Competitiveness in the Music Industry
A study of the Swedish Music Companies

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Abstract

Problem: The music industry has experienced a significant technological change, leaving the music companies with a new way of distributing music. The sale of physical products (i.e. the CD) has decreased, and the industry has seen a steady increase in digital music. In this period of technological change, how are the four major music companies, EMI, SonyBMG, Warner Music Group and Universal Music to create a competitive advantage?

Purpose: The purpose of this thesis is to study and analyze how the traditional music companies are creating a sustainable competitive advantage in a technologically changing environment.

Method: A qualitative approach, following the logic of a case study, has been used to answer the purpose. Interviews with new media managers at the four major music companies have been conducted. Furthermore, an interview with the mobile phone operator 3 was conducted since the company is one of the biggest customers to the music companies using the new technology. In order to avoid a biased study, we also interviewed Robert Picard at JIBS and Kris Serian at Warner Home Video who both have extensive experience in the media industry.

Result: In this thesis we have arrived at the conclusion that the music companies have been slow to adapt to the technological change and that new more entrepreneurial entrants are the ones taking advantage of the new technology, not the established players. Moreover, we have found that none of the music companies possess a sustained competitive advantage. The study rather shows that the source of competitive advantage solely comes from the artists they sign.
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1 Introduction

In this chapter the background of the topic in this thesis is discussed. The problem statement is formulated and the purpose is presented. The limitations are explained in the delimitations part and finally the disposition of the thesis is displayed.

1.1 Background

Competitive advantage and technology are buzzwords currently used heavily in the strategic research. There seem to be an agreement among researchers that the 21st century brings a business environment that is characterized by rapid change and tough competition. As technology changes, organizations need to adapt in order to stay competitive. As far back as 1942 Schumpeter argued that it was technological change, not price competition that matters most for a firm’s success and growth (Miozzo & Walsh 2006).

Also J.Tidd, J.Bessant & K.Pavitt (2006 p. 4) claim that even though competitive advantage can be achieved through size and possession of the appropriate assets, “the pattern is increasingly coming to favour those organizations which can mobilize knowledge and technological skills and experience to create new products, processes and services.”

Hence, researchers agree upon the importance of managing technological change for a firm to stay competitive. Even so, one of the most important new technologies, the Internet, was not created by a company.

When the Internet practice started to gain momentum in the developed world in the mid 1990s, many companies saw the new technology as an opportunity for making business. The term e-commerce was established, and has been defined by Gaedke and Turowski (1999 p. 1) as: “any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact”

When properly used, the Internet allows companies to decrease costs as the physical retailer can be removed. Therefore, the list of companies which have successfully adapted to the new technology is extensive. Amazon, Dell and Ebay are all examples of companies turning the new technology into a success story. However, the Internet can also be a threat to certain companies and industries, as old competences might be destroyed and new ones need to be created. This has certainly been the case with the music industry. Since the mid 1990s the improvements in computer technology, along with decreasing prices on this technology, have reshaped the industry.

Napster, Kazaa and other peer-to-peer clients allow their users to download music for free, which is illegal. People are able to download music from the Internet and store it on various devices such as MP3 players and mobile phones. This is the technological change that the traditional players in the music industry, such as the music companies, need to come to terms with. In short, the music companies no longer have control over the distribution of their product and are experiencing an extremely turbulent business environment at the moment.
1.2 Problem statement

For a long time the music industry has been a stable industry in which the nature of change has been continuous, meaning that the industry has been moving forward in terms of technology but the basic foundation has stayed the same. Between 1877 and the mid 1990s most new inventions were either competence enhancing which means that they build on the skills which already exist in the industry; or were technology sustaining meaning that they improved the existing products and services (Shayo and Guthrie, 2005).

However, since the arrival and development of the Internet the music industry has experienced a fundamental change in the way business is conducted.

According to the International Federation of the Phonographic Industry (IFPI) the music industry experienced steadily increased CD-sales from 1995 to 2001. However, from 2002 to 2004 the music sales plummet by 30 percent and in 2005 it was slashed by another 11 percent. The record sales are drastically decreasing but at the same time the industry is experiencing a shift in the distribution channel.

Due to increased possibilities of legally downloading music from the Internet this distribution method skyrocketed by 300 percent in the second half of 2005 compared to the first six months the same year. Furthermore, during the first six months of 2006 more music was digitally distributed than for the whole 2005. Still, the download sells only count for 7.8 percent of the total music sales in Sweden and during the years 2001 to 2005 the total music sales dropped by 47.3 percent (IFPI, 2006).

Clearly, part of the industry is on its knees.

With that said, one must realize that there are still profitable companies operating within the industry. Apple’s music store iTunes has been a huge success and the redesigned Napster.com is also performing well. On the other hand, the traditional players in the industry such as the record labels, are having problems adapting to the technological change.

1.3 Purpose

The purpose of this thesis is to study and analyze how the traditional music companies are creating a sustainable competitive advantage in a technologically changing environment.

1.4 Definition

Several definitions of what is included in the music industry can be found in the literature. Hesmondhalgh (2002), and Almqvist & Dahl (2003) agree it includes music recording and music publishing (Wikström, 2006). In addition, Hesmondhalgh believes live music performance is also a part of the industry. The British government’s department of media makes the distinction of the music industry’s core activities, supporting activities and related industries of which the core activities include production, distribution, management, promotion, and song-writing (Wikström, 2006). In this thesis we refer to production as the recording process.

Our research focus will concern the producers of music, i.e. the record labels, and how they have adapted to the technological change. In this thesis the terms record labels and music companies will be used interchangeably, and both terms refer to the four major music companies: EMI Music, Universal Music, SonyBMG, and Warner Music Group. These compa-
nies have a market share of approximately 80 percent in Sweden, as well as in the rest of the world (IFPI, 2005).

A short description of the history of the music industry along with what we claim to be the most important technological changes in the industry can be found in Appendix A.

1.5 Delimitations

Even though we are aware that the technological change in the music industry is a global problem, we will focus on the Swedish market and collect our empirical data within Sweden. Furthermore we will not focus on the artists. With that said, one must bear in mind that the artists are a vital part of the music companies and hence they will be mentioned in the thesis. We will not, however, interview artists or discuss the way in which their position has changed due to the technological change.

It is important for the reader to understand that even though the illegal downloading has been a problem for the music companies, the thesis will not focus on this fact. We are of the opinion that the legal aspect is more a concern for the state in respective country as it is connected with property rights. It is up to the governments to uphold these laws. Affected industries certainly have an interest that these laws are upheld but it should not be up to them to enforce them. Rather the focus will be on the transformation the companies need to do in order to provide the consumers with legal music in an efficient way.

1.6 Disposition

The following disposition outlines the structure of the study:

- **Chapter 1: Introduction**: The background of the thesis leads to the problem discussion followed by the purpose of this thesis.

- **Chapter 2: Frame of reference**: This chapter includes theories about what technology is and how it is managed. Furthermore, the concepts of competitive advantage and core competencies are discussed.

- **Chapter 3: Research questions**: The underlying questions used to guide the reader what the research aims to answer are presented in this section.

- **Chapter 4: Method**: The method answers why we choose qualitative, inductive, and case study approach in our method. It also explains how we conducted the interviews and how the data was collected and presented.

- **Chapter 5: Empirical findings**: The result of our research is presented.

- **Chapter 6: Analysis**: The empirical material and frame of reference are used to find answers to the research questions.

- **Chapter 7: Conclusion**: Our conclusion from the theory in comparison with the purpose is presented.

- **Chapter 8: Discussion and final remarks**: Further studies are suggested and a final discussion is carried out.
2 Frame of reference

The frame of reference intends to present relevant theories concerning technological change and competitive advantage.

2.1 Technological change

As this thesis will deal with how the music industry is creating a competitive advantage in a period of technological change, it is important for the reader to first understand what the term technology means.

The field of technology has been researched by numerous authors through the years. Still, there seems to be little agreement on the definition of the term (Orlikowski, 1992). Woodward’s (1958) explanation of technology as \textit{industrial production} is widely used but mainly applies to manufacturing firms. Perrow (1967), another heavily cited author in the field of technology, views technology as the force which transforms raw material into a product. Hence, in the early days technology was mainly understood as the hardware used to produce products.

However the definitions changed as the focus moved from a concern with hardware to also include human actions as part of technology. Berting (1992) defines the concept as three intertwined aspects, these being:

- The combination of physical objects designed and constructed by humans
- The human activities connected to using and maintaining the physical objects
- The knowledge necessary to develop new solutions regarding the design, construction and application of technical possibilities

Considering Berting’s definition one realizes that more recent research understands the importance of having human knowledge interrelated in technology. This way of understanding technology still prevails today. For example Burgelman, Clayton & Wheelwright (2004) identify technology as: \textit{“The theoretical and practical knowledge, skills, and artifacts that can be used to develop products and services as well as their production and delivery systems.”} and they conclude that technology \textit{“can be embodied in people, materials, cognitive and physical processes, plant, equipment, and tools”} (Burgelman et al, 2004, p. 2).

One might realize that technology is a term with a somewhat fuzzy definition, as it reflects the opinion of the researcher, and we may also see from Burgelman’s definition that it is relatively broad.

Even so, the authors claim that it is important to acknowledge technology as one of the most significant resources an organization possesses. According to Floyd (1997) it provides one of, if not the only, road to:

\textit{Differentiating products} – By using the proper technology, products can be develop which are unique, doing things that other products can not do (Floyd, 1997).

\textit{Reducing costs} – When not trying to differentiate itself, a company may still use technology to reduce costs. For example, aluminum melting has relatively given costs of
raw material and energy. Technology has been used to make the process more efficient and hence lower the cost of energy (Floyd, 1997).

*Providing new business opportunities* – Even though Floyd claims that to push new products to the market (referred to as technological push) is a risky strategy, he also recognizes the potential of such a strategy. 3M has managed to implement it successfully and the same goes for Raychem (Floyd, 1997).

In order to fully understand technological change it is important to grasp the difference between two types of technological change: *process* and *product*.

Process technology is embedded in the value chain of a firm. The concept is concerned with how to produce and market goods/services in a more effective way. Examples include work methods, equipment, distribution and logistics.

On the other hand, product technology refers to the actual technology in the goods or services of a firm. The changes can be minor - as a small improvement of an existing product - or it could be an entirely new product.

In short, process technology explains the way an organization conducts business and product technology refers to the actual output of this business (Narayanan, 2001).

### 2.2 Characteristic of technological change

It may seem as if the development of a new technology is a random process. Still, if one studies the evolution of a new technology it usually follows a reasonably stable pattern, clarified by the improvement of performance characteristics. These characteristics are essential for a product, either for the developer or the user, examples of which could be the performance of a computer or the fuel efficiency of a car (Narayanan, 2001). Even so, one must realize that not all technologies evolve at the same pace. Numerous factors are determining the rate of evolution, including the competitiveness in the industry, macro-economic climate and market pressures (Floyd, 1997).

When the performance characteristics are improved and hence changed, this refers to *technology evolution*. Researchers have found that the technological evolution follows an S-shape and hence it is called the S-curve of evolution and consists of four stages of development (Narayanan, 2001).

When a new technology is launched, the development of the performance characteristics is almost non-existing in the beginning. In the second phase on the other hand, the development is rapid. During the third phase improvements are still taking place, but at a lower pace. Finally during the fourth phase - also referred to as maturity - additional improvements are difficult to achieve and thus the curve is turning downwards, making the S-shape complete (Narayanan, 2001).

The reason for the slow development during the first stage and the rapid growth during the second can best be explained by learning processes. In the beginning, new knowledge has to be acquired and problems solved, explaining the slow development. Contradictorily, during the second phase the learning curve effects produce faster improvements in the performance characteristics. Furthermore, technological limits also help to explain the special shape of the S-curve. In the fourth stage, the technology has reached its full potential and due to this fact, rapid improvement developments have to wait until a radical breakthrough.
in technology occurs. Naturally, as the technology is approaching its full potential the developments can only be achieved at a lower pace (Narayanan, 2001).

![The S-Curve](image)

Figure 2:1 The S-Curve (Narayanan, 2001).

### 2.2.1 Dominant design

“A dominant design in a product class is, by definition, the one that wins the allegiance of the marketplace, the one that competitors and innovators must adhere to if they hope to command significant market following” (Utterback, 1994, p. 24)

According to Schilling, technological change is cyclical, a trend which may also be seen in the “s-curve” (Schilling 2005). In the beginning of each s-curve there is a period of turmoil which is followed by rapid change and diminishing returns before it is eventually replaced by a new technological discontinuity (Schilling 2005). A number of studies have been undertaken in order to identify the different stages of technological development so we may gain a better understanding of why some technologies are successful and others are not (Schilling, 2005).

One of the technology evolution models that has gained particular acceptance is the one presented by Utterback and Abernathy (Schilling 2005), who identified that a technology goes through different phases. Anderson and Tushman agree with the arguments presented by Utterback and Abernathy, but instead refer to the phases as “eras” (Anderson and Tushman, 1990).

The initial or “fluid” phase contains a great deal of uncertainty about the technology and its market. Thus it is subject to possible changes, and characterised by its potential fluidity. In the Anderson and Tushman article, the authors argue that the initial “era” is called the “era of ferment”. As the firms are experimenting with new product features and form factors in order to assess the market response (Anderson and Tushman, 1990). Utterback argues that it is not only firms that are experimenting but also the customers. The customers experiment with different options, having not yet “locked in” to any specific design or company. Industry standards are elementary at this stage, if they exist at all (Utterback, 1994).
This stage continues until customers and producers reach a harmonious decision regarding the product attributes and a dominant design appears. Usually a dominant design is associated with a new product – or a new set of product characteristics – which is created from technological innovations (Utterback, 1994). The basis of competition radically changes as soon as a dominant design emerges, meaning that very few companies will be able to adequately compete (Utterback, 1994). Shortly after the introduction of a dominant design the competing firms become noticeably similar. This means that the industry is changing from one which is characterized by many firms with unique designs to one which consists of fewer firms with comparable product designs (Utterback, 1994).

A dominant design creates a stable architecture and allows producers to focus on perfecting the design production i.e. making it more effective and efficient (Schilling 2005). This is named the specific phase by Utterback and Abernathy since the innovations concerning the products, materials and manufacturing processes are all specific to the dominant design (Schilling, 2005). Anderson and Tushman (1990) refer to this stage as the era of incremental change (Anderson and Tushman 1990). In this ‘era’ many firms choose to invest in competence refining associated to the dominant architecture instead of investing in learning about alternative designs (Schilling, 2005).

### 2.2.2 Radical change

“...industrial mutation... incessantly revolutionizes the economic structure from within. This process of Creative Destruction is the essential fact about capitalism.” – (Schumpeter, 1942)

A technology’s improvement can be clearly explained by the S-curve and the concept of dominant design explains the process in which a technology becomes a product which is accepted by the market as the dominant design. Sometimes, however, new technologies emerge which make existing technologies outdated. Just consider the example of the typewriter which is obsolete in today’s computer age. This is referred to as technology progression by V.K. Narayanan, and refers to major breakthroughs that create new technology (Narayanan, 2001). One could see this as similar to dominant design, as the breakthroughs in technology may create a new design such as the IBM personal computer which competitors need to adhere to (Utterback, 1994).

Technology progression is very similar to what Vittorio Chiesa describes as competence destroying (Chiesa, 2001). It implies that the current set of knowledge and technology required for a firm to stay competitive is about to change. As a result of this, the firm has to recognize that a competence destroying technology is emerging, and they must thus adapt to it in order to stay competitive.

Additionally Christensen’s (1997) concept of disruptive technologies is another term for describing the same occurrence, in which disruptive technologies are products, innovations or services that conquer existing technologies in a market.

