way.

As a conclusion, the study showed that for a professional service as creative and complex as Musiikkipäällikkö, one pricing method is not enough. In order to effectively price the whole service, a hybrid model combining different methods is needed. Value based pricing presents the best potential for profits and this method would be possible also with Musiikkipäällikkö if customers can be convinced about the importance of music in building brands. Figure 8 sums up the feasible methods of pricing Musiikkipäällikkö service by service.

	Resource based	Result based	Value based
Music branding		x	x
Music supervision		x	
Rights clearance		x	x
Premium products	x		

Figure 8: Pricing methods for Musiikkipäällikkö's services

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