Digitization in the music industry in Sweden

An analysis on the profitability of music companies

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“Don’t tell me the sky’s the limit when there’s footprints on the moon”

Paul Brandt, singer and songwriter.
Bachelor Thesis in Business Administration

Title: Digitization in the music industry in Sweden: An analysis on the positive effects of digitization.

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Abstract

Background and problem: The music industry has been in transition in the last two decades; technological developments have changed the market and companies are creating new business models to adapt; scholars have done research on the negative effects that digitization has brought to the industry and only a few researchers have focused on the positive effects that this has caused.

Purpose: The purpose of this paper is to analyze the positive effects that digitization has on the music industry in Sweden.

Frame of reference: The frame of reference consists of previous research, the music industry in Sweden, established and emergent music companies, a concept of profitability of media companies and propositions.

Method: To fulfill the purpose of this paper, secondary data was used by the author. The information was collected from the biggest and most recognized federation in the music industry.

Analysis: The results showed that the industry as a whole is recovering and the positive effects are restricted to a few players only.

Conclusion: The author of this paper can conclude that the positive effects of digitization in the music industry are not evident yet, whilst analyzing the profitability of music companies it appears that they are still in transition.
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I Introduction

In the recent decades, the music industry has been transforming rapidly due to the new technological innovations and developments; this evolvement has brought both advantages and disadvantages to the industry as a whole. The appearance and consolidation of the Internet in today’s society has caused a big revolution in companies that offer services and products such as records and live performances.

As the recording market is part of the music industry it has experienced a big alteration in the last years, new business models have been implemented and products and services have merged or transformed in order to keep the music companies profitable. Most of the previous studies and research have been focused on the negative aspects of this change; therefore, in this paper, the author will explore the positive effects.

1.1 Background

It is important to remark that the author will refer to the music business as an industry and not a sector, following the next definition:

**in-dus-try** – a department or branch of a craft, art, business, or manufacture: a division of productive or profit-making labor; especially one that employs a large personnel and capital; a group of productive or profit-making enterprises or organizations that have a similar technological structure of production and that produce or supply technically substitutable goods, services, or sources of income (Webster, 1967).

Another important observation is the definition of *digitization* as it is often confused with *digitalization*, the latter one refers to the administration of digitalis and is commonly used in the medical industry and should not be used as a synonym or similar; hence, the author will use the subsequent definition:

**dig-i-tized** – to convert (as data or image) to digital form (Webster, 1967).

Music companies are technology driven and therefore they face a dilemma when the organizations try to develop a new technology or adapt to a technological standard (Eriksson, Åkesson, Svensson & Fredberg, 2007); therefore, in order to solve this dilemma they have two options according to Verganti (2005): they can ignore all the signals that the market is showing and come up with a new product or service, or the companies can orient their activities towards consumers’ preferences.

An example in the music industry, is where artists and producers have reallocated their activities towards the live performances instead of focusing on the sale of physical albums; new companies have emerged from this shift such as Live Nation in North America and Europe or Ocesa in Latin America. Moreover, streaming services have become the industry’s boom and have changed the business model of music companies; services such as Spotify and iTunes are gaining more subscribers or/and users everyday and getting a big-
ger share of the music market. All these companies have followed the signals that the market was showing of changing the industry to be more accessible and mobile.

The first signs of digitization in the music industry were in 1992 when the MP3 format was launched (Boezeman, 2011), but it did not seem as a risk or opportunity to the industry until 1997 when it was fully commercialized and heavily used and developed by companies or services such as Kazaa, Napster and The Pirate Bay.

Nevertheless, there are not reports of digital sales until 2004 and in Sweden until 2006.

1.2 Problem Discussion

The current state of the industry is in a major transition and the Internet is only one element of a more straightforward change, going from analogue to digital media (Aris & Bughin, 2009).