Hence research agrees that technological change can be radical. Furthermore, it seems as if the time in which we are currently living is characterized by these changes more than ever before. Peter Drucker names this time the age of discontinuity, which is an epoch of revolutionary technological change that may transform the very core of industries (Andersson & Tushman, 2004). This is also somewhat similar to Schumpeter’s concept of Creative Destruction (Schumpeter, 1942).
So what have we learned about these technological discontinuities? Andersson & Tushman (2004) conducted a study aimed at investigating if there are predictable patterns of innovation in an industry and if the technological discontinuities had predictable consequences to an industry. The study was conducted using empirical data from three different industries – glass, minicomputers and cement – which they followed for three years. The study concluded that discontinuities are relatively uncommon and the frequency of occurring varies by industry. Still it seems as if they occur in both young and mature industries. Furthermore, from the study the authors realized that even though technological revolutions may be created by a newcomer to the industry, the firms which are likely to produce the technological breakthrough are already operating within the industry (Andersson & Tushman, 2004).

This research opposes the opinion of Utterback, who claims that “the most threatening challenges are often those that come from outside the traditional definition of the industry and its products” (Utterback, 1994, p. 51). New entrants are often the ones producing new product innovations but the innovation can also come from large enterprises eager to enter a new business area (Utterback, 1994). Thus groundbreaking innovations appear to be a threat to all firms, regardless of industry, and this is obviously something for the management to consider.

What is also important to consider is the way in which some discontinuous innovations may prove to be competence-enhancing, meaning that these technological advancements build on existing knowledge (Andersson & Tushman, 2004). Narayanan agrees, claiming that technological breakthroughs are often the result of relevant knowledge and/or learning. Creating a new technology is not an easy task and hence many mistakes are often made before the technology can be launched. Mistakes should not be thought of as equal to failure, however, because from mistakes learning is created and possible resulting in inventions (Narayanan, 2001).

2.3 Managing technological change

The reader is now aware of what technology is and how technological change might occur. The importance for a manager, however, is not to know the researchers’ definitions of the concepts but rather how to manage technology in a proper way. Thus, we will now focus on management of technology.

The research concerning management of technology is not a new field. In the 1950’s the research was mostly concerned with Research and Development (R&D) management while it has now developed to concern value-based management. The later concept was born due to a broader vision of technology, the increased use of outsourcing and other factors which characterize today’s business environment (Narayanan, 2001). Narayanan defines the concept as “…focus[ing] on the principles of strategy and organization involved in technology choices, guided by the purpose of creating for investors.” (Narayanan, 2001, p. 8). This definition can also be understood from the figure below.
2.3.1 Technology strategy

In order to manage technology in a proper way, a sound technology strategy should be developed (Porter, 1983). By using technology strategy we attempt to differentiate ourselves from the concept of corporate strategy. Therefore, no discussion concerning corporate strategy will be carried out since it is not relevant to fulfill our purpose.

As a start to the field of technology strategy Michael Porter claims that technology strategies consist of three key elements. These in turn are formed into three key decisions.

- Which technologies to develop
- Whether to be a leader or follower
- Whether to sell the technology or not

In this thesis we choose to exclude the third factor which is whether to sell the technology or not, as this is not applicable to the music industry. Therefore, the two remaining factors to be considered are which technologies to develop and whether to be a leader or follower.

2.3.1.1 Selection of technologies

In order to select the technologies best suited for a specific firm Porter suggests that the technological choices should be in line with the firm’s generic strategies. These are cost, differentiation and focus strategies and will be discussed later on in the thesis. The firm should also consider which competitive advantage it is trying to achieve and then ask itself how technology can support the firm in completing its goals (Porter, 1983).

Moreover, Porter stresses how important it is that the firm considers whether the technological change is desirable. It is desirable when the advantage generated by the technology is sustainable and the change in industry structure that might occur is also favorable. Porter emphasize the last point since some firms may find that a technological change is beneficial for themselves, but fail to recognize that it may reduce the profitability of the whole indus-

Figure 2:2 Management of Technology (Narayanan, 2001)
try. Naturally, if the whole industry suffers the innovating firm’s profitability will decrease in the long term (Porter, 1983).

2.3.1.2 Leader vs. follower

When the firm is choosing whether to attempt to be the leader or the follower in technological change, two main factors must be considered (Porter, 1983).

Firstly, the firm must assess whether it can sustain the technological leadership. This assessment is based on several things, not least of which is whether the technological competencies are unique for the firm. Furthermore, the firm must question whether it has an advantage when it comes to technology development and if the technology can be protected. If it does, the firm will find it easier to sustain its leadership in technology. Finally, the firm should examine whether the source of technology comes from within the industry, for when the technological source is external, the leadership will be harder to sustain as more firms can access the source (Porter, 1983).

The next thing to consider is whether it is an advantage for the firm to be a first mover. Porter lists several advantages a firm might enjoy by being a first mover including reputation, positioning, selection of distribution channels and learning curve. However, Porter also recognizes some disadvantages when choosing a first-mover strategy, which include: pioneering costs, uncertainty of demand and imitation at low cost (Porter, 1983). Hence, Porter does not conclude that being a leader is suitable for all firms; rather it depends on the specific firm’s resources and the possible advantages/disadvantages the firm may encounter due to a first-mover strategy.

2.3.1.3 Adapting to technological change

When facing technological change there are several ways in which a firm may adapt to the technology or change it to better suit the firm. Durand (2004) explains that there are two basic strategic alternatives. If the change is radical and the firm’s competencies can not match the new demands, it may choose to escape or re-deploy. If this strategy is chosen, the firm will use its competencies to develop a different set of technology and thus find another niche in the market (Durand, 2004).

On the other hand, if the firm’s competencies fit the changing business environment relatively well then it may choose not to escape but instead to stretch itself in order to fill the gap between the competences and the new environment (Durand, 2004).

In addition to these two strategies Durand argues that another dimension exists. A large and powerful player in a certain industry may in fact impose change on the other actors, being the firm to which the others have to adapt. If this is the case the firm can shape or trigger the change (Durand, 2004).

On the other hand, there are firms in the market with little or no ability to influence the process of change. These are faced with change strictly from the surrounding environment and do not trigger change themselves. According to Durand these firms are left with only two options, to stretch or re-deploy (Durand, 2004).
2.4 Technology for the music industry

“Forget squeezing millions from a few megahits at the top of the charts. The future of entertainment is in the millions of niche markets at the shallow end of the bitstream” (Anderson, 2004, p. 1)

It can be understood by reading this thesis that the music industry has experienced a hard time adapting to the new technology. The Internet brought troubles to the industry as peer-to-peer sharing grew and record sales dropped. Even so, the Internet has created a powerful new force, referred to by the Wired magazine editor-in-chief Chris Anderson as “The Long Tail” (Andersson, 2004).

As music is being made available online, customers seem to deepen their interest in music, thus moving away from the top-100 and searching for alternatives simply because it is now available. iTunes and other such stores offer a catalog far greater than any Åhlens, Tower Records or even a Virgin Megastore can match. According to Anderson (2004), an average record store needs to sell at least two copies of an old record a year to make it worth carrying. That will cover the shelf space rent for that specific CD. Naturally, record stores will only carry those CDs generating a profit. One should also keep in mind that a record store has a limited geographic area from which it can attract customers (Anderson, 2004).

The physical world is not enough. There is neither enough shelf-space to carry all the CD’s nor enough radio waves to play all the music created. This, however, is not longer a problem due to online stores. (Anderson, 2004). As the online stores do not have to pay any shelf space the concept of a “hit” becomes more blurry. For these stores, a song that might have been judged by the record label as a “miss” can still be carried as it means no extra costs for the store. Furthermore, it has the same margins as a hit.

Statistics have been gathered from the online-subscription service Rhapsody. The user pays a certain amount each month and thus receives unlimited access to all the music Rhapsody has available. Like other music retailers, Rhapsody has a huge demand for the most popular songs. The top 40,000 songs are listened to regularly, but the interesting conclusion drawn is that demand goes beyond the hits. Of all Rhapsody’s songs, 400,000 are listened to at least once a month. In fact, Rhapsody’s top 10,000 songs are streamed fewer times than the songs beyond the top 10,000 are. As soon as new tracks are added to the library, someone finds the music and listens to it. This is the long-tail in a nutshell, which includes back-catalog, live tracks and B-sides (Anderson, 2004).
Figure 2.3 The Long-tail (Anderson, 2004).

Seen above is a figure of the long-tail. The “head” refers to a small amount of hits, downloaded heavily, whereas the long-tail represents the less popular songs. However it is due to the quantity of these songs that the overall area of the long-tail is actually bigger than the one of the head. Thus, due to online stores people are able to find music they wouldn’t normally listen to. 22 percent of Rhapsody’s total sales consist of songs not available in traditional record stores (Anderson, 2004).

2.4.1 The three rules

Anderson (2004) gives the music industry three suggestions or rules which it should follow in order to benefit from the long tail.

1. Make everything available

“In a Long Tail economy, it’s more expensive to evaluate than to release. Just do it!”


The basic point of the long tail is that all music has to be available. It does not matter where the customers live or who they are. As soon as a song is uploaded, someone will find it and the music companies will enjoy the same margin as they would on a hit.

2. Lower the price

“Price according to digital costs, not physical ones.”

(Anderson, 2004, p. 176)

Anderson (2004) claims that online music is overpriced. Online stores such as iTunes normally do not sell whole albums but rather specific songs. Therefore, the record labels have to compensate for dropping album revenues by
charging a high price for single songs (Anderson, 2004). Even so, Anderson states that it is cheaper to sell a song online than as a physical product and that the pricing should be matched accordingly.

The reason for lowering the price is obvious – it would result in more sales. As Rhapsody dropped the price in half, sales increased three times (Anderson, 2004).

Furthermore, the record labels should use a flexible pricing meaning that old music should be cheaper than new music. The consumers could be pulled down the long tail by paying less for the songs not heavily downloaded (Anderson, 2004).

3. Help the customers find the music

Cross selling refers to the activities used to increase the number of products or services a customer buys from a firm (Kamakuraa, Wetedlb, de Rosad, Afonso Mazzon, 2002). This can be achieved by using database marketing, meaning that the firm build and monitor a database in order to keep track of what customers buy (Kamakuraa et. al, 2002).

The information gathered about customers purchasing pattern allow the firm to recommend relevant products to other customers with a similar taste. To explain this in relation to the music industry, imagine that many customers buying Britney Spears also buy songs from Pink. This information will be stored in the data-base and it will recommend Pink to anyone buying Britney Spears and vice versa.

By allowing customers to explore music which is recommended to fit their taste, online stores are able to drive demand down the long tail. This in turn may lead to increased sales as people find music online they would have a hard time finding in the physical world (Anderson, 2004).

As one can see from this article, the technological change has also brought opportunities to the music companies. Even so, we are curious about how the music companies are to create a competitive advantage in this period of technological change. In order to do so theories explaining what a competitive advantage is and how it is created will now be presented.

2.5 Competitive advantage

"Competitive advantage is at the heart of a firm’s performance in competitive markets.” (Porter, 1985, p. xv)

How does a company gain a competitive advantage (CA), and more importantly, how does the company sustain that advantage? Before one can answer any of these questions, one has to understand what competitive advantage is and why it is important. There are different views about what competitive advantage is and how it is achieved. Kotler, Armstrong, Saunders and Wong (2002, p. 357) defines the concept as “an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.”

Arguably, one of the most popular researchers on this topic is Michael Porter, who presents three different strategies on how to achieve competitive advantage. Porter claims that competitive advantage is how the organization uses the strategies in practice (Porter, 1985).
Barney (1991) and Peteraf (1993) claim that these strategies build on assumptions which do not hold true. As a consequence the authors have both contributed to another well respected view of CA, the resource based view (RBV).

Prahalad and Hamel (1990) have yet another theory of how firms may achieve CA. They claim that competitive advantage originates from the concept of core competencies.

In order to provide the reader with an understanding of competitive advantage the theories described above will now be presented in detail.

2.5.1 Competitive strategy

A competitive strategy is a broad formula for how the company will compete, what the goals are and how these goals will be achieved (Porter, 1980). On the broadest of levels the firm should consider four key factors when formulating its competitive strategy. These four factors are the company’s strengths and weaknesses, industry opportunities and threats, personal values of the key implementers and broader societal expectations. Before a business can develop a realistic and implementable set of goals and policies it need to take these four factors into consideration (Porter, 1980).

These factors will set the boundaries for what the company can successfully accomplish, and may be divided into two categories, internal and external.

A firm’s strengths and weaknesses are its assets and skills in relation to its competitors. This also includes financial resources, technological posture and brand identification. Strengths and weaknesses are included in the internal factors, and so are the personal values of the organisation. Personal values are the motivations and needs of the key executives and other personnel who are involved in implementing the chosen strategy (Porter, 1980).

The external factors are limited by the industry and the broader environment (Porter, 1980). External factors consist of industry opportunities and threats, and societal expectations. The competitive environment with its potential rewards and risks are defined by the industry opportunities and threats. The societal expectations consist of the impact government policies, social concerns and other things have on the company (Porter, 1980). This is shown graphically below:
2.5.2 Generic competitive strategies

According to Porter (1980), one can identify three different competitive strategies that can be used in order to outperform competitors in the long run: cost leadership, differentiation and focus.

2.5.2.1 Cost leadership

The goal of this strategy is to get an overall cost leadership in an industry. In order to gain cost leadership the organisation has to work hard with creation of efficient scale facilities, cost reductions from experience and avoidance of marginal customer accounts. Furthermore, the organisation should also work with cost minimization in R&D, sales force, marketing and other activities. The managers’ time will largely be devoted to achieving these different goals (Porter, 1980). Although cost leadership will be the thing that “drives” the strategy, quality and service must be taken into consideration as well.

Having a cost leadership position gives the company a higher than average return in its industry even though the company might operate in a very competitive environment. To actually achieve a cost leadership position the company might require different advantages, such as favourable access to raw material. It also often requires a high relative market share (Porter, 1980).

Once the strategy is in place the cost leadership will give higher margins, and will therefore allow the company to reinvest in new technology and facilities in order to maintain or enhance the cost leadership. These reinvestments could very well be a requirement in order to sustain the position as cost leader (Porter, 1980).
2.5.2.2 Differentiation

The second strategy is differentiation, which means that the firm differentiates the product or service into something that is seen as unique by the whole industry (Porter, 1980). There are a number of different approaches to differentiation, notably through brand image, design, technology and customer service among others. The most effective way for a firm is to differentiate in several dimensions. Even though differentiation is the main strategy of the firm, costs cannot be forgotten.

It might be hard for a company to achieve both a large market share and differentiation, since differentiation is associated with exclusivity and therefore it might not be compatible with a large market share. If the activities, such as product design, customer support or high quality materials required to gain the differentiation are expensive, there will be a trade off with cost leader position in order to achieve the differentiation (Porter, 1980).

2.5.2.3 Focus

The third strategy is focus, among other things, the focus could be on a certain segment of the market, a geographic location or a product line. The difference between the focus strategy and the previous two strategies is that while cost leadership and differentiation are aimed at achieving the objectives throughout the entire industry, the focus strategy is concerned with a particular target (Porter, 1980).

Every policy within the organisation should focus on the fact that the company only targets a small part of the market. This means that the organisation should be able to serve this small segment more efficiently and effectively than its competitors, which are probably competing on a broader market. This is the basis of the entire focus strategy (Porter, 1980).

The disadvantage of the focus strategy is that there is a limit to the size of the market shares that are achievable, and there might be a trade off between sales volume and profitability (Porter, 1980).

One must realize that the generic strategies require an organization to possess different sets of resources and skills in order to successfully implement them. There is also a need for different organizational arrangements and control procedures. Different leadership styles might also be required.

