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Opportunity identification in turbulent times: are partnerships the right choice?

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Organisers:

Opportunity identification in turbulent times: are partnerships the right choice?

Tapping markets via partnerships
Opportunity identification in music

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Abstract

Successful new product introduction is an important driver of competitive advantage; at the same time, new products are risky and expensive both for consolidated players and entrepreneurial ventures. Partnerships are a possible strategic response to these issues, particularly during turbulent times.

The paper explores the trajectories of new artists in the music industry. Results indicate that parterships are the most appropriate form to explore highly innovative opportunities. but do not necessarily maximize performance for a given artist over time.

Keywords: exploration – partnerships – music – opportunity identification

Opportunity identification in turbulent times: are partnerships the right choice?

Introduction

New product introduction is an important driver of competitive advantage; new products are the expression of strategic innovation (Markides 1997) as they help the company to venture in untapped markets and reposition itself, drive demand, are the expression of a company's vitality, help differentiate and protect a company vis-à-vis its competitors, open strategic windows for rent exploitation and therefore significantly contribute to value creation. At the same time, new products are risky and expensive: the process of opportunity recognition requires time and energy, the outcome is unclear as customers' acceptance of new products should not be taken for granted, and new products may cannibalize existing ones at the expenses of overall profitability; the marginal profitability of the new product may not be adequate to compensate for its cost. Moreover, successful opportunity recognition is just one step of the process of new products management. Established companies will therefore tend to balance new opportunity exploration with current innovation exploitation; moreover, once they have identified a successful opportunity, they will try to maximize the rent exploitation associated with it.

Partnerships are a possible strategic response to these issues: since the mid '80s, organization theorists have highlighted the emergence of networked organizations as a way to enjoy the benefits of markets and hierarchies in increasingly competitive and turbulent environment (Miles and Snow 1986, Storper 1993, Brown Duguid 1991, Davidov Malone 1992). Recent literature on strategic alliances emphasizes the importance of the development of networked architectures able to be at the same time agile enough to be open to the new and solid enough to cope with increasing levels of competition and environmental turbulence. However, as literature on coopetition emphasises (Brandenburger, Nalebuff 1996, Lado Boyd Hanlon 1997, Bengtsson and Kock 2000, Gnyawali, He, Madhavan 2006), the relationship between different players might not necessarily translate in performance generating ventures.

In this paper, we are interested in exploring the trajectories of opportunity expolration: as both players involved in the partnership could pursue opportunity exploration by themselves, we wonder under which circumstances would partnerships be more rewarding and what are the most successful trajectories for new product introduction and consolidation in a given market. In case of significant disparity in size and relative power of players, often time successful partnerships end with the bigger partner acquiring the

smaller partner and managing the subsequent growth of the venture. However, in case of high market turbulence and systematic introduction of new products, acquisition does not seem to be necessarily the most appropriate way to terminate a partnership.

More specifically, we wish to answer to the following questions:

- to what extent are partnerships a successful way to opportunistically enter in a market in turbulent times?
- are partnerships a successful way to generate stable sources of rents?

1. Opportunity identification and new products introduction by consolidated and entrepreneurial firms

The issue of the most effective and efficient way to explore new opportunities is not new in literature: according to some authors, some companies are more likely to play the innovator role (Huygens, et al., 2001; Lavie, 2006); common wisdom and scientific evidence shows that discontinuity and innovation are associated with entrepreneurial ventures (Schumpeter 1934; Penrose, 1959; Lee, Lee and Pennings (2001) and innovation is a predictor of their growth (Bruderl and Preisendorfer 2000); new markets are likely to be opened up by new entrants, or by firms that do not occupy dominant positions in existing markets (Aron and Lazear 1990). Several authors have highlighted the innovative activity by start ups and entrepreneurial ventures and stressed how opportunities with a varying degree of innovativeness and risk need to be balanced to ensure growth, risk minimization and growing legitimacy (Schoonhoven, Eisenhardt and Lyman 1990; Sarasvathy 2001; Nicholls-Nixon, Copper and Woo 2000).

At the same time, there is a significant literature stressing the ability of consolidated organizations to manage innovation and identify untapped opportunities (Dougherty & Hardy, 1996; Barringer, Bluedorn, 1999; Eisenmann, Bower, 2000; Chandler 1990; Christensen, Bower 1996, Teece, Pisano, Shuen 1997). The availabilty of specialised complementary assets (Teece 1986) enables existing firms to exploit new opportunities at the expenses of entrepreneurial firms, even if established competitors might be less agile and alert to identify them. On the other hand, specific competences and organizational settings allow even consolidated players to successfully explore and exploit new opportunities (Moss Kanter 1989 Christensen 1997). The RBV theory of the firm (Rumelt, 1984; Wernerfelt, 1984) suggests that firms may pursue opportunity identification and exploitation in different ways, due to the different sets of resources and competences they have developed (Prahalad Hamel 1990, Barney, 1991, Amit & Shoemaker, 1993;

Chandler, Hanks, 1994) and leverage in order to build and sustain competitive advantage (Eisenhardt, Martin, 2000).

