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# How Global Record Companies Adapt to Digitisation in the Music Industry

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## ***Abstract***

*The music industry underwent a revolution with the advance of digitisation, which was a disaster for the record companies who relied on physical sales of music from CDs and cassettes. Digitisation meant that music in physical formats switched to digital formats, which came unexpectedly for record companies who lost revenue and market shares. Illegal downloads dominated the market until the Pirate-Bay trial in 2008, when the music industry slowly began to flourish again. Despite this, global record companies did not begin to grow significantly again until 2012. That gap, between the progress of digitisation in 1999 and 2012, was a hectic time for labels that had to undergo several strategic conversions to get started with their business again. After this “revolution”, they were not as important anymore and their role in the value chain had become blurred.*

*Through the value chain model and with non-predictive strategy, one can explain which adaptations record companies have had to implement and why. To gain a better insight of history and experiences in the industry, Per Sundin, CEO of Universal Music Group, was interviewed. Mikkey Dee, drummer for Scorpions, was also interviewed to gain further insight of industry history. For the past 7 years, music has been profitable for some global record companies because of strategic changes that have been made. Initially, record companies were forced to implement an adaptive strategy, but this has later morphed into a transformative strategy with elements of effectuation. This proved to be effective as global record companies now have a more important role in the value chain. They have outsourced operations and specialized in areas such as marketing that have become increasingly important in today's music industry.*

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# 1. Introduction

## 1.1 Background

### *1.1.2 Digitisation*

Two worlds coming together - not gently intertwining, but abruptly smashing into one another. This could describe the intense relationship between two massive worlds, one being older, more experienced, whilst the other young and constantly evolving. We know them as the real and the virtual world, and they are interacting with each other in a way that they have never done before (Kagermann, 2019). These two worlds exist simultaneously, and they seem to become more synchronised as different aspects of people's life becomes digitised.

Although an individual can in theory live a highly-digitised life with little or no connection to the real world, this does not seem to be the case for the greater mass. We choose to let different aspects of our everyday lives become digitised, and whether consciously or unconsciously, it dramatically changes business landscapes (Bloomberg, 2018).

Digitisation is defined by Kagermann as “the networking of people and things and the convergence of the real and virtual worlds that is enabled by information and communication technology (ICT)” (Kagermann, 2019). It is something that will have large effects on all sectors as we know them, to different degrees, but overall with dramatic results (Koch, 2017). For instance, it will influence infrastructure as it has previously been known, which involves: energy, mobility, healthcare, and manufacturing (Kagermann, 2019). Pioneers from the ICT industry are challenging members of the old industries by putting pressures on their current value chains. To prevent the ICT community from taking over, established transnational and multinational firms are forced to restructure their business models (Basu, 2017). For an automobile manufacturer, this could involve breaking up stages of the value chain to be able to manufacture smart, environmentally superior cars (Kagermann, 2019).

Digitisation is a topic that is understandably discussed to a large extent, especially in the academic world (Koch, 2017). Car manufacturers are widely discussed, a hot topic and an industry that has seen challengers such as Tesla challenge the “established” firms. Other industries that have been widely discussed include (but not limited to): photography, logistics, visual media, and many more.

Although the music industry has been discussed to some extent, this seems to have been done mostly in a historical sense. The industry has undergone violent changes and restructuration that startled an entire world. Many firms disappeared, which also meant opportunities for fortune seekers within the industry (Mirarchi, 2019). Some questions that remain are how certain actors could survive this dramatic change, and why certain firms were able to outperform their competitors. These subjects seemed to have been nibbled upon but the depth of these questions lead us to dive deeper in a search for answers.

## 1.2 Problem discussion

The effect of digitisation on artists is noticeable as artists are becoming increasingly independent from global record companies (GRCs). They adapt a more "independent mentality" in a modern society, where the Internet has become an excellent tool for marketing and distributing songs (Kiss, 2009). Naturally, this has made both artists and researchers doubt both the GRCs tasks and existence. World artists who have taken the industry by storm, without a record label, have expressed their impressive capability of success - for instance, "Chance the Rapper" is one of the highest paid rappers in the world. He is a perfect example of an independent value chain which has naturally generated a great amount of profit for the only member of the chain; himself (Billboard, 2017). He made a career without a record label, without any other help, and firmly expressed his doubts towards GRCs, urging artists not to depend on anyone (Billboard, 2017).

Even though the role of record labels seems to be undergoing big changes, "the three majors" have made large profits, both historically and presently. "The three major" encompasses Universal Music Group (**UMG**), Sony Music Entertainment (**SME**) and Warner Music Group (**WMG**), which together own 70% of the market share in global recorded music industry (MIDIA, 2019).

It has been shown that new developments and innovations have drastically changed the music industry within aspects such as distribution and promotion (Moreau, 2013). These are tasks that GRCs manage and they must therefore also develop their work to handle this change. Nowadays, marketing, distribution and promotion are tasks that can be done by the artists

themselves on the internet. Essentially, this means artists are putting pressure on GRCs which is becoming problematic for them. Historically, record labels have had the absolute bargaining power when it came to signing artists. Presently, unless the artist is completely unknown, that is not the case. Their biggest challenge is to be able to provide benefits for the artist that they cannot achieve on their own. One part of this is proving that they have resources that are not available on the web, or via other, cheaper middlemen (Wang, 2018).

Following digitisation, record labels have changed their working methods which will be analysed in this thesis. Current information on how GRCs manage "the new music industry" is lacking or non-existent, and theoretic guidance for other industries could be very useful when managing firms in disrupting markets.

### 1.3 Purpose

A new era has arrived in the music industry, an era where GRCs are starting to see activities stemming from artists and other actors who have suddenly stepped into the spotlight. The three largest international GRCs, the three majors, work differently with digitisation which has generated different results and different changes. Few studies have been carried out on this subject and not many today know what changes the GRCs have had to apply to handle these changes, if any. Why have some of the major record labels managed to handle digitisation in a better way than others from a profitability point of view (Inghelbrecht, 2015)? The purpose of this thesis is to focus on the measures taken by the GRCs within international business, and to conduct qualitative research to portray and map these activities. The reason for focusing on international business is mainly the extent to which the music industry is international, which brings the academic theory into a logical starting point for exploring this field of research (Koch, 2017).



## 1.4 Research question

In this thesis, we will answer the following research question:

“How do global record companies strategically adapt to digitisation? Why have they made these changes?”

## 2. Theoretical framework

To understand how, and why digitisation and the internet have affected the GRCs, it is important to have some sort of idea of how the music industry is built up. Since the research question poses a question regarding the strategy amongst GRCs, it is important to make an understanding of both the context that they operate in as well as the operations themselves. By looking at the value chain, and which place in the value chain that GRCs hold, one obtains an idea of the basic structure of the industry. With this basic understanding, it becomes easier to apply more in-depth theoretical tools.

The uncertainty in the music industry became a fact after digitisation. To gain an understanding of how record companies have been able to manage the business when a high degree of uncertainty prevails, there is an appropriate model; non-predictive strategy, that maps out a company's optimal strategy to adapt to changes.

### 2.1 Value chain management

A value chain is a flow model developed by Michael Porter in 2001. A value chain is a description of a company's physical flow and the activities performed in the company to create value (Porter, 2001).

The value chain is a model for better understanding companies and activities surrounding the business model. A value chain identifies activities that add value to the company's offers. In a value chain, the activities are divided into primary and supporting activities (Kaplinsky, 2000). One useful way of portraying a value chain includes the “4 dimensions” as perceived by Hardaker and Graham (2002).

The chain also includes the organizations and processes needed to create and deliver products and services to the consumer. Although this is the case, the value chain approach has been used in many sectors, including the music industry. According to Hardaker and Graham (2002), the theory is built through 4 dimensions:

1. Activities
2. Actors
3. Governance
4. Co-ordination

### ***2.1.1 Activities***

The activities in the value chain relate to all activities from start to finish and in the clear majority of cases they are serially interdependent from each other (Hardaker & Graham, 2002). This means that to finish the second activity, it is required that the first activity is completed. The activities do not come up through planning, but usually come with time where luck, habit, communication and information exist (Hardaker & Graham, 2002).

### ***2.1.2 Actors***

Depending on how dynamic and variable the choice of actors is in the value chain, this will affect the flexibility of the chain. When partners in the chain are very established, they tend to become very static, have limited mobility and low flexibility (Kaplinsky, 2000). This is usually the case for old, established industries such as the music industry. However, if the partners are not established, but can vary over time, the chain tends to be very mobile and flexible. The actors and the flexibility of the value chain may also vary over time.

A chain that is vertically integrated, that is, if only one organization handles all the activities and the entire chain, is a static chain because all parties belong to the same organization or at least have easy for insourcing for the remaining activities (Kaplinsky, 2000). This is how the business model for old record labels seems to have been built up. A chain that has several parties involved in the activities tends to be mobile and therefore flexible (Hardaker & Graham, 2002).

### ***2.1.3 Governance***

This dimension refers to the control and ownership that an organisation has over the value chain. An organisation decides how much ownership it wants over a value chain, depending on the transaction and on the production costs (Kaplinsky, 2000). If there are low transaction costs between the activities, it is worthwhile for a company to want to own the entire value chain, a vertical integration. They will then want control over all channels such as the distribution channels and the production channels. If there are high transaction and production costs, the company will instead make an outsourcing to have a greater focus on its core business (Hardaker, Graham, 2002). Whilst the organisation has a choice of lowering/raising the amount of control, and this might be part of a larger strategy, the firms might in practice not have much of a choice if they wish to survive.

### ***2.1.4 Co-ordination***

For the co-ordination in the chain, the information flow is the most important thing to consider (Lee et al., 1997). Information can go between the various activities but can be incorrect and can also take time. The most important information flow is the “orders” and if the information is incorrect about the demand it can cause abundance of production and therefore cost unnecessary money and storage space. This is mostly true for logistics in manufacturers and the accompanying value chain, but the same effect can be seen across different sectors. The phenomenon is called the “bullwhip effect” (Lee et al., 1997).

For every step of the value chain that the product reaches, the more and more these orders can vary and therefore they become less reliable which can have financial consequences. In a value chain where a company is vertically integrated, the information flow tends to be of good quality and the bullwhip effect is reduced. In a chain in which there are several parties involved, the bullwhip effect has a much higher tendency of occurring, due to the integration not being as good (Hardaker & Graham, 2002). Whether this is a factor that should be taken into consideration for firms, or if it should even be considered, depends on the industry in which it is taking place. In some industries, the need for preventing this is much less common.

## 2.2 Non-Predictive strategy

### 2.2.1 *Planning or adaptation?*

Wiltbank, Read, Dew and Sarasvathy outline several outcomes of different strategies in strategic management in their reputable “What to do next?” article from 2006. For instance, a firm's ability to plan in varying degrees of certainty can in fact be linked to higher return on sales, higher return on assets, increase of overall performance and increased dynamism. Being a planning firm as Wiltbank describes it involves analysing and attempting to predict the future. As uncertainty increases, higher efforts to plan leads to firms outperforming others (Wiltbank et al., 2006)

At the same time, other successful businesses master the adaptive company profile. This implies being able to respond to changes quickly and maintaining flexibility. Wiltbank links this second profile to following an incremental development within the firm. As in the case for planning firms, empirical evidence link these traits to enhanced quality in decision-making processes (Wiltbank et al, 2006).

Wiltbank discusses the gap that exists between firms that deploy the planning or the adapting strategy. When bridging this gap, firms can achieve what the article describes as fast and rational decision-making. When looking at how fast digitisation struck the music industry, it seems that firms affected must have had at least elements of cross-strategy (planning and adaptation). The authors describe firms who apply both profiles:

“Quick reactions to changing environments, central to adaptation, while retaining many of the rational strategy-making processes: more alternatives, more information, and more integration” - *Wiltbank, 2006*

Empirical data suggests that synergy between planning and learning does exist in correlation to higher profit and higher growth performance (Silberzahn, 2012). However, there are a few problems with the coexistence of these two. The problems are specifically attributed to the role of prediction in strategy/decision-making. They can be outlined as follows:

1. Appropriate use and/or effectiveness of prediction is central to the success of both planning and adaptive firms.

2. Empirics support two different strategies. How can companies in fast changing environments know which strategy to rely on when academia says that both work?
3. Struggling to bridge these two characteristics, encouragements to “carefully plan to quickly adapt”. These are the practical struggles one might face when attempting to bridge the two different approaches.
4. Assuming the environment of the firm is exogenous to the firm, this is not necessarily true.

Favourable outcomes of firms over time can be related to managers' ability to predict the future. If you can predict consequences, you can gain control over them (Silberzahn, 2012). Successful predictions of the future can help managers navigate through uncertainties, but ultimately this is a game of chance. When the probability of predicting the future correctly is relatively certain, control and prediction go hand in hand. In real life, and certainly in the case of the music industry, this is not the case. However, this would essentially mean that either you predict the future correctly and gain control, or you misinterpret the future and lose control. This relationship is according to Axelrod and Stark not true if the foresight horizon of the strategist is uncertain. If this is the case, attempts to “influence the evolution of market elements” can be a clear strategy for obtaining control in high levels of uncertainty (Wiltbank et al., 2006).