The most important thing to consider for firms is that in order to become successful they usually need to choose one strategy and stick with it (Porter, 1980).

For a long time, Porter’s framework to understand sources of competitive advantage has been the predominant view in this research field. In more recent years other competitive advantage theories have emerged, such as the resource based view and the concept of core competencies.

2.6 Resource based view

Porter’s framework suggests that organizations achieve competitive advantage by employing strategies that make use of their internal strengths as a response to environmental opportunities. Most research in this field either focuses on a firm’s external opportunities and threats, its internal strengths and weaknesses or a combination of both in order to choose a strategy (Barney, 1991).
Another type of competitive advantage presented by Barney (1991), is *sustained competitive advantage* (SCA), which means that the competitive advantage is sustained over time. According to Barney, Porter’s research somewhat falsely assumes that firms within an industry or a strategic group are identical in terms of the strategic resources they control and strategies are built upon. It further assumes that if an industry would develop resources heterogeneity this condition would not persist. This is due to the resources that organizations use to implement their strategies are highly mobile, meaning that they are easily transferable between firms.

Barney (1991) states that the resource based view, uses two assumptions which directly contradict the above assumptions. Peteraf (1993) includes these assumptions as two out of four cornerstones of the RBV. First, a firm’s strategic resources within an industry can be heterogeneous across firms (Barney, 1991). Peteraf (1993) states that the implications of heterogeneity is that it enables firms with varying capabilities to compete in the marketplace and that firms with superior resources will earn profit. Peteraf further claims that the existence of heterogeneous resources within an industry indicates that superior resources are in limited supply.

Second, the RBV assumes that these resources are not perfectly mobile across firms as heterogeneity can last for a long time. Such immobile resources are those with more value within the firm than outside the firm (Dierickx & Cool, 1989). Another example are resources with high switching costs, meaning that the firm possessing the resources has a greater claim on them (Montgomery & Wernerfelt, 1998).

There are certain resource attributes that can be used as empirical indicators of how heterogeneous and immobile these resources are and how they generate SCA. Not all resources have the potential to become a source of SCA. According to Barney (1991), to achieve this potential the resources need to have the attributes of being *valuable, rare, imperfectly imitable* and *non-substitutable*. Peteraf’s (1993) uses the terms four cornerstones when describing the RBV. These cornerstones encompass Barney’s attributes and the two assumptions he uses.

Barney’s assumptions and attributes concerning the RBV are displayed below.

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**Figure 2.6 Resource Based View (Barney, 1991).**
2.6.1 Valuable and rare resources

Resources are valuable when they make it possible for a firm to use them when implementing strategies that improve its effectiveness and efficiency. Barney (1991) compares this attribute in the RBV with the environmental model. While the latter suggests that as long as the resource exploit opportunities and/or neutralizes threats it is valuable, the resource-based view suggests what additional feature the resource needs to possess if it is to generate sustained competitive advantage (Barney, 1991).

A common resource often needed when setting up strategies is managerial talent (Hambrick, 1987). If this resource is not rare it can be used by many companies and thus it does not provide any competitive advantage, even though it is valuable. The degree of rarity in a resource is difficult to assess (Barney, 1991).

2.6.2 Imperfectly imitable resources

Valuable and rare resources can only be considered a part of SCA if no other company can acquire them. According to Barney (1991), these resources are imperfectly imitable if they have one or a combination of three conditions:

- Dependent on unique historical conditions,
- The link is causally ambiguous,
- The resources are socially complex.

Whereas Porter (1980) says that a firm’s performance is not dependent on its unique history, RBV claims that firms are not only historical and social entities, but that the firm’s ability to obtain and utilize its resources is dependent on its temporal location. For example, historical experience gained by employees cannot be obtained later in time, and thus this experience is imperfectly imitable.

When competitors cannot determine which resource another firm is using to construct its successful strategy, they find it difficult to imitate such actions. When a firm cannot clearly understand the link between a competitor’s resources and its SCA it is referred to as causal ambiguity (Barney, 1991).

The final condition of imperfectly imitable resources is when an organization’s resources are socially complex. Examples may be found in interpersonal relationships among managers in a firm, a firm’s culture or a firm’s reputation among suppliers or customers. These resources are difficult to systematically manage and influence. When SCA is based on such socially complex resources, they are imperfectly imitable (Barney, 1991).

2.6.3 Imperfectly substitutable resources

Even if a company’s strategy is based on a resource or a bundle of resources that are valuable, rare, and imperfectly imitable it is still not a source of competitive advantage if it can be substituted. For example, a top management team of one firm may be difficult to duplicate exactly but competitors can create a similar management team. So even if these teams are different they may still be strategically equivalent and thereby be substitutes for one another. In other words, the resource’s substitutability is a matter of degree (Barney, 1991).
As one can understand from the RBV, the source of competitive advantage originates from the firm’s internal resources. A similar approach of how to obtain SCA is discussed through the concept of core competencies which, in line with the RBV, emphasize on none imitable resources and the fact that SCA is created from internal resources.

### 2.7 Core competencies

According to Prahalad and Hamel (1990) many companies are struggling to identify the most powerful way to prevail in a global competition. This is somewhat supported by Granstrand, Patel and Pavitt (1997) who claim that the technological change plays a very important role in today’s business climate. Furthermore, Prahalad and Hamel state that there are a number of examples of corporations that have been well prepared to become a major force in their industry but failed to do so because the management failed to recognize the firm’s core competencies (Prahalad and Hamel, 1990). This means that in-house competencies are important to consider since they are a tool to help managers deal with the changing business environment.

These in-house competencies can be seen as core competencies and are by Prahalad and Hamel (1990), broadly defined as all the knowledge within the organization. This definition is supported by Chan (2002). Johnson, Scholes and Whittington (2005), on the other hand, narrow down the definition to “activities that underpin competitive advantage and are difficult for competitors to imitate or obtain” (Johnson et. al, Exploring Corporate Strategy, 2005, p 119). A similar term to core competence is capabilities. Grant (1991) defines a capability as the capacity of a management team to perform an activity or a task.

As mentioned, Porter is among the most cited researchers in the field of competitive advantage but he has also been criticized for his theories. Prahalad and Hamel (1990) do not agree with Porter’s view on how to gain CA through the generic strategies. Instead, they claim that in the short run a company’s competitiveness originates from the price and performance of the current products. The problem is that more and more companies are competing with the same set of tools. This means that the product cost and quality are more standardized, which in the end makes the hurdles of competition smaller.

In the long run competitiveness comes from the organization’s ability to produce products quicker and at a lower cost than its competitors. This is done with the help of the core competencies. The core competencies also help the organizations to come up with unanticipated products (Prahalad and Hamel, 1990). The most important part is the knowledge of “how to coordinate diverse production skills and integrate multiple streams of technologies” (Prahalad and Hamel, 1990, p. 82). Core competencies are also, in general, very important organizational skills that form the base of the collection of products, which are in turn the building blocks of the various businesses (Chan, 2002).

However, core competencies are not only organizational; they are also technical and commercial skills (Pennings, Cobbenhagen, & den Hertog 1996). The core competencies will help the company to gain an advantage but the real advantage lies in the hands of the management. This advantage is determined on the management’s ability to “consolidate corporate wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities” (Prahalad and Hamel, 1990, p. 81). Furthermore, Prahalad and Hamel argue that managers who claim an inability to build core competencies for reasons such as keeping the budget should seriously consider the possible ramifications of this decision.
If the resource is the employees or the management team, the capability, or core competence, is how these individuals use their knowledge. Grant (1991) argues that the capabilities are the main source of the firms competitive advantage, whereas the resource is the source of an organization’s capabilities. This discussion is clearly related to the RBV’s imperfectly imitable resources described above.

As one can understand, the core competencies affect the entire organization. In order to get a clearer picture of how this is done, Prahalad and Hamel (1990) describe the organization as a tree. In this model one can see the core competencies as the roots and the end products as leaves. In between there are branches which represent core products and strategic business units. This is shown in the picture below:

![Diagram of Competencies](image)

2.7 The Roots of Competitiveness (Prahalad & Hamel, 1990)

It is important that individuals in the firm share the competencies so they could be enhanced. Another advantage of competencies compared to physical assets is that competencies do not lessen with use. Having said this, it is important that the knowledge is used on a regular basis otherwise it might fade (Prahalad and Hamel, 1990).

### 2.7.1 Identifying core competencies

There are a few tests that companies can initiate in order to identify their core competencies. A core competence gives the organization possible access to a wide selection of markets (Prahalad and Hamel, 1990). For example, if a company specializes in producing engines, this competence might give that organization access to many different markets such as car, motorcycle, airplanes and so on. A core competence should also play an important
role when it comes to the end products perceived value by its customers. Finally, a core competence should be hard to replicate. The core competence will be very hard to copy if it is a mix of technologies and skills that are present within the organization (Prahalad and Hamel, 1990). As one can see, this goes in line with the RBV’s view on imperfectly imitable resources.

### 2.7.2 Core products

The link between the core competencies and the end products are called core products (Prahalad and Hamel, 1990). Core products are made up of the components that create value for the final products. Again one can take the example of an engine producer. Their core product is the engine which will help the producer to create value for the end product which can be a car or a motorcycle. The concept of core products can help firms to differentiate between market share in end products and the share that they have in their core product (Prahalad and Hamel, 1990).

There is a big difference in the way competition is played out in the different concepts of core competencies, core product and end product. That is why it is important to set apart these different concepts (Prahalad and Hamel, 1990). In order to sustain a position as leader in the long run the firm probably needs to be successful in all three steps.

### 2.7.3 Strategic architecture

Prahalad and Hamel claim that a strategic architecture provides a guide for the firm about which core competencies they should focus on in the future. Prahalad and Hamel also believe that managers should spend considerable time developing a strategic architecture that identifies the objectives for building competence within the organization. If an organization can put focus on learning internally or from alliances it could help the organization to lower the investments that are needed to protect a market leader position. To make this work smoother, it is important that the firm knows what competencies it is looking for. It will be much easier to find suitable partners and alliances if the organization is aware of what it is looking for (Prahalad and Hamel 1990).

The ever-present question is of course what a strategic architecture looks like. There is not one universal answer to that question; rather that it will look different for every firm. According to Prahalad and Hamel a good way of developing a strategic architecture is to again look at the organization as a tree.

The frame of reference is hereby completed. In order for the reader to grasp the theories, we will now provide a short summary of the chapter.

### 2.8 Frame of reference summary

The definition of technological change has developed over the years. In the beginning it was concerned only with the change of an industrial production technology, while it later recognized the importance of human interaction. Narayanan (2001) describes it as product technology (the outcome of a firm) and process technology (how a firm conducts business). The characteristics of technological change are then described with the help of the different phases of the S-curve and the concepts of dominant design, competence destroying, and disruptive technologies. With this knowledge we explain how a firm can manage
technological change by setting up different technology strategies which guide the firm and determine whether it should drive or adapt to the technological change.

As we are investigating the music companies we also presented contemporary research on technology specific for the music industry, namely the Long Tail.

Competitive advantage is, according to Porter (1980) achieved through formulating competitive strategies, or by the use of generic strategies (Porter, 1985). Barney (1991) believes that Porter's assumptions that resources are homogenous and mobile are faulty. Instead, Barney presents the resource based view, which provides empirical indicators to test if a firm’s resources are competitive. Closely linked with the RBV is the concept core competence which also should be difficult to imitate and in addition might provide the firm with a wide selection of markets.
3 Research questions

In this chapter the research questions which will guide the study are presented.

This thesis will attempt to investigate part of the music industry by focusing on the four major record companies in Sweden (Universal, SonyBMG, Warner Music Group and EMI).

The following research questions will present a clear foundation which will guide our research on the music industry’s method of handling technological change and creating their sustainable competitive advantage.

- To what extent are the music companies driving and/or adapting to the technological change?
- How are the music companies creating a sustained competitive advantage?
  - Which are the music companies core competencies and competitive resources?
4 Research method

This chapter presents different research methods and designs, and indicates how data can be collected. It also explains why each is the most appropriate and how they are used.

4.1 Choice of subject

The authors believe that the current status of the music industry is tumultuous, as new technology, such as the Internet and data compatible mobile phones, has changed the way music is distributed to the consumer. We find it interesting to research how the music companies face this technological change in order to create a sustained competitive advantage and claim that this study can be used in order to gain knowledge on how to adapt to technological change in other industries as well.

4.2 Choice of method

When determining how to conduct research there are two major methods; qualitative and quantitative which one can use. These methods can be used either separately or combined. In order to get the most accurate result one should use the method that is most suited to the purpose of the thesis (Cantzler, 1992).

The two approaches mainly vary when it come to gathering and evaluating data. Quantitative method is focused on statistical instruments and how to prove correlations between different variables (Morse & Richards, 2002). It can be defined as an empirical process of creating an objective test to support or refuse a claim (Mertens & McLaughlin, 1995). Thietart (2001) further argues that a quantitative approach is used to focus on numbers instead of words as it is in the qualitative approach. Quantitative researchers usually assume a single objective world and independence from the variables under study. It attempts to act in value-free and unbiased manners and to use impersonal and formal and rule-based text (Lee, 1999).

The qualitative approach, on the other hand, is characterised by a relationship between the interviewer and the respondent (Holme & Solvang, 1997). This research method is usually built upon interviews which foster an interactive environment where the interviewer and the respondent have a dialogue through follow-up questions (Cantzer, 1992). The qualitative study aims to investigate a wide range of interconnected activities, experiences, beliefs and values of people in terms of their context (Daymon, 2002; Zikmund, 2000). This approach is used for a deeper understanding of the area of research (Merriam, 1998). Qualitative research, assumes that “multiple subjectively realities” (Lee, 1999, p.6) exist together, and commonly assume that interaction with the studied phenomena. Mertens & McLaughlin (1995), referring to Patton (1990), write that it should be used when the individualized outcome is emphasized and in-depth information is needed.

In order to best answer the purpose we need to develop a deep understanding of how the music companies plan to react on the environmental changes. Thus, we will accumulate this knowledge through interviews with relevant companies and individuals which will be presented in detail later in this chapter. It would be most difficult to evaluate these reactions by statistical methods since it is impossible to measure the thoughts of the interviewed persons, and therefore a qualitative method will be used. What could be considered as both positive and negative effects of the qualitative approach is that qualitative research-
ers apply their own subjective or biased interpretations, as they use a personal, informal and context-based rhetoric (Creswell, 1994). We are aware of the risk of being subjectively biased, we can not however, provide any explicit solution.

### 4.3 Research approach

According to Damer and Freytag (1995), there are two approaches one can choose when searching for empirical data: **deductive** and **inductive**. The deductive (proving) approach is where the empirical data is structured and planned according to the present theoretical models. The inductive (discovering) approach begins with the collection of empirical data and as the research continues the choice of suiting theory and models is made. However, Thomas W. Lee (1999) when referring to Creswell (1994), informs us that deduction is applied in limited cause-effect relationships, in other words using the quantitative method. Induction is applied for qualitative or context-specific methods.

Thus, for this thesis, we will use inductive approach.

### 4.4 Research design

Damer and Freytag (1995) explain that these two approaches may be exampled by two different designs a researcher can choose: **grounded theory** or **case-method**.

The grounded theory, introduced by Barney Glaser and Anselm Strauss in 1967, is characterized by encouraging researchers to use their imagination and creativity, developing theories related to their studies (Locke, 2001). Damer and Freytag (1995) explain the grounded theory as a constant comparing method between existing theory and empirical findings. The researcher takes a *phenomenological* approach, determining what theories to use after the first data collection has been made. Then a new understanding emerges as the data is interpreted, and with that new data collection is conducted. Damer & Freytag (1995) illustrate this by the example of two companies considering a form of co-operation, perhaps even a fusion, but are uncertain of the pros and cons of different forms of co-operation. The problem is more of an open character, not determined before the investigation occurs.