As the environment in which companies operate has become increasingly turbulent and broad in geographic terms and new product introduction has significantly accelerated, consolidated organizations have extensively engaged in outsourcing practices and put in place networks of strategic alliances with entrepreneurial firms to be able to reach a wider scope while at the same time minimizing risk and resources deployment (Trott 2005). The development of interconnected firms (Lavie 2006) opens up a series of theoretical and practical issues on the extent that these new forms lead to better performance, innnovativeness and growth (Lawrence & Lorsch, 1967; Miles & Snow, 1978; Nohria & Eccles, 1992). The proliferation of inter-firm alliances has pushed researchers to increasingly explore the role of these networks in affecting the performance of member firms (see for example Gulati, 1998; Gulati, et al, 2000) As opportunity identification lies at the heart of the innovative process, which is often path dependent (Teece Pisano 1994; Shane 2000), some authors argue that its management through various forms of alliances may reduce the individual firms' ability to control a key source of competitive advantage.

The trade off between risk reduction and control of the trajectory of development of new opportunities is particularly relevant for radically new projects. In this case, the product is completely new to the market, thus putting consolidated players and entrepreneurial ventures on a similar level, as far as risk assessment is concerned. Partnership would therefore seem to be the most appropriate form to explore opportunities, as it would minimize risk for both players involved. Once the new opportunity has been tested on the market, established players are traditionally better off for subsequent exploitation, due to the availability of complementary assets. This explains while some ventures set up for new product exploration are then acquired by the established players, once they prove to be accepted by the market.

However, should new product introduction be massively accelerated, (and the market potential of each opportunity be relatively small) this strategy cannot be replicated, as it is not viable from a financial point of view. This opens the issue of the most appropriate trajectory for new opportunity exploration.

3. Opportunity identification and new product introduction in the music industry

The music industry is a very interesting setting to study partnerships for opportunity recognition and new product introduction. Media and cultural industries are prototypical

in nature (Caves, 2000), in that up to 50% of revenues for both producers and distributors are related to new titles. They are also extremely interesting fields of analysis for entrepreneurial activity, as entrepreneurial dynamics, in the form of talent discovery and development, lie at the heart of these industries' value proposition (Hesmondhalgh, 2007). Therefore, continuous renewal of artists' portfolios and successful management of new titles introduction are strategic capabilities that drive competitive advantage and companies sustainability, while emphasising the specificity of the label within the industry (Burke 1996). At the same time, the tremendous effort associated with new titles introduction does not automatically translate into success; as these industries are involved with the production and diffusion of signs and the collective construction of meaning, the predictability of market acceptance of new ideas and products is extremely limited (de Vany 2004). As a consequence, only 10-15% of new albums manage to break even (Burnett, 1999) with a lower success rate for new artists. Not surprisingly, firms tend to allocate a disproportionate percentage of resources to few extremely visible superstars (Rosen, 1981; Adler, 1984; Hamlen 1991), who absorb a vast majority of media as well as audience attention (Pine & Gilmore, 1999), largely exploit economies of scale (Leadbeater 1999) and subsidize the risky exploration activity, as well as catalog management. Artists sign a contract with a firm for every title they release; it is not uncommon that in doing so, firms require an option on the following titles created by the artist.

From a company's point of view, the successful selection of new artists and titles is a critical driver of competitive advantage: artistic creativity is a resource that firms can neither control nor create; they can only select and drive it to the market (Wijnberg,1995; Lampel et al., 2000). Therefore, a good choice on a specific artist and a specific title will lead to high revenues and visibility in the short run, and will contribute to feed the company's catalog, thus leading to rent exploitation, in the long run.

The industry is heavily concentrated; four companies (majors) control over 80% of the market, while independent labels (or indies) focus on niches or emerging genres/artists. While majors are established organisations resulting from progressive waves of industry consolidation, indies show high birth and mortality rates, the former being due to the relatively small- scale process of recording an album, the latter to the high failure rate of new releases (Dowd, 2004). Such a structure parallels market composition, which consists of same very broad segments in consolidated genres and a huge variety of small markets with uncertain boundaries and strong internal ties.