### ***2.2.2 Uncertainty***

Frank Knight describes different levels of uncertainty in his 1921 seminal work, which is later revised by Wiltbank in the What to do next article. What Knight originally did was look at the relationship between predictability and profit. This leads to three distinct types of uncertainty: known distribution and unknown draws, unknown distributions and unknown draws, and finally non-existent distributions. The first two are futures that are manageable to some extent. However, the last degree of uncertainty implies a future that does not exist and therefore is impossible to predict, known as Knightian uncertainty. Knightian uncertainty disrupts the possible relationship between prediction and control, as prediction is an impossible feat. It pinpoints the very creative human nature of innovation, giant changes in the environment that are unpredictable because they spur from nothing. Quite spontaneously

the mind rushes to changes such as digitisation, and Wiltbank even lists examples such as Google and the internet. In the music world, Spotify might be an example of this human nature of innovation.

When a company faces an environment with a future of Knightian uncertainty, the traditional bond between prediction and control becomes impossible. You cannot predict the future to gain control, because predicting the future is impossible. This creates a need for strategies that do not rely on prediction.

Wiltbank lists four approaches for strategic managers, each approach positioned in different corners of the figure 1:

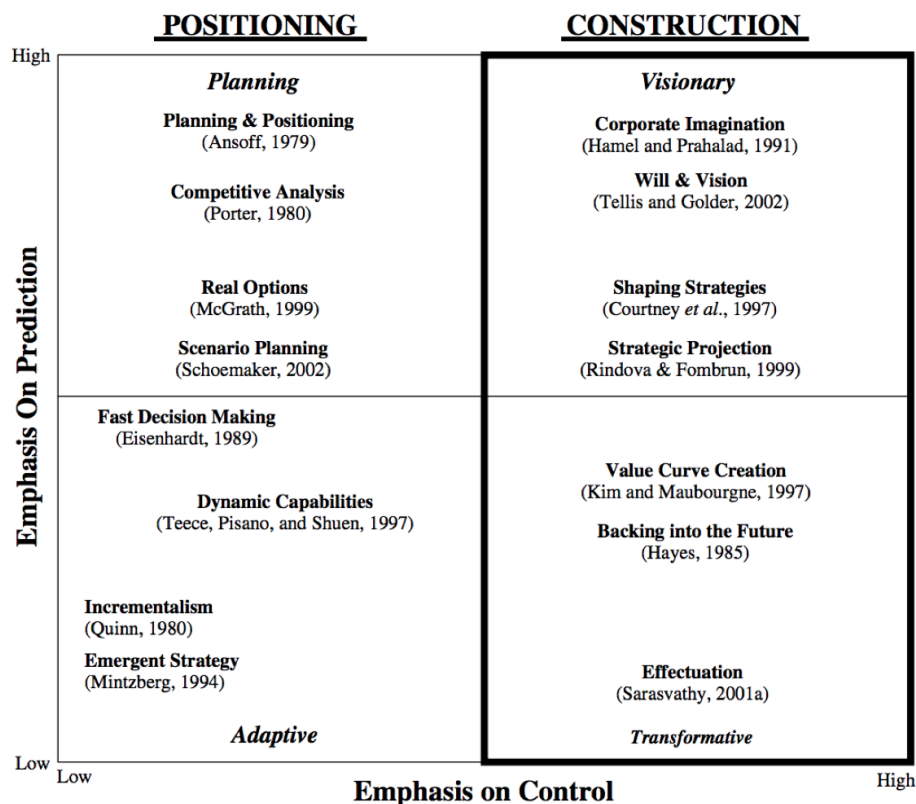


Figure 2. Representative literature on specific approaches to situational control

Figure 1: Framework of prediction and control (Wiltbank *et al.*, 2006)

### 2.2.3 Positioning

If the environment is predictable, strategic managers can invest resources in tools that can help guide future decisions. Emphasis on control is low while emphasis on prediction is high. These are planning strategies.

If the environment is unpredictable, strategic managers can invest resources in flexible strategies/tools that quickly respond to environmental changes. Emphasis on control is low and emphasis on prediction is also low. These are adaptive strategies.

Both theoretic fields focus on prediction, the ability to predict the future. As the general apprehension of digitisation is that it struck very fast, and was hard to predict, not much emphasis is put on these theoretic fields. The article cited is called non-predictive strategy and focuses on environments that have more similarities to the music industry (Silberzahn, 2012).

#### *Visionary strategies (Control)*

Strategies that assume that the environment is predictable, but easily influenced. This renders future environments changeable. With this vision, firms can take control while adopting a belief or assessment of a future environment that is predictable. The visionary strategies are characterised by high control and high predictability. The future is created by leaders, and will exist simply because humans can envision it. Porras and Collins (1995) speak of taking the market instead of positioning oneself to where one thinks it's heading.

#### *Transformative strategies (Control)*

Assuming the case of Knightian uncertainty, which means that the environment is non-predictable. This also means that future is creatable by cooperation, creating goals, imagining possible futures by looking at current means. Ogilvie (1998) shows a study that compares decisions made with creative-action based logic to decisions made using "rational" logic. The results are clear, showing preferable results for creative-action based logic in unstable situations. Some (March 1978) say that a "technology of foolishness" like this, non-predicting and non-visionary, can in certain situations be preferable. As with effectuation, focus lies on using available means, as means are controllable. By doing this you are emphasizing control and ignoring prediction. The way effectuation takes place in

transformative strategies is illustrated in figure 2:

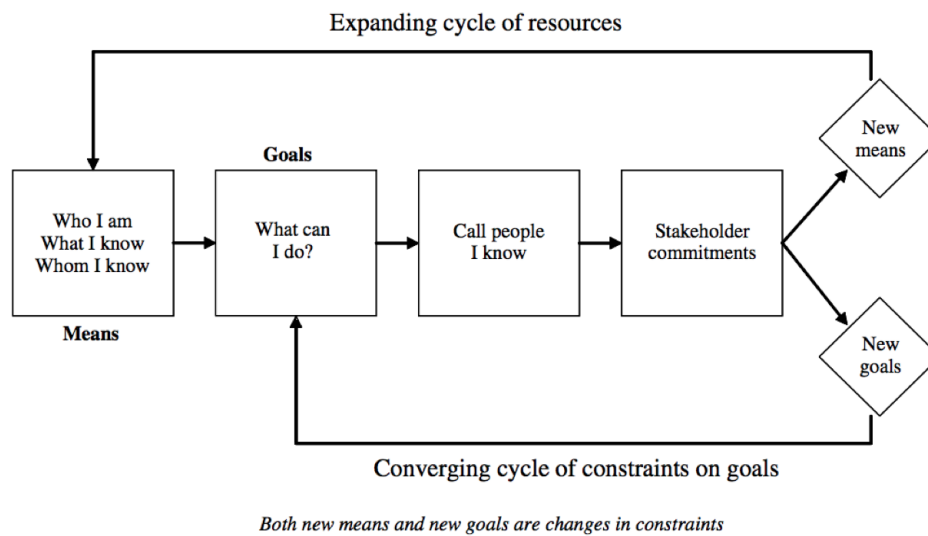


Figure 2: The process of effectuation in a transformative strategy (Wiltbank et al., 2006)

## 2.3 Conclusion of theories

First off, we will start by looking at the context of the music industry and how the parameters have changed. The main theme throughout the historical data that will be gathered will revolve around the theoretical concept of digitisation. This due to digitisation being both a useful theoretical source of information as well an innovative power of change that is highly relevant in this case.

The value chain of major record labels will be studied for descriptive purposes as well as their operations and associated changes taking place. By breaking apart the value chain using 4 dimensions in accordance with Hardaker and Graham (2002), a clear view over which characteristics to examine can be derived. The four dimensions are:

1. Activities
2. Actors
3. Governance
4. Co-ordination



After having built an understanding based on these 4 dimensions, “non-predictive strategy” theory will be used to analyse the different changes that have occurred in the four dimensions. The historical aspects will also be considered. Ultimately, the different theoretical combinations will be used together to provide a rich thesis with as many new perspectives as possible.

## 3. Methodology

### 3.1 Research approach

The approach used for the thesis is mainly an inductive approach. An inductive approach usually uses the research question to limit the scope of the study (Bryman & Bell, 2011). Typically, an inductive thesis will explore new fields of research or revisit old fields of research whilst looking at them from a new perspective. Qualitative studies will usually apply an inductive approach, but this is more of a generalization than a rule. The main inductive trait of the thesis is that theory is generated out of research, whilst not disregarding the fact that existing theory may very well be used (Bryman & Bell, 2011).

It should however be noted that there are abductive elements to the research approach. When conducting abductive research one moves between theory and empirical data to let an understanding gradually grow. This systematic comparison between empirical data and the conceptual framework has led to slight alterations in both the research question as well as the purpose of the thesis. Therefore, the thesis different cornerstones evolve simultaneously through the process, and change in different ends to better answer the research question (Dubois, Gadde 2002).

### 3.2 Study design

This research thesis is of a *case study* type that will analyse the music industry. As Yin (1994) defines it, the contemporary phenomenon of digitisation will be studied in its real-life context, specifically amongst record labels. As Merriam (1998) points out, delimitations of the study are crucial. For this specific case, the targeted population will be record labels in the music industry.

Eisenhardt (1989) argues that the case study approach is suitable for new research areas, or research areas where current studies are insufficient. When it comes to labels managing digitisation, the latter is true. As the research question involves answering *how* global record labels strategically adapt to digitisation, the case study method is appropriate according to Ghauri (2004). The depth and focus of the research that is required according to Ghauri is obtained by using interviews, observations, marketing/competition reports, journals and more.

By using the case study approach, information can be continuously gathered until an understanding of the context has been achieved. As the music industry is international and deals with cross-cultural settings, the case study approach is well suited (Ghauri, 2004). Similarly, the method is appropriate for understanding decision-making processes of leaders in different cultures.

As parts of the study must be in retrospective to understand the context of the music industry and digitisation, the longitudinal approach also suggests that a case study is appropriate (Ghauri, 2004).

### 3.3 Research Process

The research was conducted as follows: the authors decided on conducting a study looking closer at digitisation in an international business context. A literature review was conducted to gain a better overall understanding of existing research. This was done using the database of Gothenburg University, using keywords such as; digitalization, digitization, internationalization, digital industries, digital companies, etc. Following this process, a research gap was identified in the music industry.

After the research gap had been identified, the authors decided to focus on companies within the music industry who had been subject to or had been born due to digitization. The authors also decided to focus on global companies. Following these decisions, contact was established with UMG through email. A phone interview was held. Following the interview, information was collected from a variety of sources including journals, interviews, websites and books. The data was then analysed using qualitative theories and inductive reasoning, which ultimately lead to a conclusion and probable answer to the research question.

Many of the theoretical frameworks found within international business are qualitative, but most theories used in the field of study are of quantitative nature. This means that instead of conducting research that is truly based on international business, theoretical frameworks are borrowed from other fields of study and applied in an international business context. This is partly due to quantitative information being more convenient, as it is easily sorted and processed (Doz, 2011). It has to some extent been helpful because it has helped the field of study grow, but it has also been problematic because it leaves a gap in the research being conducted (Doz, 2011). This is one of the reasons that the authors choose to conduct a mainly qualitative study: to broaden the understanding of international business theory.

### 3.4 Data Collection

Collected data is used to analyse the subject and develop reliable theory from the analysis. Thus, it is important how the collection of data takes place to reduce inaccuracies in the thesis. The collection of data is mainly qualitative and there are two types of information that we can process, primary data and secondary data. In the empirical section of the thesis, both primary and secondary sources of information were used. The primary sources were an interview with Per Sundin from UMG and an interview with Mikkey Dee from Motörhead. Secondary information was carefully selected from sources that were chosen cautiously.

#### *3.4.1 Primary data*

**Interview with UMG:** The interview with UMG was conducted on the 26th of April 2019 and lasted for 21:45 minutes.

**Interview with Mikkey Dee:** The interview with Mikkey Dee was conducted on the 24th of April 2019 and lasted for 34:49 minutes.

A phone interview was conducted with Per Sundin and a face to face interview was conducted with Mikkey Dee. What is important when making the interview is the selection of who to ask and what questions to ask. Without this process, one risks conducting a biased interview, which could be directly damaging to academia. The interview will be held with the CEO of UMG Nordic, and the value chain approach can lay the groundwork needed for

applying further in depth qualitative theories. This is something that does not only benefit this thesis, but can also be helpful for future studies.