The case-method means that the researcher begins with determining what theories and models to use before the empirical study is conducted. It is appropriate to use this method when the problem is stated and one has determined what theories are interesting in the context (Damer & Freytag, 1995). Bassey (1999) explains the method and refers to, in his mind, the leading researcher in the social science of case study, Robert Yin. Yin (2001) defines a case study as an empirical investigation of contemporary phenomenon in real-life context, especially when the boundaries between phenomenon and context are not clearly evident. Bassey (1999) further denotes that the case study begins in a world of action and further contributes to this action. As we could only obtain interviews with one person at each company, it can not be considered a case study. However it follows the logic of a case study, as we start with the problem, then investigate the theory. This is followed by interviews to test how the music companies react to the technological change and finally an analysis is conducted.

### 4.5 Interview method

According to Yin (2003) interviews are the most common way to collect empirical data in a qualitative approach. Marshall and Rossman (1999) agree by stating that in-depth interview-
ing is the primary method of use for qualitative researchers. Kahn and Carnell (1957, p. 149) describe an interview as “a conversation with a purpose”. A more modern and specific description is made by Yin (2003), who states that an interview is a guided conversation with a respondent and it aims to gain as much knowledge as possible regarding an event or a person.

Traditionally, there is a differentiation between two different types of interviews; the unstructured and the semi-structured (Thietart et al, 2001). In the unstructured interview technique the interviewer “guides” the interviewee. He introduces the general topic without directing the respondent’s comments. The interviewer limits his interventions to the ones that generate discussion, assist understanding and so on. In the semi-structured technique the difference stated by Thietart et al (2001) is that the interviewer introduces predefined topics.

The main strength of in-depth interviews is that one can obtain large amounts of data in a short period of time (Marshall and Rossman, 1999). Another advantage is the possibility of immediate follow-up questions and clarifications. However, there are also some disadvantages with in-depths interviews. A major limitation is that the respondents might not be comfortable with, or willing to share, all the information that the interviewer is looking for. It also requires skills regarding personal interaction and framing questions (Marshall and Rossman, 1999). This is needed in order to guide the interviewees towards the relevant the research.

4.6 How the interviews were conducted

As previously stated, the focus of this thesis is on the major four music companies. Initially we aimed at conducting interviews with the top management of these companies, but we learned, however, that all four companies have employed a person working specifically with digital music. Anders Livåg (EMI), Michelle Kadir (Universal), and Victor Fredell at SonyBMG all have the position New Media Manager, whereas Warner Music Group has employed Jacob Key as Business Developer devoted to the digital area. All of these managers are relatively newly appointed, between six months and two years, and in all companies they are working alone in each department. This fact is unfortunate in the sense that we were unable to compare strategic decisions with additional persons within the digital music distribution in each company.

In addition to the music companies we intended to interview the the main distributor of digital music, iTunes, and what we believe to be the most important distributor of mobile music in Sweden, 3. Concerning the latter company we conducted the interview with the Nordic Commercial Manager, Ulrik Cahn, who is responsible for all services, such as news, sports and music provided by 3. With iTunes however, we could not obtain an interview as the manager in question is situated in London, and is responsible for nine countries. In addition no phone number or email address to the company could be found. Futhermore, after we asked the music companies for a contact at iTunes they replied that they could not offer us one. All the interviews with the music companies took place in Stockholm where the respective head offices of the companies are located.

In order to gain a deep knowledge concerning the music companies, we will also conduct two additional interviews with people not associated with the music industry, but still knowledgeable within the media industry. We met with Robert Picard – director of the Media Management and Transformation Centre at Jönköping International Business
School (JIBS) and Kris Serien, Marketing Director at Warner Home Video in Stockholm. We believe that these interviews will bring a different opinion about how the music industry has handled the technological change compared to those expressed by the music companies. Moreover, we believe that these interviews will provide us with a more objective result.

These interviews can, according to Marshall and Rossman (1999) be seen as elite interviews. Elite interviews, as the interviewees were chosen because of their expert knowledge in topics that are highly relevant to the research. The benefits are that these elites can provide an overall view of the company and valuable information concerning their specific field due to the position they hold. These interviews also have disadvantages, one being the difficulty of making an appointment due to their busy schedule. Another is that these people are used to being in control, thereby turning the interview around and elaborate on topics more of their own interest.

We prepared a questionnaire containing broad areas with a few questions each. We asked the same questions to all the music companies, which can be found in Appendix B. The was done for 3 but naturally the questions were different from the ones asked to the music companies. These can be found in Appendix C. Lastly, the questions to Robert Picard and Kris Serien are located in Appendix D.

The three different sets of questions were all designed to generate discussion rather than just short answers, therefore using the semi-structure interview method. In-depth interviews were used to gain as much knowledge as possible in the limited time the interviewees were available which was approximately one hour for each interview.

In order to help focus on the respondents body language and answers (Svenning, 1997), we used a tape recorder. It also made it easier to guide the interview, assisting us to stay focused on the interviewees’ responses. Svenning (1997) also discusses this, stating a recording device assists the interviewers to ask follow-up questions and thus provides a deeper discussion. However, notes were taken during all interviews as back-up, but all three researchers alternated so at least two interviewers were fully focused on the responses.

A drawback with using a tape recorder might be that the interviewees feel uncomfortable. However, none of the individuals claimed to have problems with having a tape recorder present.

4.7 Data collection

There are two categories of data collection, primary and secondary data (Lekwall & Wahlbin, 2001). Both primary and secondary data should be used to obtain a valid research (Lekwall & Wahlbin, 2001). Primary data is information collected first hand, in this thesis through interviews. Secondary data is obtained from previously written sources such as books, newspaper articles and databases. We have mainly used resources from the Internet, the Jönköping University Library and databases accessed through the same library. Our frame of reference is based on secondary data.

The linkage between our empirical findings and theoretical framework is discussed in the analysis part of the thesis.
4.8 Data presentation

The data from the interviews with the music companies will be presented under common headlines instead of being divided up by the respective companies. This will make it easier for the reader to see the similarities and differences between the different companies. We also believe that this will limit the repetition of information which would probably have occurred if the interviews were presented separately.

The interview with 3 will follow the findings from the music companies and finally the opinions of Robert Picard and Kris Serien will be presented.

4.9 Data analysis

The data collected from the interviews will be examined in light of the theories presented in the frame of reference. This structure of the empirical findings guides the reader and helps the authors display a logical path, leading to the analysis and conclusion.

Bryman & Burgess (1999) discuss how the data should be presented. As we recorded all our interviews, the data needs to be transcribed. This provides the researchers with a better overview of what was said during the interviews and assures that no information was lost. The process continues with coding and systemizing the information (Bryman & Burgess, 1999) and structuring the data in order to interpret it more easily (Holme & Solvang, 1997).

In empirical findings, we have structured the data by first introducing the reader to the companies, followed by presenting the findings from the interviews accordingly with the structure of the interviews’ main topics.

In our analysis we have followed the suggestion of Silverman (2001) and reviewed the data with respect to our research questions. The interpretation and organization of the empirical findings is thus based on our research questions.

4.9.1 Trustworthiness and critique of method

Academic research requires a degree of quality to be regarded as trustworthy. Quality is described by Gummesson (2000) as the reader’s interpreted confidence and trust in the research. Yin (2003) states that reliability and validity are the two most common tests used to measure the quality. Reliability measures the extent to which other researchers could identically reproduce the research with the same method. Validity concerns whether the research assesses what is intended and if it actually measures the truth. Furthermore, Gummesson (2000) discusses the importance of objectivity to minimize biased conclusions.

Trade-offs will always exist and thus a perfect research design is rarely seen (Marshall & Rossman, 1999). We argue that we do enhance the trustworthiness of this research as we continuously keep the concepts of reliability and validity in our minds throughout the thesis.

Even so we are aware of the fact that the interviewees at the music companies are biased as they probably try to present their companies in the best light possible. Furthermore, due to time restrictions we have not been able to interview more than one person at each company.

All interviews, except for the ones with Picard and Serien were conducted in Swedish and translated into English. This could be seen as a problem since information may be lost in
the translation. We claim, however, that this is not a major issue since the interviewees frequently used English terms in the interviews. Furthermore, we believe that we possess satisfactory English skills in order to provide an accurate translation.
5 Empirical findings

The empirical findings will be presented as follows: first, relevant background information concerning the major four companies and 3 will be presented; then the findings from the interviews with the music companies will be displayed. This will be followed by the interview with 3 mobile; then the empirical findings will be finalized by the interviews with Robert Picard and Kris Serien.

5.1 Company backgrounds

As the empirical findings will be heavily based on the interviews conducted with the major four music companies and 3, these companies will now be presented in order to provide the reader with relevant background information concerning the companies.

5.1.1 EMI Music

EMI Music is part of the EMI group company, and its head office is in London. It is one of the four major record companies in the world, with nearly 7000 employees and it is present in 50 countries with licensees in another 20. EMI was founded in 1897 which makes it the oldest record company in the world. EMI record labels include among others EMI, Virgin, Angel and Capitol. These labels sign and develop artists and help with promotion, marketing and distribution to retailers (www.emigroup.com/About/Overview/music.htm).

EMI Sweden was started in 1903 and since the late 1990s, its head office has been in Östermalm, Stockholm. Today EMI Sweden employs around 50 people (www.emimusic.se/iuware.aspx?pageid=181).

A personal interview was held on Tuesday the 7th of November 2006 at EMI’s office in Stockholm with Anders Livåg, the New Media Manager at EMI Sweden.

5.1.2 Universal Music

Universal Music (Universal) is the market leader when it comes to global sales and it has an estimated 25, 6 percent of the market share. Universal’s global operations cover the development, sales, marketing and distribution of music. This is achieved with the help of licences and joint ventures in 75 countries, representing approximately 98 percent of the music market. Furthermore, universal is number one in the US, UK and several other countries. (http://www.universalmusic.com/Overview.aspx).

The strength of Universal Music lies in its labels. Universal has labels that represent many different genres, some of the most famous ones are Interscope, Def Jam Music Group, Barclay and Universal Motown Records Group (http://www.universalmusic.com/Overview.aspx).

Universal Music of Sweden is a subsidiary of Universal Music, and has approximately 20 percent of the Swedish market and around 40 employees. Its strongest label is Stockholm Records with some high profile Swedish artists (http://www.universalmusic.se/foretagsinfo.php).

We conducted an interview with Universal Sweden’s New Media Manager, Michelle Kadir on the 8th of November 2006 at Universal Sweden’s office in Stockholm.
5.1.3 Warner music group

Warner Music Group (WMG) is the only music company that is publicly traded at the New York Stock Exchange. It has more than 4000 employees and operates in more than 50 countries worldwide through licensees and affiliates (http://www.wmg.com/about/).

WMG also includes Warner/Chappell music which possesses more than one million copyrights worldwide. Hence, it is one of the world’s leading music publishers. The head office is located in New York, USA while the only office in Sweden is situated in Stockholm (Wikström, 2006).

The interview with WMG was conducted in Stockholm on the 16th of November 2006 with Jacob Key, WMG’s business developer for Scandinavia. In short, he works with everything concerning the digital distribution of music, including the development of new business models, finding new partners and introducing new ways of thinking.

5.1.4 SonyBMG

SonyBMG is another of the major four. Internationally it possesses several large, well respected daughter companies such as Columbia Records, Epic Records and Legacy Recordings. These companies were once a part of SonyBMG but due to rapid growth the company decided to reorganize itself into these four companies (http://www.sonymusic.com/about/history.html).

In Sweden SonyBMG Music Entertainment was founded in January, 2005 through a merger between BMG Sweden AB & Sony Music Entertainment AB. The German media company Bertelsmann and Sony Japan both have 50 percent ownership in the company (http://www.sonybmg.se/company.aspx). In Sweden the company has one office in Gothenburg and another one in Stockholm with around 40 employees.

Our interview took place in Stockholm on the 16th of November 2006. As the New Media Manager Victor Fredell, is working at the Stockholm we naturally chose to conduct the interview there.

5.1.5 Mobile operator 3

3 is owned by the Chinese company Hutchison Whampoa. In Sweden and Denmark the company is divided by Investor which owns 40 percent of the company, and Hutchison Whampo which controls the remaining. 3 considers itself the pioneer of the third generation (3G) mobile phone telecommunication technology. In December 2000, 3 was granted one of the four licenses for the 3G technology by Post- och Telestyrelsen in Sweden. In addition to Sweden, 3 is also present in Denmark, Norway, Great Britain, Italy, Austria, Ireland, Australia and Hong Kong (http://www.tre.se/templates/page.aspx?id=379).

The new 3G technology has an extended bandwidth compared to earlier mobile technologies, making it possible to send and receive motion pictures, multimedia and music (http://www.tre.se/templates/page.aspx?id=379). Due to this fact, 3 can offer a music service which allows the user to find and download music directly to his or her mobile phone (http://www.tre.se/templates/Sporg3_03.aspx?id=12718).

We conducted an interview with Ulrik Cahn on the 5th of December 2006 in Stockholm. Cahn is 3’s Nordic Commercial Manager and is responsible for all services including news,
sports and music provided by 3. Cahn has through his daily working tasks developed a close relationship with the music companies.

As the companies of interest now have been presented, the empirical findings will continue by focusing on the data obtained through the interviews conducted with the mentioned interviewees.

To make it easier for the reader to follow the discussions below, we will summarize the dates when the interviews were conducted and later on only refer to the interviewee’s by their last name and company.

Anders Livåg, EMI, 2006-11-07
Michelle Kadir, Universal, 2006-11-08
Victor Fredell, SonyBMG, 2006-11-16
Jacob Key, Warner Music Group (WMG), 2006-11-16
Ulrik Cahn, 3, 2006-12-05
Robert Picard, Media Management and Transformation Centre at JIBS, 2006-12-12
Kris Serien, Warner Home Video Nordic (WHV), 2006-11-06

5.2 Interview findings from the music companies

All the major four are multinational companies. However, as this thesis is aimed at the Swedish music market, we wanted to know how independent the respective branches in Stockholm are. All interviewees replied in the same manner. They are controlled by the head quarters, but are still relatively free to exercise their own ideas on the local Swedish market. This means that major actions can not be taken in the Swedish branch without having the approval of the head office (personal communication, Livåg, 2006-11-07; Kadir, 2006-11-08; Fredell, 2006-11-16; Key, 2006-11-16). However, as Key points out, WMG’s American head office understands that an American concept might not work all over the world and therefore the company needs to adapt to the local culture.

5.2.1 Consequences of technological change

All the major four have suffered in the last five years. Kadir explains that Universal had 150 people working at the office in Stockholm two years ago, today there are 38 employees. The same goes for EMI, four years ago the Stockholm office employed over 100 people, but today only 35 remain. WMG and SonyBMG explain that their organizations have also been shrinking.

Needless to say, this fact is due to the decreasing record sales. As Key points out:

“For a while you could sign anyone and the record would sell 30,000 copies. Nowadays we have to struggle to sell 10,000” (Key, personal communication, 2006-11-16).

Key also says that WMG is paying more attention to already established artists and compilations nowadays due to decreased sales. With that said, the interviewees are not convinced that the plummet in sales is solely due to increased downloading. Livåg at EMI claims that
Empirical findings

there are numerous other entertainment forms which compete for the consumers’ money nowadays, adding that:

"Today it might be enough for people to listen to music; they don’t necessarily have to buy it." (Livåg, personal communication, 2006-11-07).

He further explains that music has become a part of the everyday life. People are listening to music more than ever before, but do not have to buy it. What is more, mobile phones, DVDs and videogames are all indirect competitors to the music industry, a fact which is reiterated by Key at WMG.