The nature of the relationship between majors and indies is at the center of a debate in the literature. Some authors argue that the relationship is fundamentally conflicting (Negus, 1999; Gander & Rieple, 2002;), with majors exploting de facto the innovative potential of indies who are forced to bear the risk of opportunity identification and early exploitation (Starkey, Barnatt & Tempest, 2000: 299). Other authors argue that majors and Indies cooperate (Burnett, 1999; 104), or that majors play some sort of orchestrating role within the industry (Barrow & Newby, 1994: 70; Hesmondhalgh, 2007). By outsourcing part of the risk associated with innovation, majors react more flexibly to changes in fashions. In turn, indies are granted the backing of a sound financial partner, and can concentrate on the artistic aspects of researching and developing novel acts. This results into a win win situation in which both types of companies improve their products and competitive positions (Levitas, Hitt & Dacin, 1997; Mezias & Mezias, 2000). The general view on the interplay between majors and indies holds that majors are better off in handling mass market hits, due to their superior financial strength and tighter control of events market and distribution channels, while indies are more capable of exploring untapped markets, explore alternative distribution channels, nurture new talents, become the reference for niche and clanic market segments (Burnett 1999, Kretschmer et al., 1999); once indies would discover new artists and succeed in having them reach enough visibility, majors would acquire them, and their artists would be launched in the mass market (Lopes 1992). This leads Ordanini (2006) to identify two patterns of opportunity identification and exploitation in the industry: on the one hand (the direct selection model), opportunities identified by major should generate rapid acceptance by broad markets, given the huge amount of financial resources invested in their promotion. On the other hand (the agency models), some artists are initially selected by Independent labels and then shift to Majors. In this second case, small firms act as “first innovators,” in the words of von Hippel (1988), incubating an innovation that will be fully exploited in a subsequent time.
These results suggest that majors and indies play distinct roles in opportunity identification and ultimately search for different opportunities; indies stimulate the development of long-term artistic projects (Crain and Tollison, 1997), while majors have the possibility to leverage on specialised assets (Teece 1986, Tripsas 1997; Moorman, C., & Slotegraaf, R. J. 1999) (such as control of distribution channels) to boost market acceptance and sales for new artists. They will therefore be less patient to wait for the artist performance over time.

As it has been predicted by Maisel (1973) recent years have shown a growth of relative

importance of specialized media at the expenses of mass media, both in terms of production and in terms of distribution channels available to distribute and diffuse esponentially higher amounts of content (Anderson 2006) that is increasingly cheaper to produce by small scale players (Hesmondhalgh 2007); therefore, as content becomes more targeted, opportunity exploration needs to take place across multiple market segments, making both the scouting and the selection process of opportunities a tougher job.

Moreover, increased competition has determined a higher turnover of artists and titles at the top selling charts (Dubini Provera 2008). As more artists get to be very visibile for a shorter time span, it has become common practice for artists to launch several albums within a limited time span, in order to leverage on the visibility obtained with one hit to push another one. Figure 1 shows the average number of days between the first album of a new artist and the next one for the sample period covered by our study (1991-2005)

INSERT FIGURE 1

Last but not least, the emergence of new distribution channels and new consumption modes of musical content have determined the erosion of majors complementary assets. Reduced profitability and market turbulence have made acquisition of indies a progressively less viable and attractive strategic option for majors. Indies were generally faster in understanding the potential associated to managing an artist across several channels and were therefore able to circumvent majors in their tight control of the top positions in sales charts and of the traditional distribution and promotion channels. Partnerships have therefore been established between majors and indies and have become a quite diffused form to launch new artists. Partnerships are limited by nature, in the sense that they are typically set up to manage rights associated to specific artists.

All these factors suggest that the process of opportunity identification needs to take into consideration several elements: first of all, new opportunities are associated with varying degrees of innovativeness. Companies will invest significant resources and will bear significant risk to identify a completely new artist, but as Ordanini suggests (2006), the path of artistic maturation of the artist might not be linear, nor be associated necessarily with the same label, as record companies marginally control artistic competences.

We therefore expect that partnerships will be the preferred form to explore highly innovative opportunities:

H1: partnerships are more effective forms to explore highly innovative opportunities.

New titles from new artists launched in the market by partnerships will be more likely to survive in charts, will last longer and will have better average position on chart than new titles from new artists launched either by majors or indies.

Second, as frequent new product introduction becomes a distinct feature of several industries, it is very likely that opportunity identification will be market specific; as a matter of fact, opportunity identification deals with discovering untapped market segments. Therefore, different patterns of opportunity identification might occur depending on the characteristics of the market segments to which they are directed.

H2: majors will outperform partnerships and indies in opportunity identification in those markets in which they can exploit complementary assets.
H2A indies will outperforms majors and partnerships in highly innovative opportunity exploration in smaller and more recent market segments.

In the case of new genres, or smaller market segments, new titles from new artists launched by indies will be more likely to survive in charts, will last longer and will have better average position on chart than new titles from new artists launched either by majors or partnerships.

Third, Dubini and Provera (2008) tested the extent to which inter-firm alliances - in the form of partnerships between majors and indies – could positively influence chart performance of a title, depending on its degree of innovativeness. Partnership, proved to be positively correlated to performance when it is specifically aimed at pursuing highly innovative opportunities, namely the launch of new albums by new artists. However, we argue that for subsequent titles of the same artist, partnerships might not be the most appropriate form, and would be outperformed by majors due to their complementary assets.

H3 Majors will outperform indies and partnerships in managing artists over time.

H4 New artists lauched by partnerships and subsequently exploited by majors will have better performance over other patterns of opportunity exploitation .