UMG responded quickly and indicated that they could do an interview. This was crucial and the choice of the interview was made by rationalising convenience sampling as discussed by Eisenhardt (1989). As the time limit required one to conduct an interview in a very short time, it proved mandatory to use the sample that was closest to the drawing hand, which became Per Sundin at UMG. He proved to have an interesting strategic role in the chaotic digitisation of the music industry. He had worked for Sony, and been CEO of Sony BMG from 2004 to 2008. During this time, he helped Sony turn around their numbers and grow into one of the largest record companies in Scandinavia. After this he became CEO of UMG Nordic, which is his current job. At UMG, he has had a range of successful years, where he, amongst other things, managed to turn the firm into the leading record label in the Nordic Region.

Per Sundin had a lot information and experience, and he had been involved before and after the time of digitisation. He could compare his work before and after the digitisation, which enriched the empirics. Adding these parameters to the convenience of the interview, made it inevitable to include the data provided in the primary data.

The second interview was with an artist. The complementary interview helped describe the artist's viewpoint of the digitisation of the industry. As artists stand for a massive role in the value chain, this also helped broaden the scope of the historical analysis. The artist who was interviewed was Mikkey Dee who is a Swedish drummer that has been an active musician for his whole life. In 1992, he joined the cult band "Motörhead", and following the singer Lemmy's death, he joined the German hard rock band "Scorpions". The fact that he is currently active contributes to his experience of being a musician in a highly digital world.

### ***3.2.2 Secondary data***

- A total of 4 books were read to various extents to answer the research question.
- A total of 21 websites of different nature, mainly newspaper articles, were visited to answer the research question.

- A total of 16 theses were read to help answer the research question.

The secondary data used in the report is of high importance, as the primary data is insufficient in providing the data necessary to answer the research question. However, information retrieved from existing data is not always reliable. Therefore, the information retrieved in this case study is scrutinized, whether it is a first-hand source or a second-hand source. The sources are sorted according to the type of media in the source reference.

Existing data is available from various media, typically stemming from three different sources:

1. Data retrieved from the internet and the web pages whom are reviewed by looking at other content on the websites.
2. Books and other literature, in which the author and his risk for bias is scrutinized.
3. Surveys and academic research in which the author and his risk for bias is scrutinized.

### 3.5 Quality of research

To assess the quality of this study, 3 different perspectives from Merriam's study of qualitative studies (1998) are used for a fair explanation. Internal validity, external validity and reliability.

#### Internal validity

This phenomenon refers to how good research findings match reality and is therefore linked to the data collection that is critical of what is real or not (Merriam, 1998). To avoid such bias, four strategies have been adopted.

*Triangulation*: use of multiple investigators and sources of data. Besides the interviews, information was collected from a variety of sources including journals, interviews, websites and books. This was not done to ensure that information cohered, but rather to paint a picture of the industry in multiple dimensions. By using triangulation, the relevance of the study was enhanced. This was especially necessary due to the difficulties in gathering primary data.

*Checks:* Ensure that the information is genuine by questioning the source again. The authors have been critical of the sources and the interviewers. When in doubt, authors have consulted interviewees again to check that the information was accurate.

*Peer examination:* have others comment ongoing study. This study has had an examiner who has regularly commented the study.

*Researcher's biases:* clarifying the researcher's assumptions and worldview at the outset of the study. The researchers in this study have tried to be as objective as possible. (Merriam, 1998)

#### External validity

This perspective refers to how findings can be applied to other situations and how generalized the results are in the study (Merriam, 1998). A smaller and carefully selected sample is chosen to gain a deeper understanding of the subject instead of finding a generalization, problematizing instead of generalizing (Merriam, 1998). There are 3 strategies for this:

*Rich description:* Others can compare their situation with this study.

*Typicality:* Trying to describe how typical an event is.

*Use of several cases:* Get perspectives from different cases.

#### Reliability

This aspect refers to how reliable the information is and whether it can be replicated. It is not important if the information can be found again, but if the results are consistent with the collected data (Merriam, 1998).

### 3.6 Conclusion of Methodology

The study uses mainly uses an inductive approach. However, as the study continued, the authors gradually adopted an abductive research approach. The study targets record labels in the music industry and acts as a case study on the music industry in general. The frame within

the music industries consists of events related to digitisation in an international business context. The data consists of both primary and secondary data, the secondary data being of great range to triangulate the information.

## 4. Empirical Data

### *4.1.1 Music online and piracy*

The GRCs were scared as their profits dropped, and in the early process of digitisation, they tried to prolong the process of getting music online. Establishing barriers for new actors to enter and regulations to prevent piracy were some of the actions that slowed the downloading trend down (Fogarty 2008). However, this was soon inevitable and new ways to make profit had to emerge. Efforts to bring back the industry to what it used to be were hopeless, and the changes now seemed to be permanent.

Major disruptions in the music industry caused structural changes in marketing techniques and previously rigid value chains. Before digitisation, income was obtained directly from physical sales of discs and LP's (Fogarty, 2008). With the progress of things becoming digitised, income from songs was being obtained over time through various algorithms that registered the number of listeners through streaming services such as Spotify. This method of revenue is still being used today, with no obvious threat (Giacaglia, 2019). Mikkey Dee goes on to describe this in the interview that was conducted for this thesis:

“One of the negative aspects of the digitisation is that an artist can have millions of streams, and you could still see him collecting trash to make a buck. I’m exaggerating, but if you compare stream money to CD money, it’s nothing!” (Dee, 2019)

In an article from 2006, influential Sasha Frere-Jones (former music critic New York Times) indicated that bands nowadays can make “a decent living” on revenue stemming from concerts and merchandise. This is interesting, because streaming revenue is not mentioned in the article. These emerging ways of surviving piracy/downloading/streaming have radically changed the industry inside and out. Figure 3 provides an interesting image of the industry’s evolution up until the point where Internet and ICT takes over.

KEY TECHNOLOGICAL INNOVATIONS IN THE RECORDED MUSIC INDUSTRY			
Year	Innovation	Impact on distribution	Impact on promotion
1877–87	Phonograph (cylinder), gramophone	Birth of the recorded music market with the introduction of the 78rpm in 1906	
1920	Radio	None	“Star system” created by Decca in 1929 (massive use of radio broadcasting to promote record sales)
1948	Vinyl disc (331/3rpm, 45rpm)	None; only a change in the support	None; radio broadcasting still the dominant model of promotion. However, singles (45rpm) sales promote album sales.
1962	Audiocassette	None; only a change in the support	None
1979	Walkman	None; only introduction of listening in mobility	None
1982	CD	None; only a change in the support	None
1990s	Internet and ICT	Change in the support (digital files) and in business models (streaming, subscription)	Recommender systems, online word-of-mouth, social networks

Source: Coleman (2005); Huygens et al. (2001)

Figure 3: Key technological innovations in the recorded music industry (Moreau, 2013)

When the radio came, GRCs were worried that sales would deteriorate as people would not want to see live shows anymore. This however, was not the case (Turow, 2011). In an interesting study that is unique in terms of mentioning profitability opportunities derived from piracy, the positive externalities that come from music online can be extracted in the touring part of the value chain (Curien, Moreau, 2009). This means that a positive outcome had in fact started to appear from the digitisation of the music industry. In economic terms, these positive externalities still have not come close to generating as much profit as the industry used to do (Fogarty, 2012). However, artists are getting a bigger portion of the profits being generated (Sundin, 2019).

As innovation and digitisation has continued, GRCs have felt worried that intermediaries might replace their spot in the value chain (Dee, 2019). This has to some extent already happened. It seems that the GRCs must, over time, undergo changes in their strategies to follow society's developments and innovations (Moore, 2018). This is in accordance to the deep structural changes that can be found across all media industries following an era of digitisation (Chon et al, 2003)



#### ***4.1.2 Record labels: future or past?***

The importance of GRCs can be questioned with artists finding new ways of marketing themselves (Salo, Lankinen, Mäntymäki, 2013). Although they do have a high proportion of market share for all the world's music, they have faced a substantial reduction from their glory days. Total revenues stemming from the industry were as of 2017 just short of 70% from the industries peak 18 years earlier. (Moore, 2018) This had been an ongoing, steady decline for many years which may have been due to digitisation and its consequences (Moore, 2018). Marketing, distribution, production, sales, all the important tasks that GRCs are dealing with are beginning to gain new meaning in this context. The role that the companies play in the value chain is evolving, but at what speed and how successful is hard to say. Looking at the global levels of revenue within record labels from recorded music, from 1999-2017, the trend is negative (Ingham, 2019). Some of the big three however, such as UMG, are experiencing recent positive trends due to a reduction of market share held by the independent labels (Tschmuck, 2018)

By scoping different channels, GRCs try to find talents that can generate income for them. One channel that has grown largely lately, is the social media channel (Salo, Lankinen, Mäntymäki, 2013). According to the thesis, a few reasons that artists and listeners use social media to promote their music include:

- sense of affinity
- reinforcement of social identity
- participation
- two-way interaction
- access to content

Provided these benefits, one could imagine social media platforms naturally become an essential marketplace for record labels to search for new prodigies. Previous research is somewhat lacking at describing to what extent record labels conduct searches for new talent on these platforms. This is something that caught one's attention, and moreover, looking at

the way GRCs work in a modern context seemed to be a merely untouched topic. Record labels must have changed their working methods due to these changes in external circumstances, as well as time being a factor.

#### ***4.1.3 The Artist's Perspective***

In past years, marketing oneself as an artist posed a ranged of problems, including large costs of marketing that GRCs would normally account for (Dee, 2019). This is somewhat still the case - GRCs do have a vast amount of resources that they can pour into artists. However, since marketing music has moved more towards social media, it is cheaper than ever before. The start of this shift could be seen just a few years back in the Myspace era, where independent artists used the platform as an open network to interact with other people sharing an interest in music (Salo, Lankinen, Mäntymäki, 2013). This changed the entire landscape for musicians. Myspace alone helped bring world known artists such as Arctic Monkeys and Calvin Harris into the spotlight (Corner, 2019). The effects of this snowballed when later social media phenomenon such as Facebook and Instagram became integrated into people's everyday lives.

Independent artists suddenly gained the possibility of exposing themselves to a growing digital market. This inevitably meant that many independent artists who wanted to venture on their own were now facing a range of new challenges that were previously dealt with by record labels. Some of these challenges included standing out through hordes of other artists who were currently exploiting the same opportunities. Essentially, once a track was recorded, one could gain recognition without paying for marketing on Myspace (Corner, 2019). At the same time, more tracks than ever are left unheard as they blend in with the thousands of other releases that get pumped into the system every day. Have these changes made record labels an unnecessary "evil" to independent artists, or will their role in the value chain evolve?

#### *Summary*

Due to later technological innovations in the music industry, GRC's have struggled to maintain their key position in the music industry. Although the overall amount of money being generated in the industry is lower, some areas of the value chain have seen an increase, such as touring. Intermediaries have lately replaced some of the tasks performed by GRC's.

The revenues of GRC's have declined in comparison to their glory days. A recent shift of power has led to GRC's seeing a slight positive trend. The role of GRC's in the value chain is evolving but it is difficult to pinpoint at what speed and at what rate of success. One way in which the value chain has developed in the industry is the marketing being done using social media.

The amount of resources needed for an artist to succeed in the industry has gone down. However, the GRC's still hold leverage as to having large resources. Myspace, Facebook and Instagram have led to artists being able to become more independent. However, these changes have also brought up difficulties for artists in their attempts to stand out. The question remains, if the need for GRC's continues to diminish or if it's static?

## 4.2 A Changing Environment

The music industry has recently undergone series of revolutionary changes. Not so long ago, it was an industry that relied highly on sales of physical products, but digitalisation soon swept the industry off its feet (Fogarty, 2012). A remarkable change in the industry has taken place over the past 40 years (Routley, 2018). Music in physical format was the only type of music that existed before. Physical format implies 8-track, vinyl, cassettes and CD which were the most common form that music came in. The 8-track formats ended in the early 80s, being substituted by CD's. Since then, it has been the most common physical format in music, peaking during the year of 2002 where CD accounted for 95.5% of all recorded music industry revenues. The sale of music reached its maximum sales in 1999, with revenue adding up to an astonishing \$ 21.5 billion (Routley, 2018). A sum that, even today, has not been reached. However, as seen in figure 4, digital music revenue is growing at an exponential pace.