This new era of digitization has brought new paradigms to media companies, authors such as Aris & Bughin (2009) have recognized four major changes that organizations have to undergo if they want to survive or battle for a bigger share in the market; the first one is from the management of scarcity to fight for attention, in previous years the media space was limited but nowadays the content is limitless and companies have to find new ways of capturing the attention of consumers. From content consumption to interaction, it started as passive consumption and shifted towards an interactive one where customers can give feedback about the product or service to other consumers or even create their own content; from paid to free content, people do not pay to see the news anymore or to get information about a certain topic, this has revolutionized the financial models that media companies used to have. Lastly, from advertising reach to advertising impact, in the analogue world companies would get paid according to the reach they had, in a digital world you can choose specific features or characteristics that you want your consumers to have.

The development of the digital world has deteriorated certain markets within the music industry, one clear example is the recording market; according to Jöckel, Will & Nawrath (2007), the availability of peer to peer (hereafter, P2P) file transfer is one of the main reasons why music sales have declined globally in the last years. Major companies such as Music Zone in the United Kingdom struggled with all the new competition, the company did not manage to maintain profitability and vertical integration in the industry; Picard (2002), recognizes market share and change in demand as indicators of economic health, it is clear that Music Zone failed and as it lost market share everyday against services like iTunes or Amazon the company had economic problems and went bankrupt (Fletcher, 2007).

Moreover, the Internet has other effects that affect the music companies and authors or producers of services and products; Vogel (2007) analyzes the distribution and pricing elements that change in the transformation from analogue to digital. It is true that artists and developers get a bigger share of the retail price if they circumvent different intermediaries, but they also lose a lot of money for loyalties and products that are shared through the Internet for free. Furthermore, music companies are rethinking they way they do business in
order to be profitable and the main driver is the digitization of the products, services and their distribution.

The other face of digitization in the music industry is the live performances and publishing sectors; it is true that the recording market has been affected by the new trends but the industry is not dying, it is rebalancing itself. The markets that used to be more profitable are struggling to survive and the sectors that were small are flourishing in the present days.

In this paper, because of the time constraint and for analysis purposes the author will focus on one market of the music industry only: recording. The author will examine the new strategies by music companies in the digital world and this analysis will be based on the positive effects of digitization in the music industry.

1.3 Purpose

The purpose of this paper is to analyze the positive effects that digitization has on the music industry in Sweden.
2 Frame of Reference

It all begins with a song

–Slogan of the Nashville Songwriters Association International.

2.1 Previous Research

It is difficult to find researchers that agree on the positive effects that digitization has brought to the music industry when the main associations such as the Recording Industry Association of America (hereafter, RIAA) and International Federation of the Phonographic Industry (hereafter, IFPI) argue that the industry has been overwhelmingly affected. These results are dragged from studies and statistics that took place in certain time periods and not the overall industry, leaving out the main picture and players; authors such as Hughes & Lang (2003) argue that the concentration of economic power and revenue was largely controlled by the major companies. With the introduction of the compact disc (hereafter, CD), everything was easier and cheaper for the recording sector creating a boom in production and sales for over a decade until 2001 when sales fell by 5% and the next year by 9% (Leyshon, Webb, French, Thrift & Crewe, 2005).

When the Moving Picture Experts Group Layer-3 (hereafter, MP3) format appeared and the massive distribution through P2P services began, the major companies that hold the biggest share of the market started to have financial problems due to the fact that they could not control the reproduction and distribution of their products. The big challenge was that the product was no longer tied to a physical artifact but instead it evolved into a pure information product (Hughes & Lang, 2003). Certain companies could adapt their business models rapidly and tried to offer an added value to the CDs as a strategy to retain customers; one clear example is depicted by Clement, Engh & Thielmann (2003), the records of artists such as Eminem, Daft Punk or Santana had secret codes or came with additional online content where you could join exclusive lounges with other fans.

In 2002, Santana’s album was the most successful enhanced CD of the year but it was shadowed by the situation of the overall industry and scholars tend to ignore distant success stories in order to generalize the state of the music industry. In the study by Hughes and Lang (2003), three different impacts of the digitization are analyzed: economic, social and interactive; they conclude that the major firms have used their lobbying power in order to influence institutional decisions and public opinion to a degree that they implemented the same copyrights from the industrial age to the digital one, making it difficult for them to revert or change them nowadays.