3. Methods

Our research is focused on the US music industry, which is the largest market worldwide in terms of both turnover and innovation rates (Vogel, 2004). The research is based on Billboard charts, which have been used in several studies to assess competitive dynamics in the music industry (see Anand & Peterson, 2000; Dowd, 2004). The database contains information on the 200 weekly Top selling albums from 1991 to 2005. We chose to look at albums because albums are more likely to be sold on traditional distribution channels, where the effect of majors' complementary assets are stronger; in fact, legal and illegal downloads are more often related to individual pieces. The database presents weekly information on new entries in the chart, thereby offering a representative sample of the industry's dynamics, also mitigating potential biases of sampling on the dependent variable. In order to discriminate among different degrees of innovation, the database was integrated by dummy variables assessing whether each album is a new album by a new artist, a new album by an established artist, or a catalogue album (e.g. greatest hits, live, reissue, compilation).

Moreover each album has been identified as released by a major, an indie, or a partnership, based on several secondary sources. Finally a genre variable has also been added to the dataset as a control variable.

In order to operationalize our constructs, we employed the following measures:

- Organizational form was operationalised as either major (m), indie (i), or partnership (p). A partnership occurs when a major and an indie co-produce an album, releasing it via co-branding. Following Dowd (2004), the assessment occurred via a triangulation of different industry-related sources, including music magazines (e.g. Billboard, Rolling Stone, etc.), music encyclopedias and books, business press (Financial Times, The Wall Street Journal, etc.), and company websites. This process allowed us to trace mergers and acquisitions which may have occurred along the period under observation and, thus, to keep track of potential changes in organizational form (e.g. an indie being acquired by a major).
- The degree of innovation of the new opportunity pursued was operationalised through a dummy variable - built on the basis of published information - distinguishing between new titles offered by new artists, new titles launched by consolidated artists and remakes or compilations of past successes by consolidated artists. We assume that new titles performed by new artists are intrinsically more risky opportunities to be selected than the other two types of titles, as commercial success will be harder to predict.

Table 1 and 2 present the distribution of titles in our sample by form and degree of

innovativeness of the new opportunity. Numerically, majors occupy a dominant position in charts in terms of overall albums (62.3%). However, Majors are responsible for only 53.1% of the highly innovative opportunities, while Indies produce 37.6% and partnerships 9.2%. Overall, most albums fall into a "medium innovation" category (45.8%), which entails the release of a new album by an established act.

INSERT TABLE 1 & 2

- Performance was measured by using three different indicators: survival (that is to say ability of an artist to remain in chart after multiple releases), duration (number of weeks on chart) and "absolute" success (peak position). Like other media settings, the music industry is a competitive "chart business" (Jeffcutt & Pratt, 2002), in which competitive advantage depends on the volume and level of chart success over a limited time span. Therefore, we consider that opportunity identification abilities by recording companies have to do with the possibility of selecting artists that are able to be appreciated across multiple releases of albums, longevity of a title in chart and visibility.
- We used genre to operationalise different market segments. Frequency distribution by genres was used as a proxy for relative size of different market segments. We employed category variables to measure genre typology. In order to assess which genre to assign a particular album, we relied on the classification provided by iTunes music portal, which classifies every song and album on sale. Table 3 lists the genres identified

INSERT TABLE 3

In order to test the first three hypotheses, we identified all titles that could be defined as highly innovative opportunities at any given time. Therefore, we selected 2086 titles out of the 9546 in our sample. Figure 2 shows the median performance of titles in different genres for the three forms, in terms of peak position reached. We prefer to report medians instead of means following the strong non-normal shape asymmetry distribution of the peak variable, left-censored (one=first position) and fat right-tails.

INSERT FIGURE 2

Partnerships tend to outperform the other two categories of labels in virtually all genres, with the exception of classical music and pop music, where artists supported by majors

reach higher positions. In both instances, majors can exploit complementary assets associated with consolidated reputation and a loyal customer base (as far as classical music is concerned) and higher budgets available to promote new artists (as far as pop music is concerned). Figure 3 shows the median performance of titles in different genres for the three forms, in terms of number of weeks in chart.

INSERT FIGURE 3

Partnership prove to be successful organizational forms to support highly innovative opportunities, particularly in well defined genres such as metal and latin. However, their superiority is challenged by majors in several markets, not only pop and classic, but also punk, hip hop and country. Size of the market seems to allow the exploitation of new artists promotion campaigns over a longer time frame.

Music industry is characterized by extremely high volatility; therefore we wanted to check whether performance in opportunity exploration could be more easily predicted depending on different organizational forms. In order to check whether partnerships shrink performance variability, we tested through a parametric (F) and non parametric test (Chi-squadre) the statistical significant dominance of Ps in terms of our performance measures (see Panel A) and then analysed dispersion measured by standard deviation (parametric) and interquartile range (non parametric) in panel B. Partnerships perform better and are more predictable in terms of variance of results than the other two forms. In fact, is generally shown to be lower. However, whilst the results hold for both average to little innovative opportunities, data are not statistically significant when they refer to highly innovative opportunities.

INSERT TABLE 4

Hp 1 is partially confirmed: partnerships are more successful forms to exploit highly innovative opportunities as far as peak performance is concerned, while major are more successful forms to grant durability of performance in some specific markets. Partnerships perform better than majors, which, in turn, perform better than Indies. Results are not driven by fat right-tail (as you can see by median values). Using genre performance as new artist expected performance, results splitted by organizational form are as in table 5. In the table, the variable delta_peak is defined as the difference between genre average peak and peak; the variable delta_weeks is defined as the difference between weeks and genre average weeks). Majors do as well as as Partnerships in terms of longevity of

results.