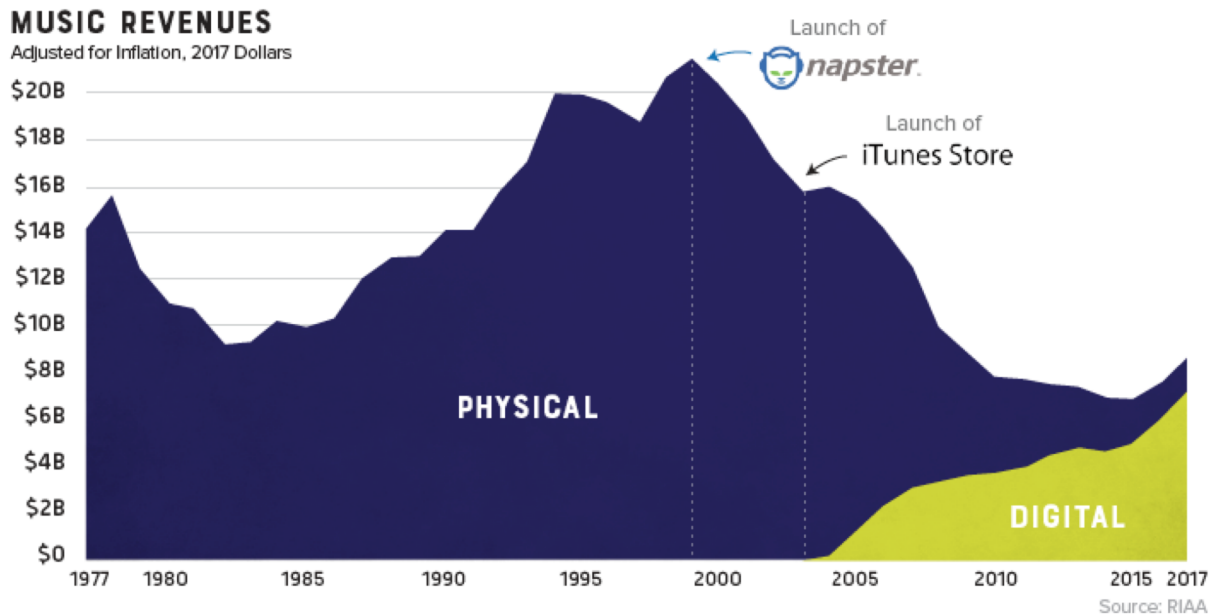


Figure 4: Visualising 40 years of music industry sales (Routley, 2018)

#### 4.2.1 Before the Internet

Before the internet and digital revolution had occurred, revenue amongst major labels stemmed from sales of physical products. As Per Sundin, managing director of UMG (SVP Nordic Region), says in the interview conducted for this thesis:

“First off, everything went from physical products and physical transactions (...) to digital products and digital transactions.”

This digital phase was a period of high uncertainty for the music industry, as a large portion of digital/physical revenue was lost to piracy online (Graham et al., 2004). In 2004, the piracy industry was worth an estimated 4.8 billion dollars, and it was expected to continue growing (Graham et al., 2004). However, this distribution of power was soon to be eradicated by an unforeseeable force. Some signs however, were detectable early on. The position and power held by major record labels was starting to change in 2004 due to three factors: the physical distribution chain becoming less important, lowers barriers to entry the distribution market, and piracy undermining the role of record labels (Graham et al., 2004).

#### 4.2.2 World Wide Web

In the late 90’s, Napster was launched, a digital file sharing platform. Between 1998 and 2003, their service reduced physical album sales by 13% (Michel, 2006). From 2004 to 2011,

the market share of music downloaded online rose from just 1.5% to an astonishing 50% (Moreau, 2013). This evolution was not popular, except amongst certain consumers. Although attracting many users, it was soon shut down due to multiple lawsuits in 2001 (Moreau, 2013). As mentioned by Mikkey Dee in an interview made for this thesis, less money was being made, which ultimately posed a threat to creative incentives:

“Motivation, motivation, motivation... Where is the motivation? Why on earth should any band with a successful record out there lay aside 6 months of touring revenue, to produce an album that no one will buy? No one can be bothered, it's tough to write 15 good songs, put your soul into them, and then it gets bootlegged and downloaded by all the bastards” (Dee, 2019)

Digital music was successful, but this did not show on revenue reports as it only consisted of pirated music. You can see this on the reduction of record sales between 1999 and 2008, i.e. until the year when the Pirate Bay trial took place and put a stop to illegal downloads. Consumers could download music on the internet, and a very damaging aspect of this (from the GRCs point of view) was the vast amount of illegal downloading. Consumers could/can connect to websites and download a variety of programs, to gain access to free media. The GRCs would go on to take painful blows from this. "15 years ago, there were 7 major record labels and now we are just 3", Per Sundin notes and aims at e.g. BMG and EMI, which were acquired by Sony in 2008 and UMG respectively in 2012. Thus, it was almost only the three major GRCs that survived this wild era, and several sizeable record labels were merged or acquisitioned, such as BMG and EMI. In 2003, iTunes launched its music store, with 200 000 tracks available. More digital music services started establishing themselves in the market, and gained large market shares after 2008. These companies included Spotify and Pandora (Routley, 2018).

The total sales of music (in terms of overall profit) declined from 1999 to 2008. By 2008, the industry reached rock bottom, barely generating \$ 8 billion in revenue (Sundin, 2019). Since 2008, sales have increased for the first time this millennium. This is mainly due to the growth of paid streaming services such as Spotify and Apple (Sundin, 2019). A Spotify subscription costs about \$10 a month - this renders the possibility to stream from a wide catalogue freely (Spotify, 2019). Streamed music now accounts for 59% of the music industry's revenue, and this number is anticipated to grow. Other digital music accounts for 24%, and the only

physical formats that remain today are CD and Vinyl. The latter has seen a slight trend in usage since 2017, reaching the highest sales figure in 25 years (Routley, 2018).

After total sales had reached an all-time-low (for record labels) in 2008, Per Sundin tells us: “The big change has really been going from a transaction industry to a subscription based one. The industry used to completely rely on building products, establishing physical stores, it was all about logistics (...) Now, all you need is servers.” This low point did not only mark the beginning of Sundin's successful career at UMG, but an overall beginning of a new, positive trend within the music industry. Believers of these new trends and the future of the music industry could from here and on take advantage of these emerging trends. For instance, UMG leveraged investments in Spotify during this time, while competitors scaled down investments (Sundin, 2019). Ultimately, one could argue for this move leading to Universal Music becoming the largest record company worldwide as of 2019.

#### ***4.2.3 A New Hierarchy***

Although Spotify has seen moderate competition from other subscription based platforms such as Tidal, Apple Music and Deezer, it remains the largest online music service since 2015 (Goldberg, 2019). Mikkey Dee, drummer in Scorpions and previously Motörhead tells us:

“People born later than 95 have not really experienced music with physical products (...) Some might have had a CD player when they were very young but almost all the people only know music as something digital. Now, you’ve discovered vinyl - that’s why sales are going through the roof (...) it’s an experience that kids have never had before (...) However, you do not really use a vinyl like you used to do. The reason for this is that streaming is so much easier, you have it in your phone and you take it wherever you go.”

The actors are constantly changing as the music industry has become more open. Before digitisation, there were three general intermediaries between the artist and the consumer: the GRCs, the distributor and the retailer. The GRCs handled most things, and could in some cases even manage the distribution and sales (Graham et al. 2004). GRCs could also make major investments in distribution infrastructure and production (Graham et al. 2004). After digitisation, the costs for these expenses have dropped, and therefore entry barriers have been eliminated. This has led to new actors entering the value chain (Recording connections,

2019). This change has first lead to a drop, in revenue, but as seen in figure 5, this trend has recently been reversed.

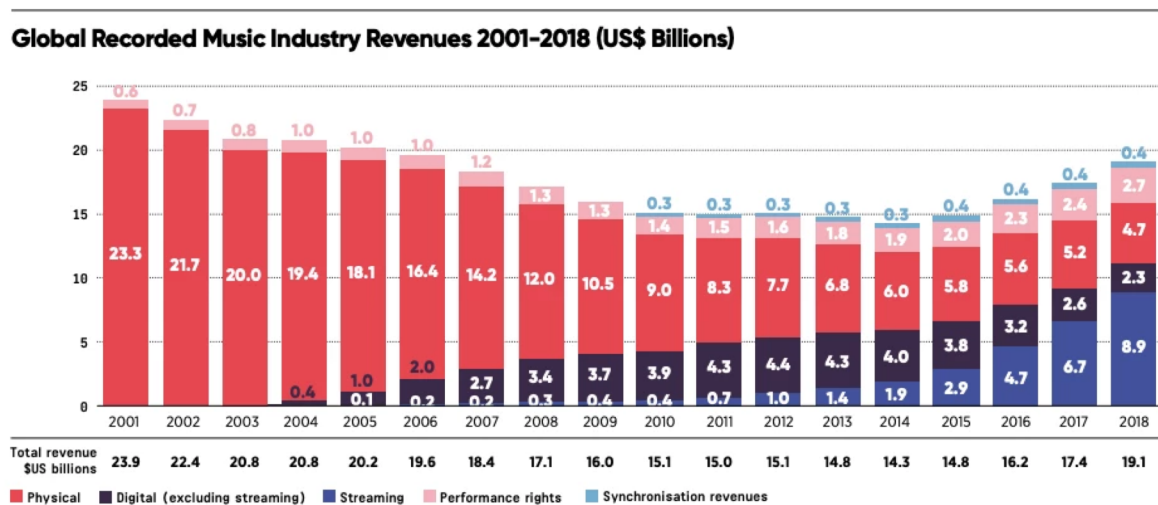


Figure 5: Revenues from the global music industry 2001 - 2008 (IFPI, 2019)

In the past, the relationships between actors could be long-lasting. With new actors in the chain, it is more difficult to maintain this relationship. For instance, popular artists such as Ciara have left their record company to internalize the value chain (Horowitz, 2019). This also applies to relations between GRCs and other digital service companies, such as with Spotify. An example of these unevenly distributed relationships amongst actors can be seen in Warner Music. Warner Music has sold 75% of its holding in the streaming service Spotify, which corresponds to a market value of USD 400 million. “Sales have nothing to do with our view of Spotify's future. We are extremely optimistic about the growth of subscribed streaming, we know it has just begun to live up to its global scale potential,” said Warner Music CEO Steve Cooper (Kafka, 2018).

Steve Cooper motivated the decision to sell the holding because Warner is not an investment company. This implies that they do not invest long-term in other companies.

Sony Music, which is the record company with the largest share in Spotify, has sold half of its shares, corresponding to \$ 750 million (Kafka, 2018).

Spotify wants to establish itself in the Indian market, but has had to postpone this launch. The original plan scheduled the launch on January 31, 2019. Currently though, Warner and Spotify are in conflict, since they have different views on which license agreements apply to

music rights in India. Warner Music Group has gone to Indian court to prevent Spotify from offering artists included in the Warner catalogue in India (Shaw, 2019). Warner has world-renowned artists such as Cardi B and Ed Sheeran whose songs will not be played in India depending on how the trial goes.

### *Summary*

*Digitisation quickly shifted the music industry from being independent on physical sales to digital sales. Initially, this shift led to pirated music dominating the market.*

*Napster initially controlled the pirated music industry. This led to a halt in production amongst artists who chose to tour instead, as this led to higher profit. The GRC's quickly diminished in their amount, going from 7 to 3. Simultaneously, legal digital alternatives such as Spotify and iTunes established themselves on the market. The percentage of digital music on the market is 59% and continues to grow. The industry quickly went from transaction based to subscription based. The only company to invest large sums into these new emerging companies was UMG, which proceeded to become the largest record company worldwide.*

*Spotify is the largest streaming service today and is of great importance to the music industry. Before digitisation, there were three general intermediaries between the artist and the consumer – GRC's, distributor, retailer. After digitisation, the cost of these activities has dropped, leading to new actors entering the market. This led to the overall profit of the music industry starting to grow.*

*Sony and Warner Music have sold large amounts of shares in Spotify. As Spotify tries to enter India, Warner take legal action in trying to prevent the distribution of Warner catalogue material in India.*

## 4.3 Changes Amongst Major Record Labels

### **4.3.1 The three majors**

Within the music industry, the three largest companies often referred to as “the majors” or “the three big ones” include: Warner Music, Universal Music Group, and Sony Music



Entertainment. These firms (along with shares in other companies) account for roughly  $\frac{1}{3}$  of the entire industry (Kiss, 2009). This is due to economies of scales in distribution and promotion, the stages of the value chain that has most likely seen the largest transformation in the past years (Moreau, 2013). An example of change is the number of artists who market themselves through the internet. Marketing methods have therefore changed dramatically and made it easier for artists to market themselves through social media. Despite this being true Per Sundin, CEO at Universal Music Group (UMG) Nordic, explains in an interview conducted for this thesis that marketing is still an essential task for GRCs to pursue:

“We live in a time where we have people analysing how songs work on Spotify, for how long somebody listens to a song, when somebody skips a song, when someone puts a song in their playlist, when someone shares a song (...) We can cross run multiple fan-bases, in this way, we have an advantage, we can see everything beforehand with all the resources we have. We become experts at this, experts at marketing.” (Sundin, 2019)

Mikkey Dee, in the interview conducted for this thesis, also proceeds to comment record labels role with marketing:

“Record labels have disappeared. The only thing they control nowadays is marketing. At the same time, this is what they’ve always been best at doing.” (Dee, 2019)

Digitization has caused a lot of changes in the value chain for almost all industries. In the music industry, one can see clear changes in the value chain where new links have merged into something very different than what the traditional value chain looked like. Previously it was clear who created, produced, marketed, distributed and consumed music; today these roles are very blurred. One aspect of this change is that some artists can handle all these tasks by themselves. In other words, artists are now more autonomous. It is the large reduction of costs that make it easier for an artist to become autonomous. Albeit this, this perception of costs seems to differ widely. In an interview with Jake Gosling, Ed Sheeran's producer, the importance of GRCs is emphasized where Gosling makes parables to understand their meanings. Gosling notes that it would have been extremely hard to fund his business without a record company. Try getting a loan of £100,000 from the bank, for instance - he says this would be impossible since there is no way of knowing how the sales would go, and they would most likely “laugh one out of the door” (Lindvall, 2012). This example indicates that

there is still interest from independent artists to get signed, although it's hard to quantify how intense this demand is.