Furthermore, as the Internet has made communication easier, people are becoming more aware nowadays meaning that the personal image is of great importance. Before this image was easily created by using music which is not enough today, rather more attributes such as mobile phones and an impressive DVD collection are used (Livåg, EMI).

Another thing that the technological change has increased is peoples’ bad perceptions of the music companies. Kadir at Universal explains that:

“*We are seen as the big bad wolf*” (Kadir, personal communication, 2006-11-08)

But Kadir states that this perception is not true. There are reasons why artists want to be signed by a major label as they gain the support of a firm with great resources.

Key at WMG agrees, stating that the music companies are seen as the bad boys. For example, people seem to believe that music is too expensive.

“*People belive that if a CD costs 179 SEK the music companies share is 80 percent, that is not true*” (Key, personal communication, 2006-11-16).

He, as the other interviewees, explains that WMG itself does not work actively to improve the image of the company but uses the IFPI as a spokesman.

Fredell at SonyBMG is of the opinion that people do not have sufficient knowledge to judge the music labels. People seem to believe that the companies don’t have any costs for digital files which is a misconception. Because no standards exist when it comes to file formats for different MP3-players and mobile phones, SonyBMG needs to deliver more than one hundred different formats of music files, such as acc and wma, which bring huge costs.

Livåg at EMI expresses a similar opinion. He states that if there was no need for CD production the company’s cost would decrease. However, since the CD is still a very important product, it has to be produced and the production of the CD incurs great costs no matter how many CDs are sold.

The major four are also consistent when discussing the CD’s future in the light of technological change. All the companies are of the opinion that it will survive but not in the same shape as today. Livåg at EMI explains that the company has changed its name from EMI Records to EMI Music in order to highlight the fact that it no longer launches records, but music.

Key at WMG simply states that:

“*As long as the CD is profitable it will be offered.*” (Key, personal communication, 2006-11-16)
Kadir explains that Universal is trying to make the CD more valuable for the customers. This can be done by offering a new CD with an artist together with the greatest hits collection of the same artist.

EMI is paying even more attention to adding extra value to the CD. Livåg explains that the company is trying to separate the two distribution methods – the digital and physical – by offering the CD as the somewhat luxury choice of music. It includes providing the customer with a nicer booklet, DVDs as part of the CD and making the CD of a certain artist a limited edition. EMI also works with the concept of open disc, meaning that the customer, by putting the CD in the computer, gets access to extra material such as live performance clips. This is something that EMI strongly believes in and will work more with in the near future. Livåg is stating that people who are used to buying CDs are not very price sensitive, meaning that in the future the company can probably charge a higher price on the added value CDs. On the other hand, the generation used to downloading music should be able to continue to do so and enjoy a lower price (Livåg, EMI).

### 5.2.2 Core competencies

During the interviews with the music companies one could identify a few things that they claimed to be good at. Livåg at EMI says that production, promotion and marketing are EMI’s core competencies. Similar responses came from the other music companies.

When discussing the possibilities of new ways to promote and market their products all the music companies claimed to have their own websites and to also use the websites of their artists. The recent success of iTunes brought forward the question whether the music companies themselves had thought of creating their own online stores (personal communication, Livåg, EMI; Kadir, Universal; Fredell, SonyBMG; Key, WMG).

Livåg says that EMI has never been thinking about starting an online store. The reason for this is that EMI has recognized that selling music is not one of their core competencies. Similarly, Kadir says that Universal focus on producing the music and will leave the selling part to the retailers. She admits though that in the past, all the actors within the music industry had their place in the value chain, where as it is becoming more diffused.

Key at WMG agrees with Kadir and Livåg but gives a somewhat different reason for not launching an online shop. He states that WMG is not a brand recognized by the consumers and it would cost too much money to create such a brand. Kadir agrees and states that:

“The artists are our brand” (Kadir, personal communication, 2006-11-08).

An additional reason is that WMG has a signed agreement with major retailers such as iTunes, CDON and 3 and the company does not want to interfere with them in the retailer market. As Key puts it:

“You don’t want to bite the hand that feeds you” (Key, personal communication, 2006-11-16).

Key further explains that it would be a huge process for the company to sell directly to the end consumer. Even so, he states that the company might consider this in the future, because in one way WMG does sell directly to the end consumer. In some TV-spots, codes for ring tones are advertised so that consumers can send SMS and receive the ring tone. (Key, WMG).
Empirical findings

This is also done at Universal according to Kadir. Fredell claims that SonyBMG would not start an online shop today even if iTunes did not exist. Even so, the company has been experimenting with an online music shop, called Connect. SonyBMG also had a format called a-track which was used on the mini-discs. However, this format never appeared in the digital music world as MP3 was already greatly popular format when Sony planned to launch the a-track. As mentioned earlier the music companies have to provide over 100 formats on each digital file. SonyBMG would prefer to sell MP3 to everyone since it is so well known and familiar all over the world (Fredell, SonyBMG).

5.2.3 Adapting to the technological change

All the interviewees agree that the face of competition has changed. Today there are many new ways for the music companies to compete in a digital format. Even though the market and the way to compete have changed the interviewees still believe that their biggest competitors are the other major music companies (personal communication, Livåg, EMI; Kadir, Universal; Fredell, SonyBMG; Key, WMG).

The major music companies started working with the “new” digital market segment at different stages. Livåg at EMI says that the company was at the forefront among the music companies when it came to working with the digital technology. This is exemplified through the fact that the company started to think of how to benefit from the new technology as early as 2001.

Kadir explains that Universal was extremely late to start working with the digital market, not starting until 2004. She says that Universal has never been in the forefront when it comes to new technologies or markets because Universal does not take any chances. Since Universal is the largest music company it is not very entrepreneurial, instead it sees itself as a very stable company, which is:

“The best way to do business” (Kadir, personal communication, 2006-11-08).

In order to prevent illegal downloading of new music, Universal aims at releasing the digital files in relation to the radio releases. Kadir claims that if a song is not available at the online retailers when it is launched on the radio, people who like the song will probably download it illegally. SonyBMG works in a similar way by trying to release the digital files at the same time as they are released on radio. Universal, as well as SonyBMG have exclusive releases with its retailers. For instance, an artist’s new song can be released exclusively on CDON.com one week before it is released everywhere else.

Key admits that WMG has also been relatively slow to adapt to the changing technology. As a matter of fact it was not until 2004 that major actions were taken in order to strengthen the knowledge within digital distribution. The major reason for this was the huge success of the record labels during the 1990’s. Naturally, when a company is highly profitable it will not consider change to be of great importance. Key was hired externally in order to improve the technological knowledge within WMG. This showed that WMG considered the digital sales to be of vital importance to the organization rather than something that a few employees were concerned with (Key, WMG).

Key explains that it is one thing to realize that change is occurring, but it is something totally different to make the whole company adapt to it, especially considering that WMG is a gigantic American corporation:
Empirical findings

“We are like a big ship that you have to turn around. It is not that easy.” (Key, personal communication, 2006-11-16).

Key stresses that there are numerous things to take into account. First of all, does one you convince the right people to invest hundreds of millions SEK in digital systems when the company is already struggling financially? Furthermore, when the systems are in place, how do we find the competence to operate them in a proper way, and which employees are to be responsible for them?

Key claims that it is easy for people to state that WMG did a poor job adapting to the technological change, but he recognizes that it took the company two years to reach the state it is in today which is relatively good. To prove this, Key argues that WMG has a higher market share on its digital sales than its physical one compared to the other major labels. WMG’s products account for approximately 20-22 percent of the market on digital sales and 16-17 percent on physical sales. This is much due to Edgar Bronfman, who is Warner’s CEO. Bronfman decided to separate WMG from the gigantic corporation Time Warner in order to create what Key calls a

“digital music company” (Key, personal communication, 2006-11-16).

Key says that WMG is now experimenting with a concept called ‘Hi Five’. This means that WMG releases a bundle of five songs. It could be a combination of two old hits, two new songs and one previously unreleased song. This is due to the fact that few people buy a whole album in the digital form, limiting their purchase mainly to singles. By selling the product using this hi five method WMG sells five songs instead of one (Key, WMG).

5.2.4 New relationships

Key explains that the change was indeed radical and that WMG’s competence had to be changed in order to stay competitive. As an example, he states that the company would normally approach retail stores to offer them terms on new albums. All of a sudden the company instead had to turn to Telia to sell music, a company which WMG had no prior contact or experience with.

EMI has two different types of customers, push and pull. A push customer has the whole music catalogue “pushed” into their system while a “pull” customer has to place orders for their desired music files. iTunes and other important customers, such as CDON and 3 are all “push” customers (Livåg, EMI).

Key explains that WMG was one of the pioneers when it comes to digital music. The company was the first to make a deal with Youtube, the first to develop a concept with iTunes, the first to cooperate with Google and the first to make a deal with Vodafone.

This comes down to the conclusion in which Key states that:

“Nowadays we are strong when it comes to digital music; we are the leader of the major four.”
(Key, personal communication, 2006-11-16).

In the digital market segment there are a few companies that are very important, and iTunes is arguably one of the most important partners to all the music companies. Kadir claims that one of the reasons why the illegal downloading and file sharing is so widespread in Sweden is because iTunes was not present on the Swedish market when the downloading trend started (Kadir, Universal).
Empirical findings

All the major four have signed contracts with iTunes and it is recognised as the pioneer company for the digital market. Kadir even claims that one of the main reasons why the illegal downloading is so wide-spread in Sweden is that iTunes were not present on the Swedish market when the downloading scene exploded. Other important partners include CDON, Music Brigade, and Vodafone (Personal communication, Livåg, EMI; Kadir, Universal; Fredell, SonyBMG; Key, WMG). Furthermore, iTunes has set the price for all other online shops, as it does not want to use a differentiated price-level. Instead it charges the same price for all songs, 9.90 SEK. Fredell claims that SonyBMG would like to use a differentiated price-level but that it is impossible due to iTunes’ huge status. Livåg at EMI agrees on iTunes status and claims that the shop is the one that everyone else is trying to copy.

Both globally and in Sweden, WMG is trying to find customers where no standardized contract exists. Rather, the company is trying to develop a concept with a potential customer in which the music is the product. As it is today, many companies are using music as way to sell something else, but as Key puts it:

“We want the music itself to be the product, not just a way to introduce other forms of entertainment.” (Key, personal communication, 2006-11-16).

Key explains that Apple’s music store iTunes is merely a way to sell iPods. Still, WMG cooperates with iTunes since it is one of the company’s biggest customers. Fredell agrees, but further states that the iPod will eventually disappear and be replaced by mobile phones.

“One would not be able to give away an iPod for Christmas because it can not be used to make calls.” (Fredell, personal communication, 2006-11-16).

5.2.4.1 The mobile phone market

All four companies have identified the mobile market as a very important feature to stay competitive in the future. Today all the companies have 3 as a major customer. Livåg says that EMI can now make a profit on music videos which were seen only as promotion before. This is mostly due to 3, as the company sells the videos to its customers (Livåg, EMI).

3 is not the only mobile phone operator to have signed agreements with the music companies, as Key claims that WMG was the first to sign deals with Vodafone. As of now, Vodafone is a customer to all the major four music companies. Another indication that the mobile market has become increasingly important to the music companies is that Apple, the owner of iTunes, is currently working on developing a phone (Fredell, SonyBMG).

Although all the music companies agree that the mobile phone market is the future, they are not quite there yet, and in order to achieve their goals more people will have to become comfortable with buying digital music. Key believes that it is important to understand that a lot of people are still very comfortable with the physical buying process.

One way of getting people used to the digital music but to maintain the satisfying feeling of a physical purchase is to launch physical packages of digital products, examples of which could be to sell gift vouchers for music that can be downloaded from the webpage. WMG has also thought about packaging and selling flash drives of music. This is something that Universal in England has already tried when they released Keane’s new album on a flash drive that was put in a normal CD case and sold in physical record stores (Kadir, Universal).
5.2.4.2 Communities

All of the major four except EMI have signed a deal with YouTube in which the community may gain access to the music companies’ video catalogue. Kadir explains that Universal is searching myspace.com for new artists and that all local artists have a page at the community. By doing this, Key argues that:

“Instead of suing the communities we are trying to find a way to cooperate with them.” (Key, personal communication, 2006-11-16).

However, the music companies are not worried that artists may use communities such as myspace to promote themselves and thereby decrease the willingness to be signed by a major label. Key states that it is harder than ever for artists to differentiate themselves as they need a music company’s support in order to be successful.

The same goes for EMI, Livåg claims that an artist needs marketing to succeed. Even so, the music companies use Myspace to search for new artists.

5.2.5 The future

Many attempts have been done by the music companies to move people towards digital music, with all of the major music companies working hard with the digital aspect of the industry. Even though the digital music only represents around 10 percent of the revenues for the companies, they all believe that this will increase heavily in the next couple of years (Personal communication, Livåg, EMI; Kadir, Universal; Fredell, SonyBMG; Key, WMG).

The digital progress is at various stages in different parts of the world. Universal UK has already tried to sell digital music in a physical store (the flash drive example). This is something that has not yet happened in the Swedish market but all the music companies are working towards this scenario.

A common denominator is that the mobile phone market is an important part of the future (Personal communication, Livåg, EMI; Kadir, Universal; Fredell, SonyBMG; Key, WMG).

Universal believes that within five years, 25 percent of the sales will come from digital music. Kadir is convinced that if the company can offer a convenient way to download music, the market will grow considerably. Furthermore, Kadir states that it is the customers who choose the way music is distributed, and not Universal:

“When the physical sales are dropping and the digital increasing we naturally offer more digital music.” (Kadir, personal communication, 2006-11-08).

Kadir’s assertions are supported by the other companies, with WMG believing that the digital sales will have doubled by next year and Livåg at EMI pronouncing the company’s progress in the digital segment.

5.3 Interview findings from 3

In order to guide the reader through the empirical findings with 3, this interview will be structured in a different way compared to the interviews with the music companies, as the 3 interview was conducted mainly to investigate the following four things:
Empirical findings

What was the reason for 3 to offer music?

How does 3 cooperate with the music companies?

How has 3 helped the music companies to respond to the technological change?

How profitable is the music service provided by 3?

5.3.1 What was the reason for 3 to offer music?

Cahn explains that Hutchison Whampoia, the main owner of 3, foresaw the development of the mobile phone industry. The company believed several years ago that mobile phones would eventually be used as MP3-players, with the first move towards that being made in 2001. However, 3 had problems getting the music companies to cooperate with the company. As Cahn explains:

“The music companies didn’t know what was going on, neither on the web nor on the mobile phone market.” (Cahn, personal communication, 2006-12-05).

The only company willing to cooperate was BMG (later SonyBMG), with which 3 managed to sign a deal concerning BMG’s music videos and ringtones in 2003, two years after the work with the music-service was started.

3 also worked with sport videos at the time, but as it turned out, the sport section proved to be unsuccessful while the music videos gained enormous popularity (Cahn, 2006-12-05).

5.3.2 3’s relationship with the music companies

Since the music videos were popular 3 wanted to offer music to their customers. However the company did not yet have the systems to do this and to develop them took a long time. Cahn explains that the music videos have always been seen as promotion by the music companies, which made it easy to obtain the rights to them. The same could be seen for the ringtones as this was a new relatively new phenomenon (Cahn, 2006-12-05).

To play actual songs, on a mobile phone, however, was something completely different. The major four had massive demands to protect the songs by DRM-protection, resulting in 3’s inability to launch its music service until November last year. According to Cahn, the major four were directly responsible for the launch’s delay.

In addition, 3 saw that even though customers were given ten free downloads when they signed a deal with 3, most people only downloaded six songs. This was possible because most customers do not have mobile phones with enough memory to store a lot of music. Cahn explains that if a customer has a phone which can hold only four songs, the customer will most likely only download four songs, which will not be deleted for them to download new songs. He says that this was how the need to supply a music package emerged (Cahn, 2006-12-05).