INSERT TABLE 5

However, the second part of table 5 indicates that it is not true that new titles from new artists launched in the market by partnerships will be more likely to survive in charts, Majors do as Partnership in terms of weeks on chart; we argue that this might be because they have higher resources to sustain their artists who made it in the chart over time due to availability of complementary assets and availability of higher advertising budgets.
Hp 2 seems to be confirmed by the possibility offered by specific market segments to control for turbulence by leveraging on complementary assets such as brand, customer proximity, financial strength or control over distribution channels. As majors can exploit economies of scale, size of market segments also matters in influencing the superiority of one organizational form over the others in highly innovative opportunity exploration.
One of the underlying assumptions in the debate about the role of indies and majors in discovering and launching new talents is that indies are better off in scouting new artists who are then taken care of by majors and given higher visibility for a longer time. It is therefore important to track the trajectory of innovative titles and artists over time. In order to test for H3 and H4, we created a contingency table (table 6) analysing the number of artists discovered by different organizational forms in t0 and then in t1. Out of the 763 new artists discovered by indies at t0, 243 (that is to say 31.85%) were still published by an indie at t1, while 47 were put under contract by a major for their second title, 57,54% - that is to say 439 artists – did not make it to the chart with their second album (No2Ch column) and 34 shifted to a partnership. The industry proves to be very competitive: out of over 2000 new artists discovered at t0, 53% did not make it to the chart with their second album. Majors seems to be more effective than the other two types of organizational form in the selection process of highly innovative opportunities, as failure accounts for 48.3% of total artists launched by majors. Partnerships, on the contrary, have a very high mortality rate: 62% of the new artists don't make it with their second album.
New artists tend to remain loyal to their label from t0 to t1, particularly when majors discovered and launched them; this may be explained by contract structures (the new artist signs a contract at t0, giving an option to the major for his/her second release). As literature and common wisdom suggest, partnerships are the organizational form that is less stable over time. Only 51% of the artists discovered by partnerships remaining in chart at t1 are still under contract with the same label, as opposed to 90% of artists

remaining with majors. Moreover, when artists do change label after the first title, majors are systematically the preferred form: 6.1% of artists launched by an indie and 10.6% of artists launched by a partnership shift to a major for their second release.

INSERT TABLE 6

Table 7 and 8 show the artist perfomance (in terms of median peak and number of weeks in charts) in t0 and t1. In both tables, peak results for period t0 are reported in the first row, and results for period t1 are reported in the second row. Median results on t0 for titles not present in chart at t1 are presented in the last column.

In all cases, the switch to a major or a partnership at t1 improves median peak, but shorten the number of week in list. This, confirms Ordanini (2006) results that the selection process of majors is oriented towards position maximization. Artists who started off with an indie increase their median peak with their second title, but their performance is maximized if they switch to a parternship.

INSERT TABLE 7

Results in table 7 suggests that indies are more patient opportunity seekers than the other two forms: they are likely to scout for opportunities in smaller markets and possibly select artists which appeal to more sophisticated markets. However, because they lack the strength to sustain their artist, the time window available to leverage from the opportunity is significantly shorter than that of the other two types of companies. This is confirmed by the fact that indies pick up the best performing artists from partnerships, but then the performance of the artist drops dramatically. Majors pick up the best performing artists from indies at t0, but the shift is not favorable to the artist, as the increase in peak performance is lower than in the other two cases.

INSERT TABLE 8

As far as duration in chart is concerned, although majors get the best performance in t0, the combination partnership at t0 and major at t1 seems to be the best combination.

Figure 4 shows the decay of the opportunities discovered by the three categories of players. Results confirm that indies are more patient opportunity seekers than the other two categories, as there is a higher number of artists staying in chart for many subsequent

titles. On the other hand, parternships seem better off for much shorter artists' life cycle. H3 is therefore not confirmed; rather results indicate that there are specific distinct patterns of opportunity seeking occur for different types of organizations. Indies are at a disadvantage over majors and partnerships in terms of visibility, but the artists they select have more chances to develop their artistic personality across multiple titles and build a loyal customer base (Holbrook and Schindler, 1989, Mixon and Ressler 2000).

INSERT FIGURE 4

H4 is also not verified. The majority of artists tend to stick to the same label that discovered them; however, should a switch occur, the best pattern for an artist would be to start off with an indie, than get a jumpstart in visibility by switching to a partnership and than to a major, who would allow a longer permanence in chart.

As figure 5 shows, partnerships seem to pick the most risky businesses. Partnerships have the lowest rate of survival for the second album. In this terms, majors seem to do the best job.