Clement, Engh & Thielmann (2003) wrap up their analysis by stating that the big companies have suffered the most because of their bargaining and market power in the industry but small or independent labels have benefited from the new digital era as they have created and adapted their business models to it.
Furthermore, when it comes to online music sales, Picard (2002) proposes that in the recording sector, companies save on manufacturing, distribution and retail expenses if they deliver the recordings via online. The variable costs of an analog product make up more than 55% of the retail price of a recording as it can be observed in Fig 1 (Appendix), money that does not reach the label, artists or music publisher; hence, the digital era has offered a great opportunity to music companies. Lower variable costs mean that the price for a digital recording can be lowered as well to attract more customers, or if the company decides to maintain the actual retail price, the compensation to artists, composers or publishers can be increased.

*As there is not a clear benchmark for the positive effects of digitization in the music industry, this paper will create a basic framework for subsequent studies in the matter.*

### 2.2 Music Industry

The music industry relates to the production, distribution and sale of music of different forms as well as the marketing and promotion of live musical performances (Miller, 2003). Miller defines it as “diverse forms” because nowadays we can find music on paper, compact discs or long play records (hereafter, LP), and stored in digital form on the World Wide Web.

Towards the end of the 1800s Edison created the phonograph in 1877 (Stross, 2010) and Berliner made the gramophone in 1887 (Moogk, 2012), these were the first reproducers of music and their authors did not lose any time to patent the devices. In the beginning of 1900, Eldridge Johnson would have the idea of making a company to market Berliner’s machine and he called it the Victor Talking Machine Company.

During the next years the companies were in boom and sales kept increasing every period, the first problems arrived when the patents expired and other small organizations started to produce and market radios and other machines, although some corporations were as big as Victor’s like the so called Radio Corporation of America (hereafter, RCA). Associations started to appear as well, in order to protect the right of composers and authors such as the American Society of Composers, Authors and Publishers (hereafter, ASCAP); which was formed in 1914 to assure that the creators of music were fairly compensated (ASCAP, 2012).

Throughout the four years of the Great Depression (1929-1933), sales plummeted in the United States and almost killed the industry, only a few businesses survived and it left the music industry with a few players again. While the American industry was recovering, in a more international ground, the IFPI was created in Italy in November, 1933; this federation would provide legal policies, market research and other services plus representation of the interests of the recording industry (IFPI, 2012).

New formats were developed by different companies in the United States and Europe, the inclusion of magnetic tapes and LP’s marked the industry and made it flourish since these formats were cheaper, more durable and easier to use. The invention of the stereo in the
1950s strengthened the position of certain companies in the market, household were able not only to own a radio to listen to music but a stereo that could playback their favorite records.

Around the globe, many labels were created and music organizations had to diversify their activities, their task was not only to make music but to market it, distribute it and publish it; mergers and acquisitions happened often when giants would buy a local label or a publishing company would join a manufacturer one for a stronger brand. In 1954, another organization was formed to protect the intellectual rights of artists in America, the RIAA was in charge of regulation laws and policies in the United States and nowadays it has a big impact in the industry since they certificate the sales of each musician (RIAA, 2012).

Some other milestones in the history of music were the introduction of Music Television (hereafter, MTV) in 1981 and the transformation that it brought not only to the music industry but the media as a whole; as the song “Video killed the radio star” by The Buggles describes: the new technologies killed the previous stars, like the introduction of the color television that put the radio on a second pedestal. MTV’s idea of playing videos by on-air video jockeys opened a new range of possibilities for music companies and artists that had to adapt to a new product that consumers were craving for.

After MTV’s success, the CD was introduced in 1982 giving the music companies and consumers another format that could store more music and with stereo quality. This meant that several organizations would try to partner with the manufacturers of this new product, Japanese companies such as Masushita also known as Panasonic were hugely benefited and were able to penetrate different markets thanks to it.

By the end of the twentieth century the industry went under a big transformation, the big companies became bigger and transnational while the small ones had to stay in their local markets and try to supply the undersized markets. Four companies would survive and share more than 80% of the music market (Leyshon et al, 2005), they would be known as “the big four” in the industry and in the 2000s they would be part of the digital revolution.