Cahn explains that with the music package the customer pays 49 SEK a month and gets unlimited access to all of 3’s music archives, which holds 250,000 songs at the moment. This package was not greatly appreciated by the major four, as they thought that it was under priced and would decrease the companies’ control over their own music (Cahn, 2006-12-05).
Cahn further states that the major four all have specific prices for ringtones, audio downloads, audio stream and so on. What is interesting is how similar the prices are:

“I wouldn’t say that the prices are identical, but they are indeed very similar” (Cahn, personal communication, 2006-12-05)

Moreover, it seems that the music companies in fact form a tight-knit community and, word travels fast. As soon as Chan proposed a change in the deal for one company, the rest of them know about this within a day (Cahn, 2006-12-05).

Even so, Cahn states that there is one company that is the best to work with, SonyBMG.

“It is hard to say why, but they are willing to try new things.” (Cahn, personal communication, 2006-12-05)

Cahn explains that once a deal with one of the major four is completed, the remaining three are eager to join as well.

The biggest problem 3 has in its relationship with the music companies is the reporting of sales, Cahn anticipates that:

“If something is to tip the whole industry, it is this fact.” (Cahn, personal communication, 2006-12-05).

The reporting of sales brings huge costs, as every music company has a different system to which the retailers have to adapt. In an attempt to eliminate this problem, Cahn says that 3 has tried to develop a common system for the music companies but the feedback has been negative.

### 5.3.3 How has 3 helped the music companies?

Cahn believes that the music companies were slow in adapting to the technological change, claiming that even today they do not but actions behind their words. The major four are said to focus on digital music but still they mainly see 3’s marketing as a way of selling physical records (Cahn, 2006-12-05). Cahn believes that this has to do with uncertainty. The music companies would like to see results, before they dedicate more resources to the digital music.

Cahn argues that 3 helps the music companies by offering a great legal download alternative. Today, 3 has 70 percent of the sales on the official download top list, making 3 an important player in the music industry. One should keep in mind that iTunes is not represented on the list.

Cahn explains that all music made in the past five years is now available digitally and as 3 has a direct agreement with all the major four, the company receives the whole back catalog as well. Unfortuantly however, having 3 million songs available – as iTunes does – is not an option for 3 since the cost of adapting all those files to fit different mobile phones would be too massive.

3 also helps the music companies by heavily promoting music when launching a new phone or subscription. This is usually done by highlighting a song or an artist in relation to the new phone. As an example, 3 promoted a 30 year old song through its TV-ads and it became the number one download of that summer.
5.3.4 Music service profitability

“It is hard to make money on music” (Cahn, personal communication, 2006-12-05).

If 3 did not have the music package the company wouldn’t make a profit on download, large due to iTunes’ price of 9.90 SEK a song, a price which 3 does not want to exceed. With this price, the margins on downloads are small even for a big company as 3:

“Thanks to our size we probably get a better deal than many others, if not, we would almost have a negative marginal on downloads.” (Cahn, personal communication, 2006-12-05).

Out of the price of 9.90 SEK, 25 percent is deducted in sales tax, leaving 7.92 SEK. Furthermore, Svenska Tonsättarens Internationella Musikbyrå (STIM), the organization upholding music copyrights in Sweden, requires 8-12 percent, and the music companies charge approximately 7 SEK a song. Clearly this does not leave much to the retailer 3 (Cahn, 2006-12-05).

On the other hand, ringtones have a high margin and are profitable for both the music companies and 3. Cahn finds it a bit odd that people are not that willing to pay 10 SEK for an entire song, but are eager to pay 30 SEK for 20 seconds of ringtone (Cahn, 2006-12-05).

Still, if all music services are taken into account, 3 makes a profit on music. The turnover for Sweden and Denmark is approximately 100 million SEK a year.

5.4 General views on the music companies

Robert Picard is the director of the Media Management and Transformation Centre (MMTC) at Jönköping International Business School (JIBS), a faculty which was established to “research theories, strategies and best practices in media management.” (http://www.ihh.hj.se/mmt/)

Picard is the author and editor of 20 books and has been teaching at several prestigious universities in the USA. Furthermore he is the editor of the Journal of Media Economics (http://www.ihh.hj.se/mmt/faculty). He has been working at JIBS for three years (Picard, 2006-12-12).

Kris Serien is the Marketing Director of Warner Home Video Nordic (WHV). Serien started at Warner Home Video in Amsterdam in 1994 and worked there as a Marketing Director for ten years before he transferred to Sweden in 2004.

Our aim with these interviews was to get a different angle on how the four major music companies have coped with the technological change, which has not only affected the music companies, but the movie branch of the entertainment industry has also experienced technological changes. Therefore we believe that Serien will have some valuable knowledge about how to deal with this change.

Picard claims that of all the media industries the music industry has never dealt very well with change. As an example, the music companies refused to release its recordings to the radio when it was started. Furthermore, when the Walkman was invented in the 1980’s the industry made advertisements which claimed that ‘Home recording is killing the music industry’. Serien agrees and claims that when the Internet became a prominent societal resource in 1995/1996 the music industry had immediate problems since it did not adapt to the changes the Internet brought (Serien, 2006-11-06).
This unwillingness to change is partly due to the way the industry is divided between publishers and the recording companies (Picard, 2006-12-12). As Picard sees it, the publishers are making huge money on music as they own the rights to it and thereby get paid by television, radio etc. What is interesting is that the major music companies usually own both the publishing and the recording part, but prefer not to talk about this fact. Rather they stress the current loss in the recording part of the company due to the technological change, deemphasizing the massive profit they are making.

Another reason for the industry’s poor adjustment to technological change is that it is not very creative in the way it is managing the change. For example, the cost of a recordable CD is partly made up of tax which goes to copyright payments under the assumption that the customer will copy CDs. The same is true for MP3-players and hard drives. The music industry says that you can’t download illegally but it still wants the customer to pay this tax which assumes that illegal downloading will occur. Picard argues that the consumer has already somewhat paid for the downloads by paying this tax, but that the industry wants the revenues to stream from both directions (Picard, 2006-12-12).

One must also realize that technological change is not a new phenomenon. As Picard puts it:

“Markets get disturbed all the time.” (Picard, personal communication, 2006-12-12).

And points out that many other markets, such as the movie industry, has always been better at cooping with change than the music industry. He explains that the major four has 75 percent of the music market and are therefore used to economic stability.

### 5.4.1 Better adaption

Picard is of the opinion that the initial reaction to the technological change was indeed too defensive. He realizes that the industry might see the change as dangerous but it was too focused on how to stop it, rather than how to take advantage of it. As illegal downloading grew stronger, the industry miscalculated by assumption that no one was willing to pay for online music. It took approximately four years before the industry realized that it could sell its products online, meaning that the industry missed out on huge sales and that illegal downloading increased (Picard, 2006-12-12).

Furthermore, Picard claims that the industry was also slow in offering the physical product – the CD – online. Picard claims that 40-50 percent of the price of a CD is going to the retailer and distribution chain, but if the music companies could overcome this step, they would have enjoyed increased profits. Other industries adapted faster where the music industry seemed to lag behind and Picard finds it hard to see why, as selling CDs online should be a fairly easy task (Picard, 2006-12-12).

Serien at WHV highlights one aspect in which the movie companies have adapted better to the changing technology than the music companies, which is to see possibilities for new products. The movie companies were very quick to release popular TV-shows on DVD which are a huge hit on the market. Serien is surprised that the music companies were so slow to embrace the highly successful DVD format and release music that way (Serien, 2006-11-06).

Picard alluded us to the interesting fact that over the last decade music DVDs have contributed to approximately seven percent of the revenues for the music companies, but these profits are not offset against the sales of CDs. This is basically because they want to deal
with each product separately and not as a portfolio of products. Their fundamental concerns were always with the CD, cassette or LP, but now that they are forced to deal with five or six platforms, they do not know how to do it (Picard, 2006-12-12).

Part of the problem is that one can not find the same recording in all markets, say through a local record shop. If one can not find it the legal way, one is forced to turn illegal services. Still, this is a problem as 60 percent of the songs requested on iTunes are not available in the shop (Picard, 2006-12-12).

### 5.4.2 Online shops

When asked if the music companies should have created their own online shops Picard argues that they would have been better off that way and that peer-to-peer sharing probably would have been decreased. He claims, however, that the music companies have never dealt with retailing but have still been successful in the past, and furthermore, the music companies need the retailer which is good for local marketing (Picard, 2006-12-12).

Another reason that the music companies do not want to start their own shops is that they did not want to break up the bundle of the CD. Most people may only like two or three songs on an album but are still forced to pay for them all when purchasing a CD (Picard, 2006-12-12).

What one should keep in mind is that music sales have decreased, but so have the music companies’ costs. The number of titles produced during the last five years has been reduced by about a quarter, so now the music companies are enjoying a higher return per unit (Picard, 2006-12-12).

### 5.4.3 Competition

The music companies are not competitors in terms of sales, but in terms of who is signing which artist. There is no competition in the market or price competition. Picard claims that there should be more price competition concerning the back catalogue. The movie industry is entrepreneurial in the sense that it tries new things it has more flexible pricing and packaging for instance (Picard, 2006-12-12).

Serien is of the same opinion and claims that while the movie industry saw the potential dangers of downloading and lowered the prices of DVDs, the music companies continued to charge the same prices for CDs as they had always done. The music companies are, and have always been, very inflexible when it comes to pricing (Serien, 2006-11-06).

In an online shop, some songs are naturally more popular than others, making it difficult to understand that they are all priced the same, an occurrence which make no sense by any marketing policy (Picard, 2006-12-12).

In discussing the increased use of communities such as Myspace, Picard says that it is easier for a new artist to produce and sell their music now. Sometimes a major music company signs a distribution deal with them, but does not necessarily own the group or the master tapes. He further states that it is the Internet that brings new opportunities for the artists in turn of self-promotion and distribution.

"The record labels are there to distribute and marketing. If you can do that by yourself, why would you want be signed" (Picard, personal communication, 2006-12-12).
5.4.4 The future

Serien believes that in the future, the way music and movies are consumed will change. The need for ownership might be replaced by the need for access as technology can make music accessible whenever and wherever the customers want it, there is no need to own the music in the way it is owned today (Serien, 2006-11-06).

Picard is a bit more hesitant, saying that customers may not be willing to do settle for accessibility as people like to own things, but he does point out that subscription services which rely on access are successful. He argues that it is also likely that someone will sponsor the music, which can be done by simply transferring the radio model to the mobile phone.

The music companies are getting increasingly frustrated with the CD and are outsourcing many of the CD manufacturing operations. Even so, Picard believes that the CD will survive for a long time, due to people's preference for a physical product. What also has to be considered is that only around 30 percent of the households in Europe own a computer which vouch for the survival of the CD.
6 Analysis

The following analysis will be structured to answer the research questions, thus combining the knowledge gained from both frame of reference and empirical findings.

In order to fulfill the purpose of this thesis, we must analyze the empirical findings in light of the frame of reference. This will lead to the conclusion in which the purpose of the thesis will be answered.

6.1 To what extent are the music companies driving and/or adapting to the technological change?

We begin by reminding the reader what technological change is. Narayanan (2001) defines technology in terms of four stages which are described in the S-curve. Because of the initial learning process the change is slow in the beginning but picks up speed rapidly when proper knowledge is gained about how to make the production more efficient. The change develops then stabilizes and finally slops as additional improvements are difficult to achieve and the technology has reached its full potential.

One can see that the music companies are experimenting with different ways to bring their product to the market. Still, there seems to be little agreement with which way is the best, and so multiple channels are used. Our interviews showed that the future of the existing technology still holds uncertainties, which proves that the technology has not yet reached its full potential. Additional improvements in the distribution of the music are still to be made. In this way we may see that the music industry has not yet come to the last stage of the S-curve. The technological development is closer to the stabilized stage, in which companies can utilize knowledge from the learning process. The MP3 as a technology has existed since the 1990’s and today the music companies are merely concentrating on how to make use of it, rather than improving it.

With that said, new formats are produced, such as wma and acc, as the music needs to be offered in different devices, but they all are a part of the same technology. The music companies offer all formats, enabling them to sell the music to all suppliers. The lack of a dominant design induces costs for the music companies that may be unnecessary. Fredell at SonyBMG argues (2006-11-16) that SonyBMG would be happy to only sell the MP3 format to all customers because it is such a well known format for both the industry and the consumers.

One must keep in mind that the music industry is not highly technologically driven. The music companies themselves do not develop the technology; they merely make use of it. This might be an unfortunate fact. As Porter (1983) points out, the selection of technologies should be based on the competitive advantage a firm is trying to achieve and how the technology can help the firm to achieve this. Picard (2006-12-12) argues that if one of the music companies would have made better use of the Internet and the possibilities it brings, rather than focus on the threats, it could have created a competitive advantage. As seen from the empirical findings, the music companies’ core business is to produce and market music and therefore the technological change was seen as something threatening. Even so, Floyd (1997) claims that technology is one of the most significant resources an organization possesses as it can, among other things, be used to differentiate products. As Picard argues, if the music companies would have been quicker to adapt to – or even develop – the technology for downloading music legally, the illegal downloading would have decreased and
the sales increased. The music companies could have differentiated themselves by being more adaptable to the new technology.

From the interview with 3, we found that the music companies did very little to bring music to the mobile phone market. All systems used to distribute music through mobile phones were developed internally at 3. Furthermore, it was 3 and not the music companies that saw the opportunity to offer music this way. Even so, many of the music companies – with the exception of SonyBMG – were not willing to cooperate with 3 in the beginning, (Cahn, 2006-12-05). This further strengthens our belief that the music companies are not driving the change. When applying Durand’s theory (2004) we can see that the music companies make use of the stretch strategy. This means that the companies try to fill the gap between the competencies they possess and the new environment in which competition takes place, which in this case is the digital. What is worth mentioning is that the technological change itself is not imposed by a competitor, and hence the concept of trigger or shape also discussed by Durand is not applicable. Rather, the initial technological change came from computer skilled individuals who developed clients such as Napster and Kazaa. Furthermore, in line with the thoughts of Utterback (1994) the innovations in the digital music market have mostly been made by new entrants. For example, neither 3 nor iTunes were part of the music industry five years ago, although the are now both very important players, driving the change in a way that the music companies never have.

The problem for the music companies however, has been to form relationships with new players in the music industry such as Telia and 3. Key at WMG claimed that it was difficult to initiate business with Telia. Also Cahn at 3 said that the music companies were initially unaware of the changes, a claim reiterated by Picard who argued that the music industry has never dealt very well with technological change. There are many reasons for the slow adaptation. As all the “New Media Managers” we interviewed were fairly newly appointed it was as though the management of the music companies failed to understand the importance of the digital market in time.

According to Porter (1983) it is important for the firm to consider whether technological change is desirable. Clearly this is not the case with the music companies as one criteria for the change to be desirable is that it is profitable for the whole industry. As seen from the empirical findings, the technological change has had a negative effect on sales, thus affecting the whole industry including the music companies. Porter’s theory, however, is mostly concerned with firms trying to develop technologies, something we have found is not the case for the music companies. Rather, they have been forced to adapt to the technological change.