INSERT FIGURE 5

Discussion:

Media industries are increasingly regarded as relevant settings for traditional organizations to draw lessons upon (Markides, 2006) as far as innovation strategies are concerned, due to the structural changes they are witnessing, the importance of new products introduction for companies survival and growth. Successful new product introduction requires superior abilities in opportunity identification and careful management of product life cycle, in order to maximise present and future profitability. Given the number of new titles introduced every year in the market, the tendency for artists to propose an increasing number of releases and the volatility of the market, the music industry seemed an appropriate setting to explore what is the best way for artists, entrepreneurial ventures and established players to successfully handle both opportunity identification and management of new products. In this paper, we examined highly innovative opportunities (that is to say new albums by new artists) and then followed the artists over time, in order to check which is the most appropriate form to grant performance in the short and in the long time. As the players in the industries (majors and indies) are characterized by extremely different business models, and are increasingly

engaged in cooperative forms (partnerships), we were interested in determining what is the from that is more successful in new opportunity identification and exploitation in the short (new titles by new artists) as well as in the long time (that is for the following albums by the same artist). We therefore checked for survival rates of artists, performance of individual opportunities, and longevity across a variety of market segments (genres) characterized by different size and stability.

Our results indicate that partnerships are the most successful forms to identify highly innovative new opportunities (new titles by new artists) and make them very visible. Peak positions were reached in virtually all genres. However, in those market segments where majors could exploit their complementary assets, they proved to be the organizational form that allowed highly innovative new opportunities to be successfully present in the market for a longer time. However, partnerships are the organizational form that is less stable over time. Only 51% of the artists discovered by partnerships remaining in chart at t1 are still under contract with the same label, as opposed to 90% of artists remaining with majors.

Majors are more aware of the risks associated with highly innovative opportunity exploitation; our results indicate that they experience a lower mortality rate for the second title of the same artist. Partnerships on the other hand, while more successful in early exploitation of the new opportunity, are more volatile in terms of performance and show the highest mortality rate of artists form their first album to the second. Finally, indies are better off in promoting those artists that launch several titles over a long time, targeting an increasingly loyal group of customers.

Our findings suggest that Established players and entrepreneurial ventures are not antagonists in opportunity identification and innovation management but can jointly leverage on idiosyncratic competences to build patterns of innovation management leading to superior performance, provided they are able to identify their role at different steps in the innovation management trajectory. This requires to take into consideration the overall trajectory of innovation identification and exploitation (Zahra, Neubaum, El-Hagrassey, G. M. 2002). Each company orients its scouting activity with the aim of balancing opportunity identification and predictability of outcome. Not so innovative products might be more easy to predict in term of performance, but may lead to lower performance or to faster imitation by competitors; highly innovative products may yield a higher return, but are intrinsically more risky. Partnerships seem an appropriate solution for consolidated players to test highly innovative and uncertain opportunities; from the majors point of view, they could be viewed as options to be given a chance without fully bearing the risk associated with the uncertainty of the new opportunity. For indies, it could be viewed as an opportunity to increase the chances of

success of an extremely risky venture. As a matter of fact, our findings suggest that the best way to extract value from the opportunity would be to have an indie scout it, then pass the opportunity to a partnership for visibility maximization, than to a major to grant a longer time on chart. We think that our findings shed light on the risky and increasingly inevitable process across industries of systematic opportunity identification. As competition increases and frequent new product introduction becomes the norm in a variety of settings, it is important for companies to focus on those opportunities more consistent with the exploitation of complementary assets. At the same time, alliances with entrepreneurial ventures allow for exploration in less known settings. Our findings refer to a very big sample over a relatively long time span, in order to make it possible to follow an artist across multiple releases and therefore test over time the original selection ability by the company. However, our study has a few limitations that require further analysis. First, in the time span considered in our analysis, the music industry has witnessed quite impressive structural changes. It might be that the ability of different organizational forms to identify highly innovative opportunities changes as a function of environmental turbulence; we will therefore verify whether the patterns identified in our study hold true before and after the diffusion of digital music. Moreover, quite surprisingly, artists in our sample tend to perform less successfully after the release of the first title; this might be related to a bias in the sample, that consists of albums who made it in the top 200 selling titles in any given week. We don't know if what we consider a new title by a new artist is in fact the first title of a new artist, as he/she could have tried before without reaching adequate visibility. We do not think that this limitation is particularly strong, though, as in our paper opportunity identification has to do with the successful launch in the market; therefore it is important to orient selection activity around promising opportunities.

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Figure 1: average n. of days from first and subsequent albums by new artists – 1991-2005

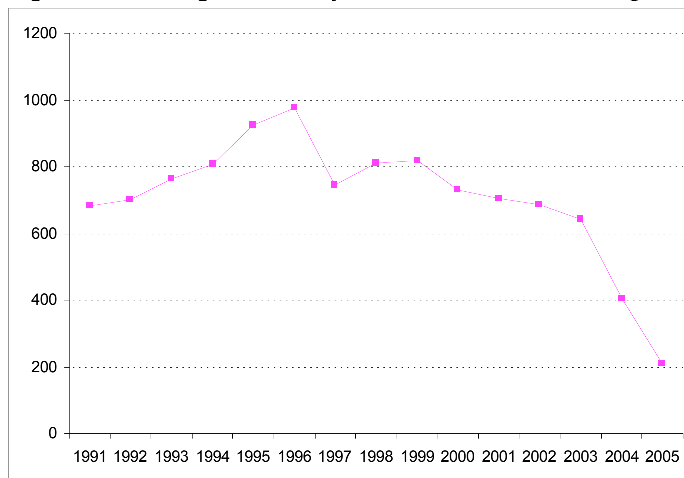

Table 1. Descriptive results by organizational form: chart success and innovation