#### ***4.3.2 Artists role in the value chain***

The creation process is different today, and a band does not need to be with each other when the music is created. "I have several friends in bands who do not even meet when they are recording. They put bass and drums in Canada, the song in California, the guitarist lives in Germany. (Dee, April 2019) Production and editing is not only done within the record label as in the past. Instead, there is a wide range of new platforms, programs and online services where you can produce and edit your music.

#### ***4.3.3 Marketing***

Marketing has become one of the most important tasks for the GRCs following digitisation. This is one of the reasons that artists still want to be signed by record labels. "Everyone can post something today, so everyone does it. Spotify releases about 30,000 songs every day. How can you as an artist be able to break through this? (...) We are experts at breaking through that mess." (Sundin, April 2019)

Per Sundin notes that marketing has become even more important now. It is one of the core operations that the record labels have focused on, leading to them becoming much more skilled. This has in turn become very important for artists to be visible in a contemporary world, where essentially everyone wants to be seen (Sundin, 2019). For an artist to become international and to be seen in every corner that exists in the world, it is required that you have a global record company behind you, otherwise it is basically impossible. Not only does it require resources to promote in the best way, it also requires an established contact network that can make you appear in places where almost the entire earth's population is located. Per Sundin explains that Hip Hop artists with local language can survive quite well today by just doing one country in Scandinavia. However, if one takes a hip hop artist in Sweden, Universal can, with modern day tools, quite easily expand this artist onto Danish and Finnish channels. Record labels do seem to have an advantage when it comes to pushing boundaries between different languages, as this process requires a lot of marketing resources (according to Per Sundin). For instance, the three major record companies have licensing deals with Instagram, which is one of the largest social networks on digital platforms (Hu, 2019).

#### ***4.3.4 Distribution***

There have been huge changes in the distribution, where amongst other things, distribution channels look completely different now than they did before (Sundin, 2019). The music industry has undergone a paradigm shift - the distribution went from being shop-centred to consumer-centred and the reason for this is mainly because music does not exist in physical objects to the same extent as it used to. (Boston Retail Partners, 2017) This is what Per Sundin references to as a transition from physical transactions to digital streams. The industry is now subscription based instead of transaction based. “The industry used to completely rely on (...) establishing physical stores (...) Now, all you need is servers”. (Sundin, April 2019)

#### ***4.3.5 Consumers and New Demands***

Consumer preferences play a major role in the GRCs investments. One can say that with economic reasoning, GRCs invest more in markets with younger people than older people. Per Sundin explains that he, just like everyone else in the industry are risk capitalists. Therefore, it is natural for them to invest in younger people, as these listen to more music, which generates more income.

“Let’s say you have two people in the Spotify universe (...) a 15-year-old girl who loves Justin Bieber and a 50-year-old man who loves U2. They both enjoy their own music just as much, but in one month, the old man has only listened (to U2) 10 times while the girl has listened (to Justin Bieber) 90 times. She has time to listen on her way to school, and maybe even during school hours. In that universe, Justin Bieber gets 90% of their joint revenue (...)

The record company will also take their share”

Ultimately, Justin Bieber gets 72%, U2 8 %, the record company 10% and Spotify 10% (Sundin, 2019).

Digitisation has meant that a great source for listening to music is on the mobile phone. Therefore, it is much easier to listen to music than before, and younger people use the cell phone more often than older people, especially when it comes to listening to music. (Andone et al, 2016)

*Summary*

*The “majors” refers to the three largest record companies in the music industry: Warner Music, UMG, and Sony. Following digitisation, their working methods have drastically changed. For example, record companies specialize in marketing by analysing statistics from distribution applications such as Spotify.*

*These changes have caused the traditional value chain to diminish in importance. Artists have the choice of being more autonomous. In contrast to this, some artists still believe in the importance of record companies due to their massive resources.*

*Changes in the production of music has led to new intermediaries enabling musicians to produce whilst in different locations. Record Labels have a unique ability to challenge language barriers in music, for example for hip hop musicians in Scandinavia.*

*Due to new demands, record labels are moving resources from an aging population to a younger population. Serving the younger population has proven to be more lucrative.*

## 4.4 Strategic Changes

Transaction and production costs have become much lower and this has resulted in more players entering the value chain and therefore the GRCs have lost ownership and control (Graham et al. 2004). As mentioned, the GRCs are not vertically integrated into the chain as they were before, which means that their degree of control has been lowered. A portion of their previous roles has been reallocated to other players in the value chain.

### **4.4.1 Outsourcing**

Porter (2001) believes that the Internet will eliminate remaining intermediaries that exist which raises the bargaining power of consumers. Since marketing costs were low, world artists such as Ciara has left her record company and gained more ownership of her music (Horowitz, 2019). This became a threat to major labels, which resulted in them devoting themselves to their core business. They started outsourcing parts of the value chain, which eventually lead to a shrinkage of their competitive advantage. Several GRCs went bankrupt and others had to be bought by major record companies where, for instance, "Death Row Records" went bankrupt in 2006 (Fox News, 2006) and where Sony bought EMI for \$ 2.3 billion (Sweney, 2018). Sony's new CEO as of 2018, Kenichiro Yoshida, says that the

acquisition hopefully will lead to long-term growth for the company, especially because the music industry has shown growth since 2015 due to streaming service providers such as Spotify and Apple Music (Sweney, 2018). These are some of the primary reasons that GRCs have outsourced their business and that new service companies on the Internet have taken over.

#### ***4.4.2 Change of Structure***

Digitisation has been synchronised with the emergence of the Internet, and these two factors have played major roles in how everything looks today in the music industry. This includes communication between all actors. Previously, the structure was hierarchical and information went step by step from one actor to another, until it reached the last actor. Information systems were largely EDI, which is a transfer of structured information according to an agreed format. The term EDI often refers, but not always, to the transfer between companies of information such as stock balances, directory information, orders, order confirmation, delivery notifications and invoices (Coathup, 1992). This system worked through the VAN (value-added network), hosted service offering, which enabled EDI to work. EDI was much faster and more efficient than paper systems where letters and the like were sent to communicate. But now, digitalization has made it even more effective, where the internet is the most common communication system and has given a different structure for how the music industry looks. The value chain in communication is no longer straight and straightforward, but it is complex and all actors are linked in some way (Graham et al, 2004).

#### ***4.4.3 Limited Intermediaries***

In the past, there were many intermediaries between the artist and consumer, and the communication between these two was limited and poor. After the internet was developed, new streaming services such as ex. Spotify (2008) and Youtube (2005) came where the artist could easily see feedback on their songs through shows, likes and comments. On some of these services, listeners can choose to like or dislike a song/video and voice their opinions. Thus, actors can share valuable information with each other through the internet at a fast rate. In one instant, an individual actor can take part of information that flows in all directions unlike the previous linear flow (Graham et al, 2004).

#### ***4.4.4 Artists as a Part of Record Labels***

Small record companies are becoming fewer and unable to follow the same pattern as "the three majors", mostly because they do not have the same resources needed to handle changes made by digitisation (Kiss, 2009). These smaller record companies, or independent record labels, are somewhat being replaced by a new type of firm called distribution labels.

"The big three" have been able to handle it to some extent and have also been able to grow by buying other companies. For instance, UMG acquired EMI, which was a very large record label at the time (Sisario, 2012). The acquisition of other GRCs was one of many strategies that "the three majors" applied to stay large and maintain their economies of scale. This however, required investments, and these investments have not yet lead to a greater profit for the big three. Instead, they are generally seeing less profit than they did at the time of the investments.

For every year that goes by, artists become more and more independent and take part of the market shares that previously belonged only to GRCs. The main reason for that is, as said, that streaming services are available to independent artists/DIY artist. It gives them the possibility to spread music without the help of GRCs. The most popular streaming services today are Spotify, YouTube, Apple Music and Soundcloud. A British company, Midia Research, made an initial survey to make an estimate of the size of the DIY artist market. The survey illustrated a figure of \$ 643 million and is 3.4% of total music industry revenue.

#### ***4.4.5 Distribution companies***

DIY artists can choose to distribute their music to streaming services through distributors such as TuneCore, CD Baby, Distrokid and Ditto Music and many more. These have recently entered the market that grows approximately 35% every year. The distributors are a type of record company, but artists who distribute their music through them own all publishing royalties and are therefore still seen as DIY artists (Wang, 2019). If growth stays constant and grows as much as this year, DIY artists will be able to generate over \$ 1 billion. Midia Research managing director, Mark Mulligan, notes "We are entering potentially the most transformative era that the record business has ever seen," says. "The rise of direct artist service companies, and a whole host of other commercial models, mean that [unsigned] artists have more choice and flexibility than ever before. These artists can create their own virtual record label. "(Wang, 2019)

Music streaming companies have invested in distribution services and therefore it has become even easier for DIY artists to sell their music and are a threat to the big record companies (Sundin, 2019). For instance, the streaming service Spotify has bought a stake from Distrokid 2018, which is a distributor of 250,000 independent artists and was a shock to the big GRCs because this meant that several dog-status artists could upload their songs on Spotify without their help (Aswad, 2018).

#### ***4.4.6 Independent record labels***

As a DIY artist, you can choose to sign to independent record labels, called indie record labels, such as XL Recordings and Mad Decent. These companies manage the marketing, promotion and distribution of the artist's music without having any copyright of the artist's music and therefore the artist remains independent, i.e. DIY. Many artists nowadays who want to create a career without any record company owning rights from their music can choose to sign for these indie record companies. These indie record companies differ from distribution companies such as TuneCore and Distrokid by offering more services and having close relationships with artists. The common interest is spreading the music and making it successful, without the use of record labels. Unlike the major GRCs, there is no pressure from stakeholders to profit and sign the artists that you can profit from. Indie record companies generally sign artists whom they believe in and who are willing to cooperate. The distribution of generated revenue generally tends to be more advantageous for the independent artist. For instance, a contract is an 80/20 deal where the artist gets a large part of the cake (Payne, 2016).

#### ***4.4.7 Majors vs Independent***

When an artist signs for a global record company, the contracts can look different for each artist. Studies show that the major GRCs take a bigger share of music sales than indie record companies, or if they would have uploaded their music through other distributors (Masnick, 2015). This is illustrated in figure 6.

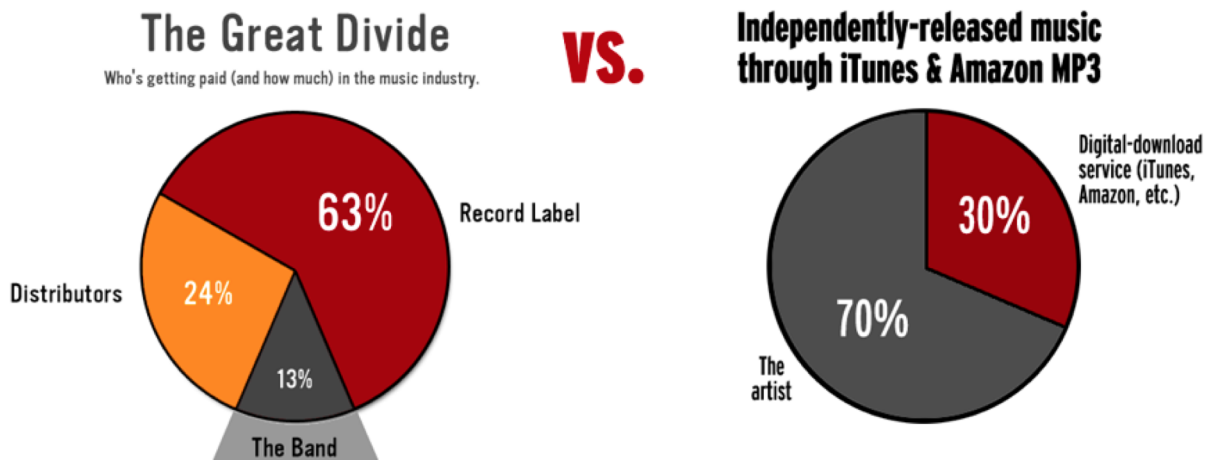
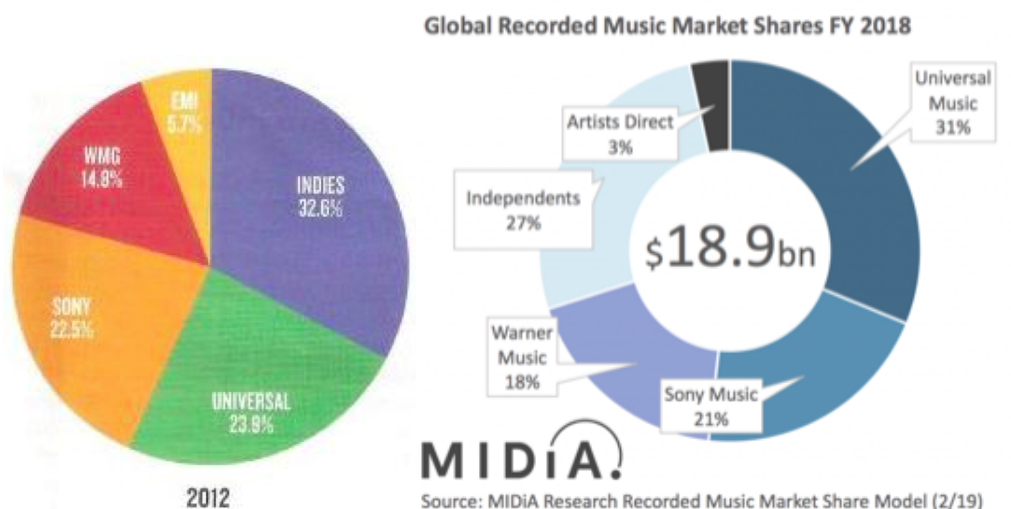


Figure 6: The percentage of where the money from digital music sales goes (Routley, 2010)

Per Sundin stated that it is not the other record companies that are their main competitors, but that it's the artists who choose to run without a record company and can start their career without them, i.e. DIY artists (Sundin, 2019). Sundin also believes that they compete with individual actors who choose to do all work by themselves, and who upload their music via distribution companies such as TuneCore and Distrokid (Sundin, 2019).