Disruptive technologies (Christensen, 1997) and competence destroying (Chiesa, 2001) are concepts used when a new technology is emerging and conquering existing technologies. Companies have to adapt to the technology if they want to stay competitive. For the music companies, one could see that the technological change, enabling the user to download music, falls within this concept. As seen from the interviews, all music companies have taken action in order to strengthen themselves in the digital market. Even though the companies state that the CD will survive, we may see from the decreasing sales that it is a dying technology while digital sales are rapidly increasing. The disruptive technology of online downloading brings many problems to the current dominant design of distributing music, which is the CD. One is that customers no longer have to buy all the songs on an album, but only the singles they enjoy. According to Picard (2006-12-12) this is not a development appreciated by the music companies, an assertion also stated by Key at WMG who claims that most people do not buy the whole album online but rather single songs, which is a
problem for the music companies profitability. This further strengthen our belief that the CD as a medium is dying as it makes no sense for customers to pay for products they don’t like. Due to the new technology, the music industry is moving away from the album-based market to a song-based market, from a physical product to a digital one.

When it comes to the new mobile phone technology it can be argued that a new S-curve has been created with the enhanced bandwidth of the 3G mobile phones, but the latest technological change is so new that the full potential of it is still to be discovered. The 3G technology is not built upon the Internet but it still makes use of it, allowing 3G mobile phone users to access the Internet and all its features, including downloading music directly to the mobile phone. To cope with this, the music companies might be able to draw experience from the previous technological change, the online downloading because it introduces a new distribution media, rather than a disruptive technological change.

6.1.1 Online stores

During our interviews it came to our knowledge that one way to drive or adapt to the technological change could have been to start up online stores. Since this issue was discovered during our study it is not one of our research questions, but it is still an important aspect to discuss.

Narayanan (2001) distinguishes between the process and product in technological change. The product change in the music industry is the change from CD to digital file. The process change concerns how the product is produced and distributed, thus we will discuss the distribution of music as a technological process change. Our interviews with the music companies showed their unwillingness to start up online stores concerning both physical and digital products. One argument is that the companies’ main business concerns were producing and marketing music, not retailing this music. Key (2006-11-16) provides another reason not to set up an online store; it would be too costly to build a consumer recognized brand. Even so, as Picard (2006-12-12) claims, when the cost of distributing CDs is as high as 40-50 percent of the sales price, those arguments lose their strength. As Porter (1983) discusses; a firm can gain a competitive advantage by being the first within an industry to take advantage of an existing technology. The first mover advantage can reward the pioneering firm with recognition of its brand, enhanced benefits of the learning curve and a better positioning. However, according to Picard this is however not likely, as the music industry has always been prone to viewing change as a threat. As far as our study revealed, they have not tried to influence the technology in accordance with their own interests, but instead they attempted to adapt to it, and often too late.

Besides the physical products we exampled earlier, online stores have proven to be an excellent distribution channel for digital music. This form of retailing removes all costs of physical distribution (Anderson, 2004) as music is stored digitally on servers and is delivered without costs over the Internet to the retailer. In contrast to selling physical products online, which saves 40-50 percent in distribution costs, an online store for downloads does not save as much for the music companies since the cost of physical distribution does not exist from the beginning. This provides no incentive for the music companies to create their own online download stores. In addition, as Fredell (2006-11-16) at SonyBMG argues, iTunes has with its market leader position set a price for downloads that does not yield any profits. However, Serien (2006-11-06) and Picard (2006-12-12) argue that the pricing strategy in the music industry is very inflexible compared to other industries and they question why old and new music has the same price. Actually, all songs have the same price regard-
less of its popularity and its age. Picard further believes that such a pricing strategy contra-
dicts with all marketing theories.

Regardless of the pricing strategy, online stores for downloads provides benefits for both
the music companies and the consumer. *The Long Tail* by Anderson (2004) describes the
benefits of making all music available in a so called back catalogue. Music stores which sell
physical products, cannot justify the shelf space needed for all available music, but online
stores selling digital music can have this luxury. The share of non-hits is greater than the
most popular songs in terms of sales, but no additional costs are added. This would pro-
vide consumers with music that is no longer available in physical stores, meaning that the
music companies can reap profits from music sold only on the Internet. For the consumer,
the advantages are obvious; the range of available music is greater than it would be if the
Long Tail did not exist.

This has also been recognized by the music companies, which believe that having a strong
back catalogue might be of greater importance today than ever before. This is because
online stores have, even though the music companies have difficulty admitting it, lowered
the costs of distributing music. What is more, people are able to find music not available in
physical stores. The music companies claim that they “push” all music to iTunes which
contradicts Picards (2006-12-12) statement that 60 percent of the requested songs on
iTunes are not available.

The music companies are not driving the technological change as they have not developed
technology internally, instead relying on other actors in the industry to find the solutions.
What is more, the adaptation to this change has not been as smooth as one might wish. As
Picard states (2006-12-12) the industry has never dealt very well with change, pointing at a
number of factors to illustrate this. Moreover, Cahn at 3 (2006-12-05) claims that the music
companies were slow to adapt to the mobile phone technology, which is obviously one of
the most important ways to distribute music in the future. The music companies them-
selves admit that the transformation to the digital technology has been leisurely but they
claim that nowadays they are all working hard on this. While this is undoubtedly true it is
interesting to see that the slow adaptation is often blamed on the absence of important
player existing today, such as iTunes. The music companies should have been able to de-
velop solutions, such as online stores, to the problem internally. Furthermore, Key at
WMG (2006-11-16) claims that the company is huge and therefore has a hard time chang-
ing. This argument loses it strength when Picard (2006-12-12) points out that markets get
disturbed all the time and that many firms do adapt well.

Hence, we can conclude that the music companies are not driving the technological change
and has adapted all too slowly to this change. With that said, in the last couple of years the
music companies have made huge progress, finally understanding that downloading is not
something that can be ignored.

In order to answer the purpose of this thesis, the analysis will now continue by looking at
how the music companies are creating a sustained competitive advantage in the period of
 technological change.
6.2 Creating a sustained competitive advantage

Our frame of reference mentions several different approaches about how to build sustained competitive advantage. Porter believes that resources are homogenous and mobile across the market, saying that since all resources are similar and transferable the source of SCA is how a firm manages these resources. This argument is countered by Barney (1991) who argues that as the resources are different they cannot be traded across firms, the source of SCA is how one creates such competitive resources. The link between Prahalad & Hamel’s (1990) concept core competence and Barney’s (1991) RBV is that they all argue that the resources cannot be imitable or substitutable, indicating that the core competence framework also assumes heterogeneity and immobility of resources. These latter terms are something Prahalad & Hamel (1990) do not discuss but when analyzing and comparing these frameworks we argue that this is the case.

As such we will first analyze if Porter’s generic strategies are applicable. Then we will determine which the music companies’ core competencies are. This follows on from the investigation which states that resources are to be considered as competitive resources, by applying the RBV framework. With this knowledge we will discuss whether the music companies are building a SCA.

6.2.1 Generic strategies

According to Porter (1980) a competitive strategy is a broad formulation of how the organization will compete and what its goals may be. There are a number of factors that need to be taken into consideration when formulating a competitive strategy. Obviously the strengths and weaknesses of the organization are very important, and other factors such as industry opportunities and/or threats and personal values of key implementers are vital.

The strengths and weaknesses of a firm are its assets and skills in relation to its competitors. When we examined the music companies we could see that they make use of a similar organizational structure, and therefore we could not see that one music company was relatively “better” than any of the others. What we did see though, was that they all tried to present themselves in the best light possible.

Since all the major music companies are so similar in the way in which they conduct business it is hard to see any real differences when it comes to the opportunities and threats within the industry. Having said this, Cahn at 3 (2006-12-05) argues that SonyBMG is more eager to act on new opportunities; SonyBMG was the first of the music companies that signed a deal with 3 and it is usually the first one to act and then the others follow suit.

Out of Porter’s three generic strategies the differentiation and focus strategies are most appropriate to apply to the music companies. The reason why the music companies do not use differential pricing on digital music is that they believe iTunes’ influence on the market is too great. If that were true a cost leadership strategy would be difficult to implement. SonyBMG said that it originally wanted differential pricing but iTunes set the price to 9.90 SEK per song (Fredell, 2006-11-16). According to Cahn (2006-12-05), however, the music companies themselves are charging 3 very similar prices so the blame might not only be on iTunes. Therefore a question is raised about whether the music companies are in fact cooperating in order to avoid price competition.

Picard (2006-12-12) and Serien (2006-11-06) are surprised with how inflexible the music companies are in terms of the pricing strategy. Picard also says that charging the same price
for every song is not the ultimate way to sell products. Moreover, if one examines the prices of CDs, one could see that no price competition between the music companies exists. If the music companies would follow the “normal” marketing strategies the songs that are heavily downloaded would cost more than the songs that are not as frequently downloaded. In short, one can see that the music companies do not compete by price.

Differentiation means that the product or service is differentiated into something that is seen as unique by the entire industry. Where differentiation is targeting the industry, the focus strategy is aiming at a particular target (Porter, 1980). The music companies achieve differentiation strategy by signing artists. For example, if one of the music companies signs Metallica it has a product that is unique. The focus strategy might not, however, be directly applicable to the major music companies since they have signed contracts with thousands of artists in different genres. We still argue that it could be used since all four of the music companies have subsidiaries which differentiate each company. Examples of this are Universal’s Motown records that focus solely on Motown music and EMI’s Capitol Hill Nashville, which only carries country music. These subsidiary labels are focusing on a narrow part of the market.

According to Porter (1980), differentiation might be hard to combine with a large market share since differentiation is associated to exclusivity. This is not necessarily true for the music companies, as a band like Metallica will sell a lot of CDs or digital music files all across the market due to the fact of its huge fan base all over the world. Smaller acts might have the problem that Porter was talking about but it is not necessarily so.

6.2.2 Which are the music companies’ core competencies?

There are a few different definitions of what core competencies are. Prahalad and Hamel (1990) believe that core competencies are all the knowledge within the organisation. Johnson et al (2005), on the other hand, defines it as “activities that underpin competitive advantage and are difficult for competitors to imitate or obtain” (Johnson et. al, 2005, p 119).

After we conducted our interviews with the major music labels we could see what the music companies considered to be their core competencies. All four of the companies said that they focused on the production, promotion and marketing of music and artists. They also said that they left the selling of the product to the retailers. According to Prahalad and Hamel (1990) there are a few “tests” that an organisation can do in order to identify their core competencies. A core competence should give possible access to multiple markets and it should also play an important role when it comes to the perceived value by customers on the end products.

We argue that the production, promotion and marketing are very important when it comes to the perceived value of the end products. All the music that is released from any of the music labels, whether it is a CD, music DVD or a digital music file should have top quality in order to generate sales. The promotion and marketing activities help to create a demand for the product – the artists – and by doing so they add perceived value to the end product.

When it comes to giving possible access to multiple markets it all depends on how one defines a market. If one sees the CD as one market and digital music and music DVDs as other markets then this holds true for the music companies. On the other hand, if one puts all these products in one market and call that the music market then one has to ask oneself if the music companies actually have access to multiple markets.
A similar term to core competence that can be used here is capability. Capabilities can be defined as a management team’s capacity to carry out an activity or task (Grant 1991). In this case the music companies’ activities (production, promotion and marketing) can be seen both as a core competence and as a capability.

All the music companies have identified the production, promotion and marketing of music and artists as their core competencies and these are the sources that they build their strategies on.

### 6.2.3 Which are the music companies’ competitive resources?

Our theoretical framework describes what makes a firm’s resource a source of sustainable competitive advantage. It needs to be valuable and rare and cannot be imitable or substitutable (Barney, 1991; Peteraf, 1993). First, we will analyze the music companies’ identified core competencies, namely their production, promotion, and marketing of music. Second, we shall analyze if other resources can be regarded as competitive.

#### 6.2.3.1 The core competencies as a competitive resource

During the interviews it came to our knowledge that the managers working with digital music were all quite recently employed. Hambrick’s (1987) example of a non-rare resource is that if a resource can be used by many firms it cannot provide any competitive advantage. In the case of the music companies, the management of marketing and promotion can be used by all companies, and therefore it cannot provide any competitive advantage. Since all four of the major companies have these resources they cannot be considered rare. We may thus conclude that these resources are homogenous, which contradicts one of RBV’s assumptions.

When one determines if resources are imperfectly imitable one looks at the resource’s historical conditions, its causal ambiguity, and if they are socially complex (Barney, 1991). The managers of digital music at all four music companies are relatively new at their positions, which means that it can hardly be argued that they possess any unique historical knowledge, because if someone were to be employed today, that person could gain the same experience as the current managers. This also disproves any argument that the management of the music companies is an imperfectly substitutable resource.

Concerning causal ambiguity, all four music companies are using the same resources to obtain a sustained competitive advantage. However, the social complexity of marketing and promotion arguably provides respective company with a competitive advantage. The music companies’ resources can be considered socially complex since a lot of the production, promotion and marketing activities indicate a lot of cooperation, therefore inevitably creating interpersonal relationships. Cahn (2006-12-05) claims that SonyBMG is the easiest company to work with, and it is thereby different from the others. Even though this resource is socially complex, Cahn’s statement does not indicate that the resource is a source of competitive advantage.

Therefore none of the core competencies of the music companies – the production, marketing, or promotion – can be regarded as sources of SCA according to the RBV framework. The only attribute they all have is that they are valuable to the firms, but they are neither rare, imperfectly imitable, nor imperfectly substitutable.

If the core competencies are not the source of each firm’s competitive advantage then the question still remains; which are the music companies’ competitive resources?
6.2.3.2 The Artists as a competitive resource

During our interviews we find one resource, or resources, all music companies compete with; the artists. The artists are recognized by all managers to be a resource that provides each firm with a competitive advantage.

Livåg (2006-11-07) at EMI believes that the market position one of the music companies possesses is dependent on which artist is signed. He states that if WMG, which he argues is the smallest of the major four firms, would sign a big selling artist its position would be improved and would possibly excel EMI. It is with this resource that they not only compete with each other but also compete with other industries. One cause to the decreasing CD sales is, according to Key (2006-11-16), Livåg (2006-11-07), and Picard (2006-12-12) increased sales of other entertainment media such as video games. The music companies do not compete with these media with their core competencies but with their respective signed artists.

We can apply the RBV model when determining whether artists should be considered a competitive resource. In contrast to the music companies’ core competencies the artist as a resource is different for all firms. Peteraf (1993) says that the presence of heterogeneous resources within an industry indicates that superior resources are in limited supply. He further states that firms possessing superior resources will earn more profit. A top selling artist is recognized by the music companies (Livåg, 2006-11-07) as a superior resource, thus proving that they are heterogeneous. With regards to the immobility of artists it is not as clear. According to Barney (1991) they are immobile as they can stay heterogeneous for a long time, but considering Dierickx & Cool’s (1989) reasoning, an immobile resource should be of greater value within the firm than outside. Since the artist as a resource is able to be traded due to contractual terms it is difficult to determine the extent of artist immobility.

Without the artists the music companies do not have a product to sell, clearly proving that they are valuable. The rareness is more difficult to verify, as most artists can be divided in genres. Since a genre may be defined as a similar type of music, and yet the artist is nevertheless claiming that their music is unique, one can argue that the artist as a resource is both rare and common.

Another discussion concerns whether artists hold unique historical conditions or not. Some artists do and some do not. If one generalizes, it can be argued that artists with a long and successful career, say for example the Rolling Stones or Madonna, hold a unique historical condition but in terms of more recent musicians – such as Darin and Snook – it is difficult to say that competing artists cannot obtain their success because of their historical conditions. If competitors cannot see the link between a resource and its success it holds causal ambiguity (Barney, 1991).

The last condition for imperfectly imitable resources is social complexity, which refers to the interpersonal relationship within a firm (Barney, 1991). Since we did not conduct any interviews with the artists and nor did we focus our questions with the music companies on artists, we cannot determine the degree of social complexity. However, we can argue that if the relationship between an artist and the firm is socially complex, the artist as a resource could be imperfectly imitable.
When applying the above theories, one can see that the music companies still have improvements to make in order to gain a competitive advantage. However, we must question whether the music companies will ever enjoy one. This will be discussed in the conclusion chapter.
7 Conclusion

In this chapter we will first answer our purpose, and secondly present what we believe the music companies could have done differently.