*It is important to remark that even though file sharing became popular in 1997 and represented a threat to the music industry, companies did not report digital services and products until 2004 according to IFPI's recording reports (2009).*

### 2.2.1 The Different Sectors in the Music Industry

In order to identify how the music industry works Andrew Leyshon (2001) presented a model that depicts four networks in the musical economy: creativity, reproduction, distribution and consumption, the model can be observed in Fig 2 (Appendix). These networks overlap each other, creating a complex configuration; the creativity network is the only one with a network-like structure, the other three have a linear one.

The creativity network is the first one in the process, where the music is written, composed and performed; after that, it goes to the reproduction phase where it would be stored in CD’s or LP’s back in the 1990s or early 2000s, in the present time the clients make use of
digital libraries such as iTunes. The third step is distribution, those CDs go to retail stores and a lot of marketing and promotion is made in order to sell them; finally, consumers purchase the product and get it through mail, electronic delivery or directly from the store.

The reproduction and creativity network make up for the recording part of the music industry as stated by Hesmondhalgh (2002); he recognizes that the music industry is composed by three parts which are the live performance, recording and publishing; different researchers have come up with diverse models and definitions, one of them is Hirsch which analyzed the recording part in 1970.

One of the most popular models that Hirsch proposed shows how the music becomes popular; this model is based on the most sold albums during a week, where a radio station would play the top 40 songs making them popular through the month. Since some record companies were producing music in order to make it to the top 40, the relationship between radio stations and music companies grew stronger through the years; new business models were implemented in terms of promotion and advertising and the publishing sector started to flourish as music was not only about producing it.

The last sector, live performance, is keeping the industry healthy nowadays; artists such as Madonna are moving towards the live entertainment and some others towards sponsored music videos like Lady Gaga. Normally the size of the recording sector is bigger than the live performance sector, but artists argue that there is more income coming from the latter one (Wikström, 2009). The reasoning behind this is simple, while an artist gets approximately 10% of recorded music revenues, for giving a concert the performer receives around 85% of the gross revenue.

In conclusion, looking at the three sectors shows that they have different business models and revenue streams; digitization of music has changed their sizes within the industry and has opened new opportunities and challenges to the music companies.

2.2.2 Music in Sweden

The Scandinavian country represents a big market in terms of percentage of active Internet users and total population; Statistics Sweden (2012) estimated a population of 9,490,683 in February 2012 with more than seven million internet users (IFPI, 2009).

In the music industry, Sweden is on the top 20 in physical, digital and performance sales as of 2009 (IFPI, 2009); the top music companies are: EMI Svenska AB, Sony Music Entertainment Sweden AB, Universal Music AB and Warner Music Sweden AB, with some major independent labels such as Sound Pollution AB, Playground Music Scandinavia AB, Cosmos Music Group AB and Nordisk Film Sverige AB.

By 2010, the big four represented almost 90% of the total music market in Sweden, as it is shown in Fig 3 (Appendix); following the industry’s situation, the Swedish subsidiaries of the big four were recovering financially and with the exception of EMI the other three had a positive net income in 2010 as it can be observed in Table 1.
Despite the introduction of digital services and products in 2004 by several music companies, in Sweden there are not reports of digital sales until 2006 when it represented a 5.8% of the international digital share, increasing by approximately 1% each following year. The reason behind it is the amount that it represented in comparison to the total sales; in 2005, it amounted 21 million SEK which is only 2% of the total sales in the Swedish music industry (IFPI, 2011).

In a more general background, the Swedish music market was declining since the early 2000s, nevertheless the sales of Swedish albums was increasing every year with 28.7% in 2001, 33.6% in 2002, 37% in 2003, 40% in 2004 and 41% of the total sales in 2005; after that year sales of Swedish albums started to decrease as well (IFPI, 2011).

### 2.3 Music Companies (Former Big Four)

In the next four sections the author will present the world’s largest music companies in order to give the reader a perspective of the biggest players in the industry; their history and present situation will be described to see how they were created and the evolution they had in the last decades. These four companies represent 83.2% of the Swedish music market as of 2011 (IFPI, 2011); therefore, smaller companies will not be described.