#### 4.4.8 The majors see growth

Studies show that the major GRCs are growing, that indie record companies have fallen lately and that completely independent artists have had the largest growth by 35% from last year. Indie record companies have declined gradually since 2012 as their global music recording market shares were 32.6% and after 2018 they had 27%, which means a decrease of 5.6%, as seen in figure 7 (Mulligan, 2019).





*Figure 7: Comparison of market shares in the music industry between 2012 and 2018 (MIDIA Research, 2019)*

For instance, Ed Sheeran, who signed for Asylum / Atlantic which is part of Warner Music Group, and Sheeran's producer, Jake Gosling, tells the importance of signing for a major record label. Also, Azealia Banks, a popular American rapper, went from an indie record label, XL Recordings, to major record label, UMG, due to problems with the indie record company (Lindvall, 2012).

### *Summary*

*Due to economic difficulties, GRC's have been forced to outsource many of their services.*

*Although this has been done, many large companies have been lost in the process.*

*Communication between actors has grown more complex due to digitisation.*

*A new type of firm is growing rapidly in the music industry, a so-called distribution firm.*

*These are experts at distributing music to digital services such as Spotify. GRC's have been trying to stay relevant by acquiring firms like the distribution firms and other record labels.*

*They have done this to maintain their economies of scale.*

## 5. Analysis

GRCs have been through a journey with a lot of changes, which means that they have had to adapt their business according to this. Let's remind the reader of the research question: "How did global record companies strategically adapt to digitisation? Why have they made these changes?".

For everyone in the music industry, the future was characterised by a high degree of uncertainty for some time. They did not really know what digitisation would mean, and which consequences this would bring upon their activities, national as well as international. The value chain was broken before 2008 when illegal downloading was active, and artists distributed to music streaming services e.g. Spotify, via distributors (e.g. TuneCore or Distro) or via indie record labels (e.g. XL Recordings or Mad Docent). The artist could thus skip several steps in the value chain. However, the very last part of the value chain, distributing directly to the consumer, is where Spotify (or other streaming service) would take over. The

GRCs' role in the value chain was blurred more and more and it was hard being adaptive as this did not contribute to any development in their business (Wiltbank et al, 2006). Having distribution companies within the firm could not save the GRCs themselves.

The global record companies were thus still outcasts, but for some reason, some artists started having more difficulties in skipping all the traditional steps of the value chain. The GRCs regained some importance by shifting focus back to their core activities, such as marketing. From 2011 to 2018, UMG increased their market shares and revenues (Sundin 2019), and they could focus more on their core business, building networks and entering new collaborations. With an understanding of the value chain, it becomes possible to understand how GRCs could handle these uncertainties. They needed to strategize and prepare themselves as well as possible to meet the changes that were taking place in the market. The choice of method to do this would vary depending on whether they would want to position themselves in the market or if they wanted to aim for constructing the future (Silberzahn, 2012). Leading up to this method, as stated in the empirics, 4 dimensions of the value chain proved to be a useful way of seeing the major changes taking place (Hardaker, Graham, 2001). This due to the theory being very basic and providing good building blocks to further analyse the case. In terms of these dimensions, they have undergone significant changes and the GRCs have also changed their international work to a large extent (Recording connections, 2019).

## 5.1 Value Chain

### *5.1.1 Activities*

The value chain consists of a process that begins with signing an artist, producing his music, and eventually bringing the finalized product to the consumer, or listener's ears. This whole process has undergone a revolution because of digitisation and has therefore given GRCs a completely new role in the market. The role that GRCs had before digitisation is not the same today. It has repositioned itself as a different type of actor in the industry and the actors in the value chain provide a good explanation for how this change has affected different roles. It can also illustrate where new players have joined the chain and which new activities that follow.

Before digitisation, the GRCs had complete dominance over the value chain, and most stages of the value chain were vertically integrated. This meant that they would be taking care of almost all activities, spanning from the artist producing the music to the listener listening to it (Sundin, 2019). The GRCs owned (almost) all the channels that went from the artist to the listener. By owning marketing and production, they could avoid high transaction costs, and they practically did not need to cooperate with other companies. In practice, they managed to own the entire value chain through self-managed or acquired companies (Graham et al, 2004). This in turn gave the GRCs economies of scale due to their gained competitive advantage. During this stage, firms seem to have had planning character. This was not ideal positioning for the future to come, as it made the firms very rigid, and could even be considered inappropriate according to Graham (2006). Business was extremely stable and this later had catastrophic consequences for many firms in the industry.

As previously mentioned in the empirics, activities in the value chain relate to all activities from start to finish (Kaplinsky, Morris 2000). However, one cannot say that all activities in the value chain are serially interdependent anymore. This means that to finish the second activity, it is no longer always required that the first activity is completed. For distribution firms, this can be seen in the production of a song. Previously, if UMG did not produce a song, they could not release it (Sundin, 2019). Now, the activity of releasing a song is not interdependent within a firm. If an individual artist produces a song (which has become easier, as Mikkey Dee describes in the empirics), a distribution company can step in and release it. Promotion of the song can thereafter be another activity, but to what extent this does not occur in house is unclear.

As shown in the empirics, certain artists deem record labels to be completely useless, whilst others praise their role in the value chain. With this said, labels have undergone changes. By adapting their working methods, UMG and other global record companies are accepting their new role in the value chain to survive in the long term. Digitization has meant that artists, consumers, but also other companies have more bargaining power and can participate in the game and therefore the GRCs have lost the power they once had (Fogarty, 2008). However, Sundin's remarks on the lack of structural change shows little change of UMG's activities. This could be due to them being used to having as much power as they previously had.

It seems that UMG has partly accepted that they can no longer dominate the entire music industry by owning all activities in the value chain, since they in some cases do not have any more bargaining power than the artists and the consumers themselves. Per Sundin's thoughts do correspond with adapting to new activities, but at the same time, the structure of the firm has not changed. This could vary from case to case, and looking at other major record labels, UMG seem to have handled change in a more flexible way. Due to their rigidity, this is still a slow process.

### **5.1.2 Actors**

Depending on how dynamic and variable the choice of actors is in the value chain, this affects the flexibility of the chain. When partners in the chain are very established, it tends to become very static, have limited mobility and low flexibility (Kaplinsky, 2000). With UMG, originally being a part of an old, established industry, this appears to have been the case for a long time. As stated in the empirics, different shifts between the sales of physical products did not seem to have a great impact on the different actors in the industry. Major record labels were dominant, up until the point where digitisation started switching music from products to downloads. However, when partners are not established, but can vary over time, the chain tends to be more mobile and flexible (Kaplinsky, 2000). This certainly was the case when firms such as Napster lost dominance to Pirate Bay, who then lost dominance to Spotify. Although the market seems to be stabilising somewhat, new actors are still coming into play. An example of this is the market entrance of Distrokid, as mentioned when discussing distribution companies.

A chain that is vertically integrated, that is, if only one organization handles all the activities and the entire chain, is a static chain because all parties belong to the same organization (Kaplinsky, 2000). The possibility for internalizing activities is at least there as a possibility for major actors. This is how the business model for record labels seems to have been built up, and this seems to be another reason their flexibility was low when digitisation swept the market by surprise. Now, the chain has several parties (actors) involved which means that the activities are more mobile and therefore flexible (Graham et al, 2002).

By cooperating with Spotify, UMG are essentially making room for themselves in the "new value chain". By being flexible and mobile with letting new actors take parts their activities, UMG could essentially gain an advantage over competitors. Sundin stated that major record

labels and indie labels were no longer a major threat to UMG, and this might very well be one of the reasons that he can express such confidence in this matter (Sundin, 2019).

With digitisation and the low cost to enter the market, several new actors have invested in the music industry (Recording Connections, 2019). The fact that new companies have entered the music industry means that there has been a gap where the existing actors have been lacking in meeting existing demand. For instance, TuneCore specializes in the distribution between artists and music streaming services, and Spotify specializes in selling the music through distribution to the listener (Aswad, 2018). Before digitisation, the GRCs managed similar processes and owned all the channels between the artist and the listener (Sundin, 2019). They therefore had good and long-lasting relationships between channels that were within the company (vertically integrated). After digitisation, these relationships started to change, since they were not within the company. Relationships became short-lived with new companies, which meant that they could no longer plan and position themselves in the market. They were essentially inclined not to predict the future of the market, by undergoing several adaptations instead, as in Wiltbank's framework of prediction and control from 2006.

### ***5.1.3 Governance***

This dimension refers to the control and ownership that an organisation has over the value chain. An organisation decides how much ownership it wants over a value chain, depending on the transaction and on the production costs (Kaplinsky, 2000).

The websites that controlled illegal downloading were/are funded purely by advertisements. During this time, the GRCs marketed and produced artist's music, without getting any of their investments back in the terms of profit. This was because firms who enabled downloading had taken over governance of the value chain to a large extent (Kiss, 2009). This was not due to the record labels wanting to achieve this position, but because they were forced to. However, in 2008 when "The Pirate-Bay", which was the largest torrent downloading site on the internet, became illegal, the music industry started flourishing again. The same year, one of the largest (today) music streaming services, Spotify, was launched by the Swedish entrepreneur Daniel Ek. Major GRCs, who were lost at that time, slowly started realising their loss of power (Routley, 2018). UMG decided to act and to collaborate with what came to be the largest distributor of music (Sundin, 2019). One could say that the firms

who were willing to abandon their old status of governance over the value chain were more likely to survive.

If there are low transaction costs between the activities, Graham (2004) means that it is worthwhile for a company to want to own the entire value chain, a vertical integration. They would then want to control channels such as distribution and production. If there are high transaction and production costs, the company would instead outsource to focus on its core business (Hardaker, Graham, 2002). The interesting thing with UMG is that although transaction costs have been lowered in the industry, they have proceeded to outsource some of their previously vertically integrated activities (not by choice, but due to new actors) (Sundin, 2019). The theory explains this with an exception, being that in some cases, a firm must do what it can to survive (Hardaker, Graham 2002). This certainly seems to have been the case for major record labels in the industry. Therefore, one could say, that this reality partly goes against the general statements made in the 4 dimensions.

After having let go some of their governance, only to gain a little back, GRCs started getting more money from digital sales. Some proceeded to developing their business in new directions. An example of this would be when Sundin explained new investments in micro campaigns (marketing) as opposed to macro campaigns. All of this happened simultaneously to the artists becoming more autonomous, and many of these chose not to sign for the GRCs. This was mainly because the internet made it much easier to handle all activities, including marketing and production (Graham et al, 2004). The way artists handled this can be seen in figure 8.

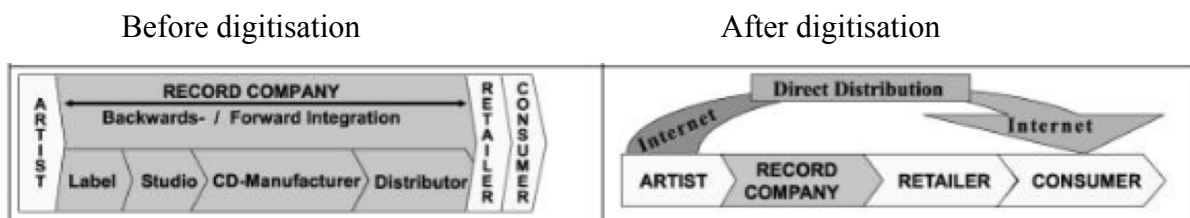


Figure 8: Record companies losing their dominance after digitisation (Graham et al., 2004)

This was thus still a problem for the GRCs, and they had to remain adaptive. Sundin states that presently, by using all their resources including analysts and marketing experts, they can still be of great help to artists. In certain cases, they are even mandatory for artists to expand

internationally. In this case, UMG uses the new value chain for achieving a very limited amount of governance. Being able to do this, seems to have been possible by being adaptive (Wiltbank, 2006).