	Indie	Major	Partnership	Total
Low Innovation (Reissue)	909 (29.17%)	2032 (65.21%)	175 (5.62%)	3116 (100%)
Medium Innovation (New album by established artist)	1246 (28.68%)	2809 (64.66%)	289 (6.65%)	4344 (100%)
High Innovation (New album by new artist)	785 (37.63%)	1108 (53.12%)	193 (9.25%)	2086 (100%)
Total	2940 (30.8%)	5949 (62.32%)	657 (6.88%)	9546 (100%)

Pearson $\chi^2_{(4)} = 101.5932$ Pr<1%

Table 2. Descriptive results by organizational form: innovation

	Major	**Partnership**	**Indie**
High Innovation (New album by new artist)	18.6%	27.6%	26.7%
Medium Innovation (New album by established artist)	47.5%	46.1%	42.3%
Low Innovation (Reissue)	33.9%	26.3%	31.0%
Total	100%	100%	100%

Table 3: genres distribution in our sample

Genre	Freq.	Percent
Hip Hop	1,505	15.77
Pop	1,419	14.86
Rock	1,371	14.36
Country	958	10.04
R&B/Soul	739	7.74
Soundtrack	707	7.41
Alternative	703	7.36
Metal	462	4.84

Christmas	350	3.67
Jazz/Blues	350	3.67
Punk	328	3.44
Latin	290	3.04
Dance	191	2
Classical	91	0.95
Other	82	0.86
Total	9,546	100

Figure 2: median peak position per genre and organizational form – highly innovative opportunities

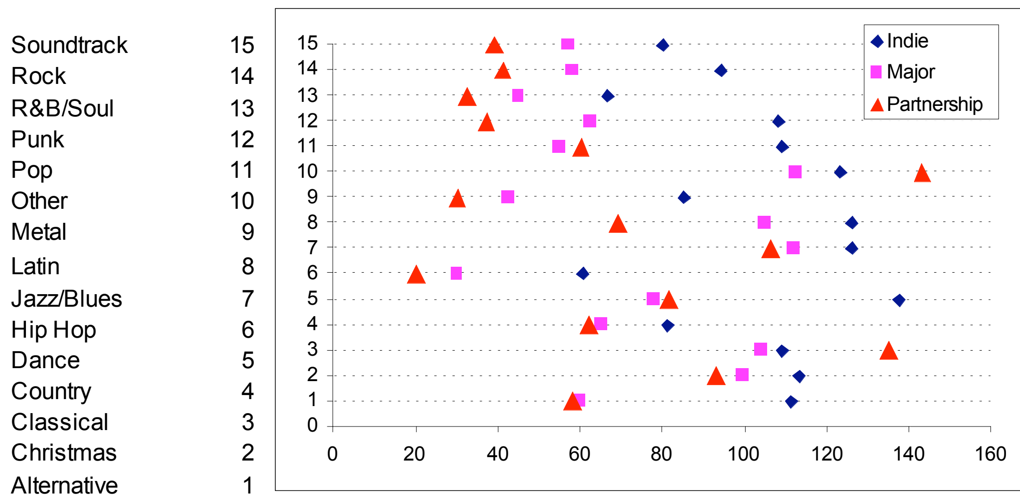

Figure 3: median number of weeks in chart per genre and organizational form – highly innovative opportunities