#### 2.3.1 EMI Group

In 1887, Emile Berliner created the gramophone, an instrument that could record and reproduce sound with the use of discs (EMI, 2012a). Thanks to his discovery he revolutionized the way people could experience music and ten years later, in 1897, he founded the Gramophone Company in London, United Kingdom. He foresaw that in order to have a successful company he had to make the music available in recorded format and in 1898 the company produced the first recordings (EMI, 2012b).

As the Gramophone Company grew internationally, its sales reached 4 million records a year in 1914 and one third of the households in Britain would own a gramophone (EMI,
2012b); it was not always easy for the organization and during the Great Depression they saw how the sales of records would decrease by 80%. To overcome this catastrophe, they have to merge with the Columbia Graphophone Company and form Electric and Musical Industries (hereafter, EMI) Group.

As EMI was always involved in fostering innovative technology, they had to keep the pace with the industry and protect their innovations; in 1931, Alan Blumlein patented the stereo recording and the 33rpm vinyl LP was released which was a cheaper, lighter and more durable format that transformed the industry again.

Some other milestones in EMI’s history have been: the acquisition of Capital Records in 1953 which included deals with super stars such as Frank Sinatra and Dean Martin, a contract with The Beatles and their first single in 1962 and the introduction of the CD format in 1983.

Right before the year 2000, the music industry was affected by the Internet and all the new technologies that it brought; EMI always looked ahead and tried to take advantage of it instead of staying stagnant. In 1998 the organization tried to use the Internet’s capabilities to distribute music and they started to stream tracks from the band Massive Attack; when Napster appeared, EMI counterattacked launching David Bowie’s album online, making it the first downloadable in history.

The rise of P2P programs and the boom of CD-writers made EMI explore new boundaries and in 2006 they signed a contract with legitimate P2P service Qtrax and Snocap (Aris & Bughin, 2009), putting EMI as the first music company to make their catalogue available.

Moreover, they recognized the importance of music videos and fan communities on the Internet leading to an agreement with YouTube and Google in 2002 so admirers could have access to EMI’s music videos and recordings online. Following these agreements they entered a new market by signing a contract with telecommunications company Nokia, this would allow the Finnish corporation to use EMI’s music to make ringtones for mobile phones.

Despite all the efforts to keep pace with the new technologies and innovations around the Internet, EMI kept losing market share in the British area and sales decreased globally; the company went through some takeovers during the 90s and 2000s, one of the last one being by Terra Firma Capital Partners in 2007 (BBC, 2008). During the following years Terra Firma could not maintain EMI solvent and the devaluation of some music catalogues aggravated the situation in the organization by the beginning of the year 2010 (Finch, 2010). On February 2011 they held a debt of more than $4 billion, Citigroup had to step up and take ownership of the company so they could write off 65% of the debt which was held by them (iPodNN, 2011).

Unfortunately for EMI Group, the company was sold to its rivals in November 2011; the recorded operations went to Universal Music Group and the publishing operations were acquired by Sony Music Entertainment (Campbell, 2011) dissolving the multinational com-
pany that was part of the “big four” a year ago and the third largest music company in 2006.

A timeline of significant events can be seen in Fig 4 (Appendix).

2.3.2 Sony Music Entertainment

Sony Music Entertainment (hereafter, SME) has a similar history like Warner Music Group, for the reason that the present company began as a merger of two big organizations; in order to understand how they came across the author will describe the two different paths.

On one hand, the American Record Corporation (hereafter, ARC) was created in 1929 as a merger of several smaller music companies, five years later ARC bought a deteriorating Columbia Phonograph Industry after being troubled by the Great Depression. ARC would disappear in 1938 when the Columbia Broadcasting System (hereafter, CBS) bought the organization; during the next years CBS worked on the development of different labels for the distinct genres of music.

Another big venture was made in 1968 when Sony and CBS formed CBS/Sony Records to create a business that later on would prove to be very successful; in 1983 its competitors could see what the purpose of the venture was when CBS started to market CD’s manufactured and imported from Sony Japan (New York Times, 1982).