#### **5.1.4 Coordination**

As mentioned in the theoretical framework, the information flow is the most important thing to consider for the co-ordination of the chain (Lee, Padmanabhan, Whang, 1997). Information can flow freely between the various activities, but in certain cases they can be incorrect and take time. The most important information flow is the “orders”, and if the information is incorrect about the demand it can cause abundance of production and therefore cost unnecessary money and storage space. This is mostly true for logistics in manufacturers and the accompanying value chain, but the same effect can be seen across different sectors. The phenomenon is called the "bullwhip" effect (Lee, Padmanabhan, Whang, 1997).

For every step of the value chain that one climbs to, the more and more these orders can vary and therefore they become less reliable which can have financial consequences as mentioned above. In a value chains, where a company is vertically integrated, the information flow tends to be of good quality and the bullwhip effect is reduced (Hardaker, Graham, 2001). In a chain in which there are several parties involved, the bullwhip effect can arise when the integration is not as good as in a vertical integrated chain (Hardaker, Graham, 2001).

Today, the GRCs are in a digital information networks that has made communication between parties more efficient to the extent that it has become digitised (Bloomberg, 2018). An example of this would be the way Sundin was able to quickly reach out to Spotify, enhancing coordination of a disrupted value-chain. Before the digitisation and Internet emergence, the information flow was incremental. Information would move from one actor to another, not skipping steps and moving in a “straight direction”. The flow could also go backwards, but two parties far from each other in the value chain could not communicate as well, because of the use of traditional information systems. The Internet has contributed to having a much faster communication system - one can communicate and share information to several parties in an instance (Graham et al, 2004). The information is also of better quality. This reduces the risk of the bullwhip effect and is of great benefit to the companies involved in reducing excess costs (Lee et al., 1997).

The improved information flow seems to have contributed to, amongst other things, the GRCs being able to employ easier working methods and being able to focus more on their core business (Sundin, 2019). One of the important things that modern communication systems have enabled is that GRCs can react quickly to market changes and new business opportunities, which makes it easier for them to have an adaptive approach when working (Wiltbank, 2006). This makes effectuation as interpreted by Sarasvathy possible, which means that different strategies could emerge from different firms in their attempts to survive. One might see major reforms in the music industry and the corporate structure soon (Sundin, 2019). New communication systems that have already emerged is illustrated in figure 9.

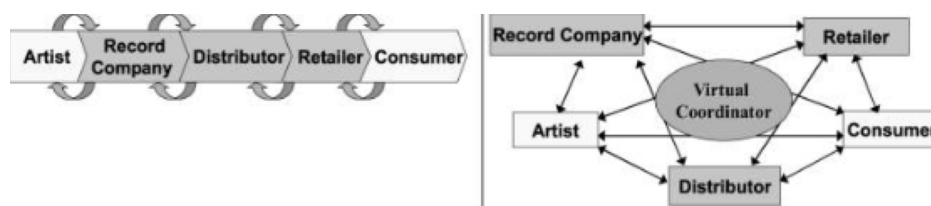


Figure 9: New communication system after digitisation (Graham et al., 2004)

## 5.2 Non-predictive strategy

Immediately after the digitisation took off, the big winners were consumers who received free music through illegal downloading and the losers were the GRCs, many of whom went bankrupt (Dee, 2019). Artists were also major losers in this scenario as they lost a vast amount of their previous income that stemmed from CD sales (Dee, 2019). The value chain lost many actors where illegal websites such as Pirate-Bay were responsible for distributing torrent links and pirated tracks. This period, from 1999 to 2008, had a lot of uncertainty in the music industry due to the illegal websites (Dee, 2019). For an uncertain environment like this, adaptive or transformative strategies work best according to non-predictive strategy (Wiltbank et al, 2006). In UMG's case, Per Sundin explains that they were quick to abandon old habits of planning and move on to being more adaptive. Thanks to a flexible structure and the firm believing in Sundin, UMG could change quickly and take advantage of this flexibility. At the same time, they were cautious and did not have extremely aggressive strategies (they haven't changed the overall structure for example), which is also coherent with being an adaptive firm (Wiltbank et al, 2006).



As the empirical data shows, digitisation initially meant a decrease in record labels sales. This is probably because they had relied on physical sales, or in more appropriate words, prediction. This was severely punished by the entrance of the internet (Recording Connection, 2019). A situation that seems to remind of the innovations talked about by Knight and his “Knightian uncertainty” unveiled itself. Even though this was the case for most record labels, one should notice the elements of a manageable future that applied specifically to Per Sundin. He could predict the importance of Spotify, which also suggests that prediction did play a part in UMG’s strategy. The environment was very different in 2008 than what it is in 2019, and Per also suggests that this affects the strategy implemented in the firm. If so, this is in accordance with the non-predictive strategy theory.

A few points were made in the theory about problems regarding planning and learnings synergy. These can help understand why GRCs acted like they did:

### ***5.2.1 Appropriate use and/or effectiveness of prediction is central to the success of both planning and adaptive firms.***

“Favourable outcomes of firms over time can be related to manager’s ability to predict the future” - this might very well be a part of the case for Per Sundin. Since he could predict Spotify, and to some extent part of its consequences, he could also gain control over these consequences. He mainly did so by choosing to invest more in the service, an action that differed itself to what others were doing at the time. If this was the case, he navigated through uncertainties and succeeded by chance (Wiltbank et al, 2006). This option does not sound favourable for Sundin himself, but it also does not seem likely when looking at his track record. Looking back at Axelrod and Starks interpretation of the foresight horizon, it seems much more likely that Sundin has influenced the evolution of the music industry by implementing his belief in the firm's strategy. If other leaders within UMG globally have also adapted similar roles, this option suddenly sounds quite probable. This explains the high levels of control in highly uncertain environments, at least when comparing UMG to other major record labels (Wiltbank et al, 2006).

Frank Knight’s three different levels of uncertainty are as previously stated in the thesis: known distribution and unknown draws, unknown distribution and unknown draws, and non-existent distributions. The possibility of the music industry being known to some extent as in the first two scenarios is swiftly ruled out by Per Sundin. This means that the future is

impossible to predict, and that the music industry has been a case of Knightian uncertainty. Following the theory, this also means that the relationship between prediction and control has not been true for GRC's. In other words, the evolution from physical product sales, to downloads, and finally to subscriptions spurred from human creativity; essentially from nothing. Per Sundin was one of the few managers that could predict the rise of Spotify in the music industry. He had to adopt a vision, or belief, which ultimately suggests that he adopted a visionary strategy at that time (Sundin, 2019). This strategy emphasizes control, and renders the future environment mouldable. The strategy is characterized by high control and high predictability, and Sundin is a leader that creates the future by envisioning it (Wiltbank et al, 2006). He describes in the interview that the only thing he did that differed from other leaders at the time was believing in Spotify - one can interpret this as a mixture of predicting the future and creating it (Sundin, 2019).

***5.2.2 Empirics support two different strategies. How can major record labels, or other companies in fast changing environments know which strategy to rely on when academia says that both work?***

The GRCs had planning, or visionary strategies from the beginning where they predicted the future to a large extent. One can imagine some tried to control it, but there is no empirical data to say for certain. As stated in the empirics when talking about record labels power threshold, digitisation came and revolutionized the entire industry, making it costly for the major GRCs because they had implemented planning strategies. The firms who could reduce costs were the ones that were the most flexible, who were able to implement adapting strategies in the shortest time span (Kaplinsky, 2000). No one could predict or control the market anymore, there was too much uncertainty in the music industry. This inevitably also meant that the firms who were not flexible enough could not survive this change (Kaplinsky, 2000). This is an interesting finding, because it means that firms should never be entirely planning firms. By always being a little adaptive, or transformative, firms seem to be able to lower the risk of any major innovation destroying the firm. The change, from visionary to adaptive, can be seen in Wiltbank's model below (Figure 10).

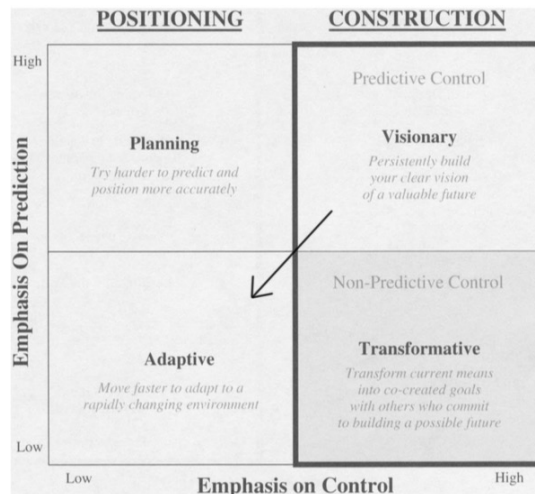


Figure 10: Global record companies change their strategy from visionary to adaptive (R. Wiltbank et al., 2006)

Following the outsourcing that occurred between the firms, all the vertically integrated advantages in the value chain were lost when digitisation came along and artists started becoming more autonomous. The activities that, were previously very expensive to handle by oneself, would suddenly become much cheaper after digitisation thanks to the internet. This meant that intermediaries were skipped, which enabled the possibility to distribute directly to the consumer. While the GRCs lost control, the artist and the consumer got more bargaining power because they were directly linked to each other and became independent from the GRCs. This is a typical reason that shows why the GRCs lost control and were no longer capable of controlling or predicting a future. They were trying to adapt to the modern music industry, and some global GRCs even started the creation of actual distribution companies that were vertically integrated, to attract artists who chose to be more autonomous. For instance, UMG started a distribution company called "Spinnup" because they could no longer avoid the DIY artists. Two factors made this possible: being as flexible as UMG proved to be, and having the massive resources it takes to fulfil such a procedure.

***5.2.3 Struggling to bridge these two characteristics, encouragements to “carefully plan to quickly adapt”. These are the practical struggles one might face when attempting to bridge the two different approaches.***

The reason why UMG started seeing profit again was that they abandoned their old business model of being adaptive and constantly changing their business model in attempts to position themselves to the current market. They had trouble growing and extending their business when applying this strategy, least long term. Once elements of effectuation were introduced to their working methods, this turned out to change. Being transformative meant that they

specialized in areas where they had started to master new competences, and in this way, they could start to become competitive players in the industry again. The movement in Wiltbank's model can be seen in figure 11

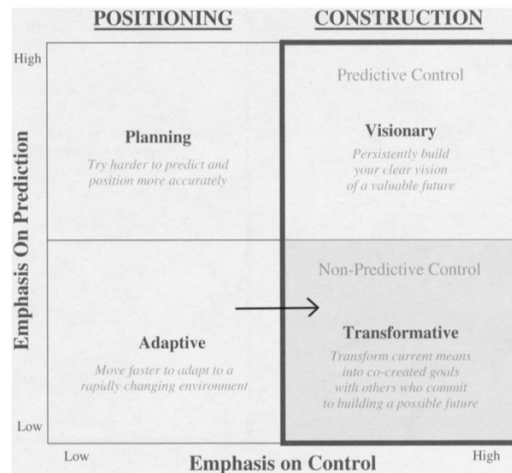


Figure 11: Global record companies change their strategy from adaptive to transformative (R. Wiltbank et al., 2006)

It was by using their available means that they could start generating profits again. The effectuation model proved to be more efficient and the basis for the model put the GRCs in a better position in the market (Wiltbank et al, 2006). It is arguable, that this might not be the case in the long term. Looking at history, and predictive strategy, the market will slowly become saturated again and firms start to plan more. For now, "Who are we?", "What can we do?", "Who do we know" could most likely answer many of the operational starting points for projects such as the distribution firm within GRC's.

GRC's have become very good at managing their old activities, and they claim that it could be hard for many artists to do a lot of the work themselves. It currently costs a lot of resources and established networks that the global GRCs have regained in terms of governance on the market. This could be one of the reasons that the major GRCs are currently beating indie record companies in terms of market share (Mulligan, 2019). However, DIY artists market share is increasing, and this is partly because Spotify has invested in distribution companies such as Distrokid, which means that almost all independent artists can upload their music on Spotify without any record label, major or indie ones. By being present in both new and old activities (from both value chains), one could

argue that GRC's (especially in the case of UMG) are applying both transformative and planning strategies, which would be outside to what the theoretical frame considers.