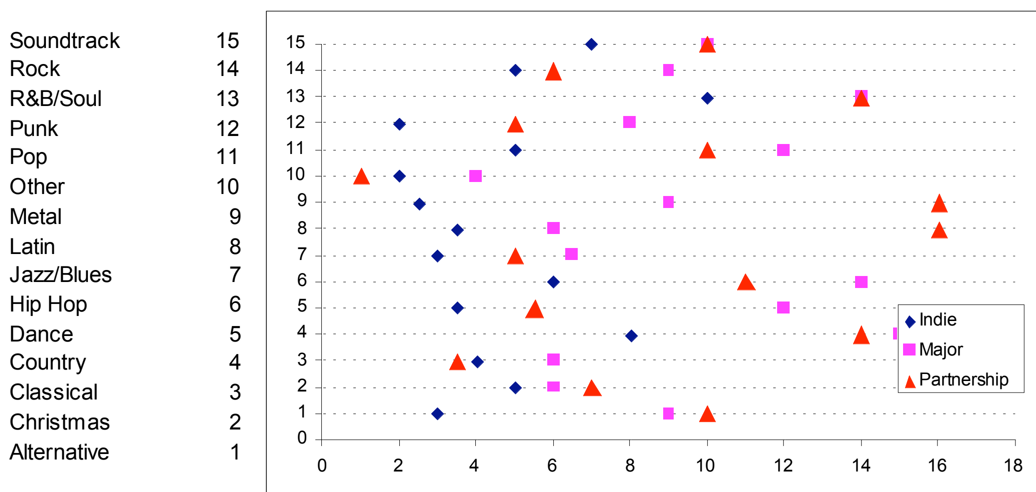

Table 4: predictability in performance

Firm	mean and median (PANEL A) Low innov	Medium Innov	High innov	standard and interquartile range (PANEL B) Low Innov	Medium innov	High innov
Indie	101	84	107	60.43	61.00	59.36
	104	77	114	109	108	103
Major	81	61	84	59.89	56.83	59.17
	72	44	78	105	91	104
Partnership	71	41	70	55.35	51.00	59.70
	58	17	64	87	47	91
F test	41.09	99.73	46.26	MP* / IP *	IM***/MP **/IP***	No sign
Chi-squared test	79.69	204.53	89.82	Sign	Sign	Sign

Table 5: performance of highly innovative opportunities for different organizational forms

firm	frequency	Mean (delta_peak)	median (delta_peak)	mean (delta_weeks)	median (delta_weeks)
Indie (I)	763	-29.03	-33.91	-3.17	-10.48
Major (M)	1076	-7.36	-0.72	6.54	-3.71
Partnership (P)	188	1.81	17.91	2.63	-5.71
		t-test:	Kruskas-Wallis test:	t-test:	Kruskas-Wallis test:
Hp: P vs. I		6.68***	6.73***	-3.21**	3.94***
Hp: P vs. M		2.03**	2.24**	1.81*	1.48

*** p<1%, ** p<5%,* p<10%

Table 6: artist's duration in chart by organizational form

firm	firmt1 Indie	Major	No2Ch	Partnersh	Total
Indie	243	47	439	34	763
	31.85	6.16	57.54	4.46	100.00
	82.65	8.27	40.80	38.20	37.64
Major	36	501	520	19	1,076
	3.35	46.56	48.33	1.77	100.00
	12.24	88.20	48.33	21.35	53.08
Partnership	15	20	117	36	188
	7.98	10.64	62.23	19.15	100.00
	5.10	3.52	10.87	40.45	9.27
Total	294	568	1,076	89	2,027
	14.50	28.02	53.08	4.39	100.00
	100.00	100.00	100.00	100.00	100.00

Pearson chi2(6) = 659.0763 Pr = 0.000

Table 7: artist performance (median peak) in t0 and t1

	firmt1			
firm	Indie	Major	Partnership	Not present in the sample in t+1
Indie	94	74	79	126
	59	61	27.5	
Major	61.5	53	40	109
	98.5	42	35	
Partnership	24	37	32	76
	55	22	16.5	

Table 8: artist performance (median number of weeks) in t0 and t1

	firmt1			
Firm	Indie	Major	Partnership	Not present in the sample in t+1
Indie	9	15	9	3
	6	5	7	
Major	9	29	15	6
	4	13	6	
Partnership	23	21.5	25.5	6
	9	16	15	

Figure 4: artists' decay rate

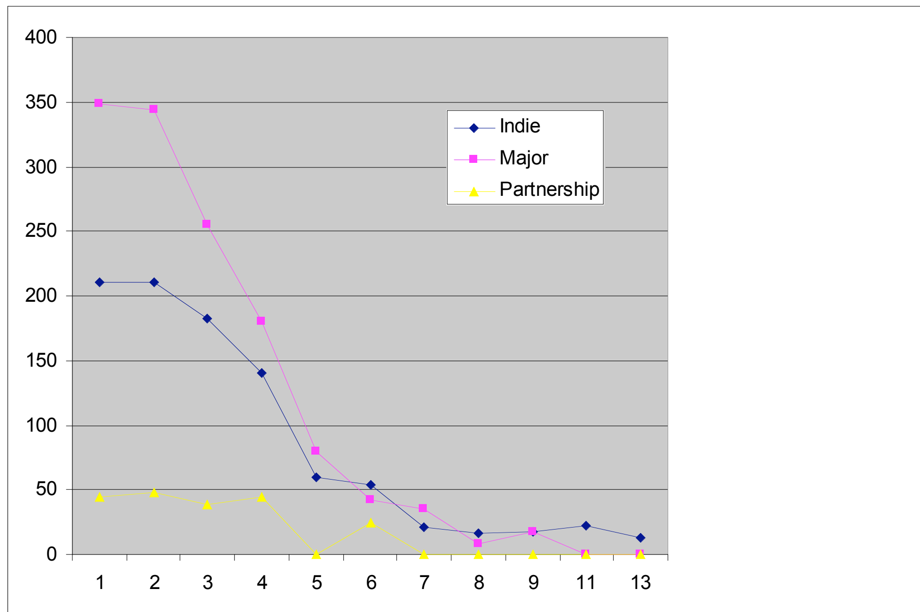

Figure 5: survival rate of artists by type of organizational form