On the other side of the story, in 1889 Emile Berliner started to market his records that were produced in a gramophone; in the XX century Eldridge Johnson would found the Victor Talking Machine Company which used Berliner’s developments. Eldridge’s company would be acquired by the RCA to form RCA/Victor in 1929; the company continued to develop new gramophones and formats and in 1955 it paid off when RCA/Victor bought the recording contract of Elvis Presley the biggest selling artist of that age.

The 1950s would be full of acquisitions and mergers for the company, in 1986 General Electric bought RCA/Victor and sold the 50% left to Bertelsmann Multinational creating a new firm called Bertelsmann Music Group (hereafter, BMG) (Bertelsmann, 2011; Hennessy, 1986).

Now, going back to the whole picture of the company, in 2004 Sony Corporation and BMG formed a joint venture to capitalize Sony BMG Music Entertainment. BMG labels started to plummet as they lost interest in the music branch and Sony did not want to lose the market share that it had, in 2008 Sony acquired Bertelsmann’s 50% of the company and reinstated the name Sony Music Entertainment Inc. Nowadays, SME is till part of the big three in the music industry and with the new technologies developed by Sony Japan it has brought a strong image for the company in the Asian, European and American market.

A timeline of significant events can be seen in Fig 5 (Appendix).
2.3.3 **Universal Music Group**

Universal Music Group is currently the largest recording company; even though the main headquarters are in New York and Santa Monica in the United States, the organization is wholly owned by the French corporation Vivendi. Universal’s history is comparable to Warner’s Music Group since they were related to a pictures studio in the beginning but after some time the music branch was separated from it.

It all started in 1924 when the Music Corporation of America (hereafter, MCA) was founded as a talent agency in the United States; then, in 1958 MCA bought the Universal Studios’ property in California and formed MCA Inc.

In 1996, MCA Inc. was renamed Universal Studios Inc. and MCA Music Entertainment Group to Universal Music Group (hereafter, UMG) in an attempt to strengthen the brand name. UMG would partner with BMG in 1999 to form GetMusic, an online service with music content; by 2002 UMG would offer its fans the largest music catalogue online with more than 75000 tracks (Universal, 2012).

In 2004, the inevitable happened when the National Broadcasting Company (hereafter, NBC), which was owned by General Electric, purchased Universal Music Group from Vivendi separating the music branch from Universal Pictures. UMG released Universal Music Mobile in beginning of 2005 in the United States trying to increase its market share in other areas; continuing with the strategy, UMG signed an agreement with Microsoft Corp. to launch the Zune player in 2006. During the same year, Vivendi would purchase the last 20% that Matsushita had of MCA Inc.

After BMG’s restructure, UMG would acquire BMG Music Publishing in 2007 making of Universal the largest recording and publishing company in the world. The rest of the decade UMG tried to partner with different Internet services in order to reach the new type of users, in 2008 Universal signed a contract with MySpace to create MySpace Music and in 2009, together with EMI and Sony Music Entertainment, they launched Vevo; Warner Music was not a part of this deal because they partnered with MTV at the time.

As it was mentioned before, after EMI was broken into the different operational departments and put in auction, UMG bought the label or music part of it while Sony purchased the publishing operations (Christman, 2011).

A timeline of significant events can be seen in Fig 6 (Appendix).

2.3.4 **Warner Music Group**

To describe the history of Warner Music Group (hereafter, WMG) there is a need to track three different companies in order to see how WMG was developed. Warner Music itself started as Music Publishers Holding Company in 1929 as a separate branch from Warner Brothers Pictures with the purpose of protecting the music rights of the artists that starred in its films. Two decades later, Ahmet Ertegun and Herb Abramson were founding Atlan-
tic Records (Edwards & Callahan, 2000) which is Warner’s oldest label in the present time; and three years later Jac Holzman founded Elektra Records (Elektra60, 2012).

Following the attempt to protect the music copyrights at Warner Bros. movie studios, Jack Warner created Warner Bros. Records in 1958 (Warner, 2011). The name Warner-Elektra-Atlantic (hereafter, WEA) appeared for the first time in 1970, when Warner-Seven Arts was acquired by the company Kinney National Co. that had the label Elektra.