Before, it was very easy to show that the value chain was linear and static. From the artist to the listener, several steps took place from start to finish and the different roles were assigned, permanently. The steps were serially interdependent, which meant that a step must be cleared until one can start with the next step (Hardaker, Graham, 2002). Now the value chain looks completely different and it can differ from label to label. It has become more complex and consists of two different models, a model that processes digital music and a model that processes music in physical format (which is still done but in small quantities). This is also in accordance with the slight comeback of vinyl, as stated by Mikkey Dee in the empirics.

Digitisation has rendered the previously interdependent steps more fluid, and less dependent on each other. One can market a song via the internet that has not yet been produced where only a small part is presented (trailer). Following the previous suggestion that a global firm might be both transformative and planning, this would be the case for the value chain as well. The part of the GRC that works in the old way, promoting artists, doing market research, would be a planning part of the firm. The new divisions of the firm would be constituted of transformative strategies, such as analysing Spotify statistics. The way that these divisions interact is shown in figure 12.

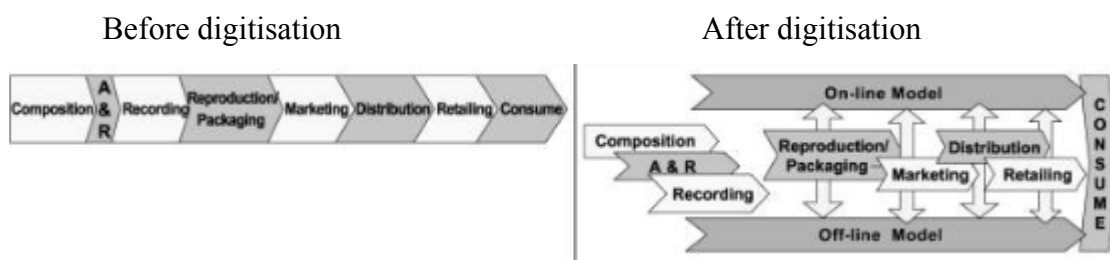


Figure 12: The activities with more complex features after the digitisation (Graham et al., 2004)

#### 5.2.4 Assuming the environment of the firm is exogenous to the firm.

Combining the different changes that have occurred within GRC's and the way that they have handled the future, it is unlikely that the environment of the music industry was exogenous to the company. Only with Sundin's visionary approach were UMG able to survive with all the pros listed in the empirical section. The answer to this problem really lies in the first three questions.

Per Sundin states that, before digitisation, the majors had a great bargaining power. They could plan the future, construct it, because they owned the entire value chain. Now, when more actors are involved, it has become more difficult to plan and adapt to what is best for UMGs business. The rise of digitisation did not directly lead to the entry of new companies into the market. After the Pirate-Bay trial in 2008 though, the market exploded. As previously mentioned in the introduction, companies such as Tidal, Apple Music and Deezer competed with Spotify for the spotlight. Alongside these companies were distributing companies, who did not know which company was going to succeed in the market. New relationships and collaborations soon became facts, where Per Sundin at UMG chose to invest directly on Spotify, unlike Sony and Warner. This new relationship and the way that it reaches consumers is shown in figure 13.

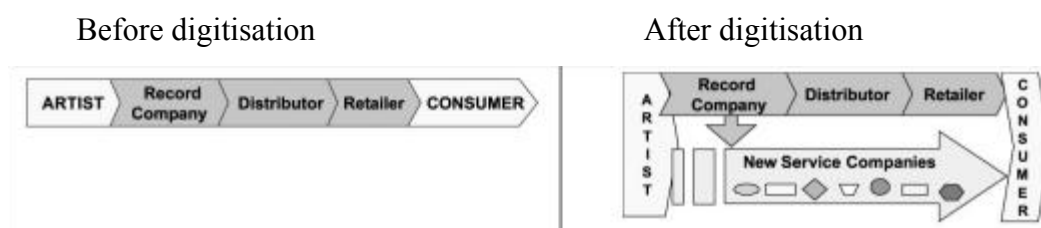


Figure 13: New companies enter the music industry after the digitisation (Graham et al., 2004)

Several years after the digitisations advance, it seems like new networks have been created, and companies are starting to establish themselves. Newcomers are finding it harder to be competitive. Predicting the future is currently impossible according to Per Sundin (Sundin, 2019). Despite this, the value chain looks more stable than a few years ago (Inghelbrecht, 2015), and it allows the global record companies to remain transformative and perhaps even become visionary again, a situation where they could also predict the future.

### 5.2.5 Final words

The music industry has previously been a highly uncertain business, and conditions enabling UMG to plan have been harsh. Per Sundin seems to describe the past 10 years as adaptive and flexible, with a transformative strategy. This is interesting, as he simultaneously states that he believed he could predict the rise of Spotify, which once again goes against the general theory. When asked if his view on the future of digitisation has changed today, he states that

it has not. The task of analysing the future is deemed impossible due to the big changes in the music industry's value chain.

When taking the coexistence of planning and learning into consideration, UMG seem to have acquired some level of synergy between these two. The firm has benefited from higher profit and growth performance than other similar firms. However, Wiltbank's four problems do pose some interesting aspects of UMG's success. Since planning is assumed to be impossible by Per Sundin, UMG cannot be either of these types of firms. This since use and/or effectiveness of prediction is central to the success of both planning and adaptive firms.

An interesting aspect of GRC's is the lack of structural changes taking place within the firm. It seems that stable companies, in old (previously) saturated value chains have developed bad traits of administrative heritage, as discussed by Dixon and Day in a study from 2007 (Dixon S, Day M, 2007). This means that the firms seem to inhabit different habits and procedures of handling things, that might directly affect their strategic decisions.

Although many artists chose to become autonomous after the digitization, it has been found that many popular artists choose to sign for GRCs nevertheless because of the expertise that the GRCs have been able to develop after adapting and focusing on their core business (Lindvall, 2012). In certain cases, artists do need a team around them, who are specialists in their field, such as marketing, the press, financial activities etc. One can try to create his own team, but it will be very costly and difficult to gather all the specialists who are willing to cooperate and believe in the music that the artist wants to sell. Record companies, especially the global ones, already have established networks and collaborations with other companies that make value chain activities easier for the artists. Deploying a transformative approach with the effectuation model in the centre, global record labels strive to show that they believe in the music business.

## 6. Conclusion

### ***6.1.1 “How do global record companies strategically adapt to digitisation? Why have they made these changes?”***

Global record companies have adapted in different ways to digitisation. GRCs have responded to this by incorporating some new activities into their business model. However, they have mainly outsourced activities that are not related to their core skills. UMG has invested in Spotify and started building long term relationships, but many GRCs have not succeeded in doing this. In terms of governance, GRCs have lost power over the value chain. The coordination in GRCs seems to have improved thanks to digitisation.

Prediction can be important for firms in highly uncertain environments, but most likely being visionary is what makes surviving these environments possible. Positioning for the future or controlling the future was not a choice for these firms - due to their planning past they forced to become adaptive or disappear. By adapting a transformative profile, GRC's can combat certain negative trends, using elements of effectuation.

Even though GRCs status and importance seems to have been strongly damaged, new strategic horizons seems to have opened their future possibilities on the digitised music market.

### ***6.1.2 Contributions***

The portrayal of how innovations have changed the music industry has contributed to the literature of the music industry. An extensive search for relevant background information has given a true depiction of the music industry and its evolution.

The evolution of a GRC in the process of digitisation has been shown by this case study.

Important contributions to both theoretical fields within digitisation, and strategy have been made. This case has been described from an industry specific point of view, but can also contribute the general theoretic fields and digitisation literature.



### ***6.1.3 Limitations***

This study has limitations.

The sample size of the study is too small, and letting a representative from Universal describe competitors is not ideal as it risks portraying a biased view. The empirical section could have been more extensive to prevent potential sample bias. These flaws were inevitable due to time constraints, in combination with the difficulties of getting representatives from other firms to agree on doing interviews. The authors were subjected to limited access to data, which is most apparent in the few interviews that were conducted.

However, after having conducted the thesis, similar trends and effects were seen amongst companies. Applying triangulation, the conclusions are deemed to be valid for companies in the same industry. For some aspects of the thesis, findings might be relevant for other dominant firms in other industries. For future research, an interesting example of an industry where this could be true is the automobile industry. The authors also suggest a revision of methods for collecting data.

From these viewpoints, one can be critical towards the study. However, triangulation aims to countermeasure this feat. Will conditions be precisely the same as for other major labels, or other firms in other industries? Probably not, however, similar companies can learn from the case. The information is representative for firms who are put in similar positions, specifically the digitisation old markets with previously rigid value chains.

### ***6.1.4 Managerial implications***

Maintain a flexible organisation by questioning: if the structure of this firm were to be useless tomorrow, can we change fast enough to survive? Digitisation of the music industry proved many companies were too rigid in their business models. This could be in the way that their value chains worked, or how dependent they were of other parties in their networks. Because of this, many firms were unable to cope with the changes that digitalisation brought along, causing them to go bankrupt or, getting acquisitioned by other firms.

Maintain relevance by exploring possibilities to integrate new companies in old value chains, or internalize new business models. One of the reasons that Universal were successful in the phase of digitalisation was that they could integrate new actors like Spotify earlier than their

competitors. When Spotify grew, they could easily expand their collaboration. To counterfeit rising competition from distribution companies, Universal also integrated an internal service called Spinnup which further helped them maintain their competitive advantage.

#### ***6.1.5 Some final words***

We would like to thank Roger Schweizer who helped us finish this bachelor thesis. Without your help this would have never been possible.

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### **Figures**

**Figure 1:** *Framework of prediction and control*

“What to do next” (R. Wiltbank et al., 2006): 983.

**Figure 2:** *Representative literature on specific approaches to situational control*

“What to do next” (R. Wiltbank et al., 2006): 984.

**Figure 3:** *Key technological innovations in the recorded music industry*

“The Disruptive Nature of Digitization: The Case of the Recorded Music Industry” (Moreau, 2013): 23.

**Figure 4:** *Visualising 40 years of music industry sales (Routley, 2018): 1.*

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**Figure 6:** *The great divide: Who's getting paid (and how much) in the music industry? (TrueFire, 2010): 1.*

**Figure 7:** *2018 Global Label Market Share: Stream Engine (Mulligan, 2019): 1.*

**Figure 8:** *Record companies losing their dominance after digitization*

*"The transformation of the music industry supply chain" (Graham et al., 2004): 11.*

**Figure 9:** *New communication system after digitisation*

*"The transformation of the music industry supply chain" (Graham et al., 2004): 13.*

**Figure 10:** *Global record companies change their strategy from visionary to adaptive*

*"What to do next" (R. Wiltbank et al., 2006): 983.*

**Figure 11:** *Global record companies change their strategy from adaptive to transformative*

*"What to do next" (R. Wiltbank et al., 2006): 983.*

**Figure 12:** *The activities with more complex features after the digitization*

*"The transformation of the music industry supply chain" (Graham et al., 2004): 7.*

**Figure 13:** *New companies enter the music industry after the digitization*

*"The transformation of the music industry supply chain" (Graham et al., 2004): 8.*

# Appendix

## Per Sundin Interview

1. *Given the digitalisation of the music industry, what changes have occurred in the way record companies work in an international business perspective? How have your international affairs worked following digitalization?*
2. *From your point of view, what are the major changes that digitalization has brought with it?*
3. *You were one of the few people who predicted the importance of streaming services such as Spotify, as well as changes in old business models. What was your view on changes like these then compared to today?*
4. *If you look at the total sales in Sweden, in the music industry, it has gone down from 1.6 billion in 2000, to under 1 billion in 2009. Considering what happened in 2009; the Pirate Bay trial, IPRED, Spotify, your new position as a CEO for Universal –Can you tell us about these years?*
5. *Sweden has the highest digital turnover per person. In your speech at the Telia conference, Italy, Spain, Brazil have very low numbers. Can Universal exploit these markets in the future?*
6. *You have previously talked about the importance of transparency at work. Elaborate!*
7. *You frequently receive questions regarding the importance of record companies. Nowadays, artists can easily make their own money, what are your views on this matter?*
8. *You have helped artists such as Avicii, Håkan Hellström, Veronica Maggio in succeeding with marketing. Is this area of record label activity still of importance to record companies?*

9. *How has the degree of international work within Universal changed, and more specifically, how have you allocated your investments after digitalisation?*
10. *How would you say that your company structure has changed?*
11. *Sony, Warner and Universal are becoming larger companies while smaller record companies are shrinking. How do you handle competition from smaller record company, and what are your strategies for retaining your market share?*

### **Mikkey Dee interview**

1. *Were you involved with Motörhead Music?*
2. *Why did you need a record label?*
3. *You have previously talked about the comeback of vinyl. Elaborate!*
4. *How do you think young Scorpion fans get in touch with your music? Would you say that the younger audience use the same media channels as the older one?*
5. *Do you have an opinion on record labels?*
6. *What do you think of record labels in terms of marketing?*
7. *The music industry has become more digitalised. In an international perspective, would you say that the degree of international work and digitalisation are connected? What would be an example of this connection?*