The purpose of this thesis is to examine how the traditional music companies are creating sustained competitive advantage in a technologically changing environment, which we attempted to answer by interviewing the four major music companies in Sweden. To enhance the credibility of our study we also interviewed one of their major customers and two other individuals with extensive experience in the entertainment industry. When conducting the interviews we found very similar answers from all the music companies regarding the industry and the possibility of gaining a competitive advantage. Our additional interviewees, however, expressed alternative and sometimes contradicting views and opinions.

From our interviews we could see that all four music companies have identified the same set of unique capabilities as their core competencies; production, promotion and the marketing of music. Our analysis shows that these core competencies cannot be considered as unique as they are homogenous and mobile. In addition, the attributes the RBV assigns to test the competitiveness of these resources, was not met, as they are neither imperfectly imitable nor imperfectly substitutable. We argue that these core competencies cannot be considered as the music companies’ source of competitive advantage.

They do, however, possess a resource uniquely connected to one specific company and can thereby be considered to have a competitive advantage; the artists. However, having an advantage that is solely based on which artists the music company has is a very unstable competitive advantage. Each album or song is a new product, which means that even if an artist has had previous success there are no guarantees that the next album will be a success as well. Even though the music companies have a competitive advantage over each other through their artists, they have failed to create a sustainable competitive advantage. We believe that it will be hard for the music companies to achieve an SCA since the industry in which they operate has a very short product life cycle compared to traditional industries. Furthermore, the music companies launch hundreds of products each year and they never know which ones are going to be successful, and it will therefore be hard for them to create a sustainable product around which to build their competitive advantage.

Considering how widespread the technological change has been, all the music companies have been very slow at adapting to it, therefore they have missed a big chance of gaining a competitive advantage using the “new” technology. The main reason why the music companies were slow to embrace the new technology is that the CD has been a very successful product which created a huge amount of revenue. This has been a contributing factor to the way in which the companies refused to experiment with the new technology in order to improve their business. This could have been done by earlier creation of new formats other than the CD or new ways to distribute their products. One should keep in mind that the CD still accounts for 90 percent of the revenue but since the digital market is skyrocketing the music companies are focusing heavily on this nowadays.

As in all businesses, a company has to try new things and take some risks in order to get ahead of its competition. Even though SonyBMG has shown a willingness to take more risks than the others, it is clear that none of them can be considered entrepreneurial enough in their pursuit of success and therefore none of them are enjoying the benefits of a sustained competitive advantage today. One can see that if any of the music companies
would have been willing to experiment with new things such as online shops and new dis-

dtribution ways earlier it might have had a competitive advantage over its competitors today.

However, a sustained competitive advantage would have been hard to achieve since as soon as one company experiments, all the other follow suit.

What instead can be seen from the study is that the music industry has been entered by other, more entrepreneurial firms willing to take risks and make use of the new technology. 3, which is included in the study is one example and iTunes is another. We claim that the music companies are stuck with the assumption that producing, promoting and marketing are the only things they should focus on. In a time of technological change, there is a need to rethink your actions in order to stay competitive. Universal Music claims that illegal downloading increased and sales dropped in Sweden much due to the late establishment of iTunes in Sweden. This fact makes us question why the music companies did not set up their own downloading shops.

### 7.1 Alternative position

iTunes currently has a market leader position on download sales, but if any of the music companies would have developed an online shop for the physical products early they would have saved the cost of distributing the CDs to the retailers. Moreover, the music company could then transfer this technology into the sales of digital products. It is very likely that that company would have been able to compete with iTunes, and could thereby experience an advantage over the other music companies today. However, a sustainable competitive advantage as understood from the theories would have been hard to obtain.

Even so, we claim that the idea is valid. The benefits of cost savings should be considered greater than the risk and uncertainty it carries to start up a retailing business in the form of an online store. If the profitability for the music companies is decreasing the incentive to enter the retailing business in order to gain the retailing revenue is increasing. Furthermore, we argue that an additional reason why the music companies should have developed online stores is that it makes cross selling services easier. Such service could, if utilized by the music companies, steer the demand in the “right” direction. For instance, by using the cross selling technique a consumer interested in an already established and successful artist, could be guided to a newly signed band whose music is similar to the more famous artist. This would also give some control back to the music companies and they could market and promote new music more easily. Today, such service is controlled by the retailer creating databases that show what consumers buy and perhaps recommend other buyers what to purchase. We argue that the music companies would have had better prerequisites to create competitive advantages if they would have entered the retailing business earlier.
8 Discussion and final remarks

In this chapter we will discuss the thesis and the trustworthiness of the study. We will also present suggestions for further research.

In recent years, a number of articles have been published about how the music companies are struggling with decreased sales and a diminishing market due to the technological development. We therefore thought it would be very interesting to study how the major music companies are dealing with these changes, and in particular how they intend to remain competitive.

When we decided upon the purpose we had some difficulties about whether we should use the words create a sustainable competitive advantage or defend a sustainable competitive advantage. “Create” indicates that we assumed the music companies did not hold a sustainable competitive advantage, while using “defend” indicates that we assume that they have a sustainable competitive advantage, and the question is then merely how they uphold this advantage. As one can see from the purpose, when we started our study we did assume that they did not possess a sustainable competitive advantage.

We thought we had a fairly clear idea of what the music industry looked like and how the music companies were operating, but our interviews taught us things about the music companies and the industry that we did not know. We assumed that the music companies would benefit immensely if they moved towards the digital music since there would be basically no cost involved compared to the physical part of the industry. The interviews with the music companies showed us that there were costs involved in dealing with digital music since the companies have to provide many different formats.

This thesis has shown that the music companies possess one competitive advantage over each others, but this competitive advantage is not a sustained competitive advantage. However, it has also shown that by being more receptive to change the music companies could very well be in a different position than they are today.

8.1 Trustworthiness of the study

According to Yin (2003) the trustworthiness is measured with reliability and validity. Where reliability measures how well the study can be reproduced by others with the same result, validity measures if the study answers what was intended and whether that reflects the truth. Furthermore, Gummesson (2000) argues that objectivity is very important in order to minimize the risk of a biased conclusion.

Regarding the reliability in this sense, we believe it would be difficult to reproduce any qualitative study made with in-depth questions as there are many variables that influence both the questions and the answers. Our questionnaire was designed to stimulate an open discussion, so even if one would use the same questionnaire it is likely the discussion would be different. The time when the interview is conducted is also of importance. If another researcher would repeat our interview today, it would be necessary to exclude the advances in the business since our interviews, which would be very difficult. Furthermore, to reproduce our research all the questions need to be emphasized in the same way, a fact of which we might not have been perfectly aware of during each interview.

As we claim to have answered what was intended with this study on of the criteria of validity has been fulfilled. When it comes to the criteria concerning the truth of our study, we
believe it may be correlated with the objectivity. Without assuming the music managers were truthful or not, we also interviewed one of their major customers. In addition, we argue that our objectivity was upheld as we interviewed two independent individuals in the form of Kris Serien at Warner Home Video and Robert Picard at JIBS' Media Management and Transformation Centre, both of whom have opinions that are not formed by the music industry. We interviewed Serien before we interviewed the music companies to discuss our own assumptions and to better be prepared for the coming interviews. When we had finished our discussions with all managers at the music companies we met with Picard again to listen to an independent researcher with great knowledge about the matter. As such, we hope we have validated our findings in a satisfying manner, so that the reader has faith in our research.

8.2 Further research

During our study we have learnt the importance of sustaining a competitive advantage. We have also found that the music companies do not have a sustainable competitive advantage. Therefore we believe that further studies on the music companies could focus on how they create such an advantage.

Even though the music companies haven’t been willing to enter the retailing business until quite recently we think it would still be interesting to see the benefits of such action today, in an investigation concerning both financial and theoretical aspects.

iTunes’ influence on the digital market will likely be challenged in the near future, perhaps by 3 or another mobile operator. Microsoft is currently launching a music service and it could be interesting to study these changes to the industry.

All these suggestions look from the industry’s point of view, but how do the consumers prefer to receive the music? Today it is possible to buy music easily and quickly online, via computers and mobile phones. Customers can also lease the music instead of buying it, but the question is whether this is what the customers want. Therefore it would be interesting to study the consumers’ preferences when it comes to the access and delivery of music.
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Michelle Kadir at Universal,

Victor Fredell at SonyBMG,

Jacob Key at Warner Music Group,

Kris Serien at Warner Home Video, and

Robert Picard at JIBS' Marketing Management Transformation Centre.
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**Respondents**

Kris Serien, Warner Home Video, personal communication, 2006-11-05

Anders Livåg, EMI, personal communication, 2006-11-07

Michelle Kadir, Universal, personal communication, 2006-11-08

Victor Fredell, SonyBMG, personal communication, 2006-11-16

Jacob Key, Warner Music Group, personal communication, 2006-11-16

Ulrik Cahn, 3, personal communication, 2006-12-05

Robert Picard, Media Management and Transformation Centre at JIBS, personal communication, 2006-12-12
Appendix A

History of the music history

There seems to be little agreement upon exactly when the music industry was started. However, we do know that Thomas Edison invented the phonograph (what would later be the gramophone) on December 4th 1877. This, we claim, laid the foundation of what today is called the music industry.

Throughout the years, improvement within the industry was made and along with an increasing demand for music, new companies were founded. The period between the 1920s and 1950s saw the creation of inventions such as the jukebox, LPs (long play), HiFi speakers and low cost electric-powered gramophones. Most important though, was that during this period the four major record labels were created, but not in the exact form as today. Still today these companies are dominating the industry which be defined as an oligopoly since they together posses more than 80 percent of the market-shares (IFPI, 2005).

The period between the 1950s and 1970s made the music industry even more profitable thanks to the introduction of the TV. This medium made it possible for fans to see their idols perform on TV and this increased the record sales.

The possibility of storing music in digital form was discovered thanks to the computing technology. The compact disc (CD) was marketed in 1982 and readily available on the American market in 1985. Only six years after its release it surpassed the LP in sales. Since then the cheaper and more durable CD has been the medium of choice for recorded music. The fact that many people replaced their old LP’s with the CD helped the music industry increasing its sells through the 1990’s. However, as said before, the CD sales are now plummeting. There are many factors that might explain this fact. The authors believe peer-to-peer technology is the most important factor to explain why the music industry is experiencing problems today.

Technological change

The peer-to-peer sharing, which will be explained later, is a big problem for the music industry. Its breakthrough came with Napster in 1999 but the technique was based on the MP3 file format and MP3.com (Tschmuck 2006).

The introduction of the MP3 (Motion Picture Expert Group-1/Layer 3) format in the beginning of the 1990’s made it possible to transfer music over the Internet with a quality similar to the one of the CD and store it on a computer hard drive (Tschmuck, 2006). The new format revolutionized the downloading scene as the files now were small enough to be downloaded in a reasonable time, for anyone with a computer and a modem (Tschmuck 2006).

In November 1997 MP3.com was founded by Michael Robertson. One could say that MP3.com was the pioneer of free downloading services. When started in 1998 it was the world’s first music service provider. (Tschmuck 2006). MP3.com made songs in MP3 format available to its members in exchange for proof of ownership of the particular CD. The service was a huge success and in the year 2000 MP3.com had 10 million users and a CD library of more than 40 000 records. In August 2001 MP3.com was sold to Universal Records. (Shayo and Guthrie, 2005)
Napster, created in 1999 by Shawn Fanning, was the first example of a peer to peer (P2P) application. The difference between MP3.com and Napster was that Napster did not store any music on its server; it was just a bridge, connecting the users with each other. There was also no proof of ownership requirement from Napster.

Needless to say, this was not a development appreciated by the music industry since they had now lost control of its music. Therefore “Recording Industry Association of America” (RIAA) filed a law suit against Napster in December 2000. Napster lost and had to shut down in February 2001 (Shayo and Guthrie 2005).

Even so, the battle was not won. Other companies, using similar technique as Napster, started to emerge. Kazaa, Soulseek and BearShare are just a few examples. RIAA did its best to stop these, but failed to close them down. Still today, people are able to use these clients to download illegal music.
Appendix B – Questions to the music companies

Personal background
What is your name and your position within the company?
Could you please describe your background and previous experience?
When did you start working at the company?
What are your main responsibilities?

Independence
How independent are you from the headquarter?
What decisions can you make / are you making on your own?
How influential is Sweden when making worldwide strategic decisions based upon technological environment?
Is the Swedish market regarded to change more or faster than other regions?
Is the Swedish technological environment an indicator of how the future environment might look like in the rest of the world?
Are any strategies different in Sweden compared to other countries?

Changes to the music industry
How do you consider your position in the industry?
Has there been a change in position due to the technological change?
How has the organization as a whole been affected and how have you dealt with it?
Cut-downs?
Restructuring?
New staff with more experience of technology and how to use it?
Has the relationship with the artists changed?
How?
The artists today have a greater opportunity than before to distribute their own music, has that effected you?

Competition and Market
Who do you consider to be your main competitors?
Has this change due to the technological change?
Do you have any strategic alliances?
If so, have they changed due to the technological change?
What is your main strategy for the company to survive and remain competitive?

How does your company differ from the main competitors concerning digital strategies?

Considering that consumers today have more and easier access to music from different channels (file-sharing, web-radio, msn, cell-phones, online stores), how are you making use of these and how will you make the customers buy your product?

What are your thoughts about iTunes and similar companies?
How do you cooperate with them?

Even though the illegal downloading is a concern, people are still willing to pay for music, how will you attract those?

What are the benefits associated with distributing the CD compared to downloading?

What ideas do you have to provide added value to the customers? (e-gadgets, extra material)

The Future

Do you have a concrete technological plan with objectives that you want to achieve within a certain time frame?
- 1 year
- 3 years
- 5 years

What are the current trends in the music industry?

How do you think the industry and your company looks like in 5-10 years?

How are you planning for this?
Appendix C – Questions to 3

Personal background
What is your name and your position within 3?
Can you please tell us a bit about your background and working experiences?
When did you start working at 3?

Independence
How free are you to develop strategies at the office in Stockholm?
Do you see Sweden to be somewhat of a pioneer when it comes to mobile services?

The music service
When and why did 3 start to offer music?
Was it 3 or the music companies that made the initiative to start distributing music through mobile phones?
How, in your opinion, did the music companies handle the operation to offer music through mobile phones?
Is there any of the major music companies that you feel are better to work with?
If so, how is this/these companies better?
Do 3 cooperate with independent record labels as well?
Do you see 3 as a part of the music industry?
Do you believe that 3 has helped the music companies to adapt to the technological change?

Profitability and future
How profitable is your music service?
What are the major obstacles to higher profit for the music service?
In your opinion, what do you think the future holds when it comes to mobile music services?
Appendix D – Questions to Robert Picard and Kris Serien

Personal Details
What is your name and your title?
What is your previous working experience and your current main duties?

Technological change
When did the technological environment change for the music companies and what was, in your opinion, the crucial change?
In your opinion, how did the music companies handle the change and what did they do right/wrong?
What could they have done better?
Music companies are not selling directly to end consumers, should they? Why / why not?

Competition
The music companies believe that downloading shops and mobile phones are the future when it comes to selling music, do you see any other ways?
They also talk about having access to, not own the music. What do you think about that?
Music companies claim that their main competitors are the other music companies, do you see any other competitors?
Music companies claim that their competitive advantage depends on who they sign; do you see any different ways of how they can create competitive advantage?
How can a music company distinguish themselves from competitors?
What do you think of the price level of digital music?

Future
What do you think is going to happen to the physical part of the industry?
What other things do you think the future holds for the music companies?