Another merge happened in 1991 when WEA and Time Inc. created Time Warner (Time-Inc, 2007), the actual name Warner Music Group would be instituted the same year after the formation of America Online (hereafter, AOL) Time Warner. In the upcoming years WMG tried to keep up with the new technologies and develop its own; the year 2000 marked WMG as a market leader when it released the first digital library to download music in the United State and Canada.

In 2001 and 2002, WMG was able to put its catalogues on iTunes’ library and sell its first MP3 through AOL. Despite the efforts to keep up with the dotcom boom AOL did not do well in the following years, resulting on a huge debt load for WMG; Time Warner had to step up and they sold the music and publishing operations in 2004 to Edgar Bronfman Jr.

Being free from Time Warner had its advantages as WMG had more freedom to act in order to continue being profitable, some difficult decisions were made such as: cutting costs by selling manufacturing plants and laying off megastars like Madonna which did not sell over a long period of time. Its competitors were skeptical about these actions but time proved them right on focusing on digital music.

At the end of the 2000’s WMG showed the streaming service Spotify its support by licensing all its content, this attempt was made in order to diminish the effects of piracy in the music industry but two years later the company retracted and ended the contract with Spotify claiming that it was not positive for the industry (Young, 2010).

As of today, WMG changed hands again on July 2011 and now it belongs to Access Industries; it changed chief executive and chairman in the last two months (Billboard, 2011) and regardless of its position as one of the current top three in the music industry its future is unknown.

A timeline of significant events can be seen in Fig 7 (Appendix).

### 2.4 Music Companies (Services)

The following two sections consist of two emergent music services; unlike the established music companies, they were created after digitization hit the music industry. The author will present their history and a brief outline of their business model.

#### 2.4.1 Spotify

Spotify AB is a Swedish online music service that offers its users the possibility to stream over 15 million tracks (Spotify, 2011), the company was founded in 2006 when Daniel Ek
and Martin Lorentzon started to develop the platform in Stockholm, Sweden; even though Spotify AB is a Swedish company its headquarters are in London since the parent company, Spotify Ltd., is established there.

The service itself was not launched to the public until October 2008 and in the beginning the access to it was restricted, free accounts could be created through invitation-only in order to manage the growth rate of the service while premium accounts were available to all public. The first years of Spotify were difficult and carried out big losses to the investors; in its second year of existence, the corporation had a loss of $4.4 million, doubling the loss of 2007 by almost 50% (Nylander, 2009).

The main reason for Spotify losses has been the expensive licensing agreements with the music companies that have to be made in order to offer the users a wide variety of tracks. In an effort to have more premium subscribers and make the service more popular, in February 2009 it was opened without invitation to any user in the United Kingdom; by May 2010, the developers in Spotify decided to create new types of accounts in order to limit the service to free users and enhance the experiences of the ones paying.

In 2010, the company paid more than €45 million to their licensors (Eik, 2011), but at the same time they hit a milestone in early 2011 when the service reached 1 million paying subscribers in Europe (BBC, 2011). In order to increase the revenues of Spotify, in April 2011 they reduced the amount of music that free users could listen to; months after that, the company would reach another objective when the service was launched in the United States in July (Millian, 2011).

The release in the American market was delayed several times because of the tough negotiations with the different music labels, the launch was consolidated in July thanks to a $100 million funding that Spotify received in June (Investoo, 2011), which valued the company at $1 billion and made it easy to entry the market.

At the moment, Spotify has 10 million registered users and almost 30% of them are paying subscribers (Spotify, 2011); the company has been criticized by different artists and music labels due to the low loyalties that they get, nevertheless Spotify still works with the major music companies and popular independent labels.

### 2.4.2 iTunes

iTunes is a media player computer program available for free for desktop, laptop and other computers. The application lets you play and organize digital music; moreover, the program includes the largest online music catalogue, iTunes Store, where the user can download albums and songs for a fixed price. Nowadays, it has more services such as renting movies and TV shows, synchronizing all your media with other devices or buying online books but since the scope of this research is towards music the focus will be based on that service only.

In the year 2000, Apple bought a jukebox software for Macintosh computers that was developed by Jeff Robin and Bill Kincaid, the name of that program was Soundjam MP. After
adding a simplified interface and a new skin to it, in January 2001 it was launched as iTunes and it was available for Mac users only. In the beginning, the program allowed the users to create and manage their own music libraries; later on more versions were developed and the experience of music was enhanced. iTunes 2.0 supported one of Apple’s most popular music device, the iPod; later on the operative systems by Microsoft would be supported as well broadening iTunes service to almost every computer user.

A very important year for iTunes was 2004 because the *iTunes Store* was introduced, one of the first software-based online digital media stores; in the beginning it had over 200,000 items on sale and the big companies like Sony BMG and Warner Music Group started to license their catalogues. The iTunes Store has been distinctive since its introduction due to the unique pricing models and the weekly promotions that it has; as an example, it allowed customers to buy a single song for the first time instead of a whole album and they would have free songs and material every week without any subscription fee.

By the end of the decade, iTunes changed its pricing model with the introduction of three tiers, based on the popularity of the songs, giving the end user a more flexible digital product. In 2010 the library contained more than 13 million tracks (Apple, 2010) but similarly to other services like Spotify, iTunes has struggled to get the license of certain albums and bands since the contracts are very territorial which has had an impact on the tracks that iTunes can make available in different countries.

Different researches have stated that it is obvious that iTunes has the lead in the digital music sale race and the big companies are trying to catch up with them by converting their physical catalogues to MP3 but as the industry evolves in such a fast pace, new formats with better sound quality are developed on a yearly basis almost. Other companies are opting to offer a different service with another pricing strategy trying to capture the attention of those users that are not happy with the iTunes pricing proposal.

## 2.5 Profitability of Media Companies

Picard (2002, p. 7), one of the world’s leading academic specialists in media economics and management, states that profitability is of vital importance because “it allows firms to produce their own financial resources and makes them more attractive to lenders and other capital sources when they require additional financing to support their strategies and activities”; moreover, a profitable company is able to reinvest in itself to improve the content that it produces and make it more attractive to the audience and advertisers.

Furthermore, Picard proposes a set of indicators in order to evaluate media companies and compare their performance over time, the author of this paper will make use of the following ones: two indicators of economic health, market share change and change in demand; two indicators of financial health: sales revenue and asset value.

The state of the market and the consumers’ desire for a product or service demonstrates the economic health of a company. *Market share change* indicates the competitiveness in the market and it shows if it has changed or maintained, sometimes a decline of share is the
consequence of the entry or exit of another firm or a change in the structure of the market; market share is measured by the circulation of services or products. Change in demand is often determined by the price of the product or service, but in the music industry there are other individual factors that are important such as income, leisure time or complementary purchases; another important aspect is the age of the consumers, new technologies are often used by young people and not elders which causes a change in demand as well.

Financial health indicators are useful to determine if the company is still a lucrative business. Sales revenue are indicators of the success of the products or services of the company in the marketplace, it is very important to compare them to the same or similar period of the year due to the seasonal sale such as Christmas or Valentine’s day when sales increase; in addition, revenues are always affected by inflation and which has to be adjusted in order to make a good evaluation.

At last, asset value is very significant and it is imperative that it grows over time; the value of assets should overweight the value of liabilities even though assets decrease due to depreciation over time and/or inflation; nevertheless, the natural decrease can be overcome through reinvestment in the organization.

An evaluation of these indicators over time would give a clear picture of the company’s health and an overview of the industry’s performance.

## 2.6 Propositions

Based on the previous research and theories, the author has formulated four propositions in order to support the purpose of the study. After revising the frame of reference, the author assumes that digitization in the music industry in Sweden has caused the following:

(P1) Market share has changed and independent labels have increased their size
(P2) The demand in the music industry has had a steady growth
(P3) Overall sales in the music industry have increased
(P4) Music companies have increased their asset value
3 Method

There are many paths, but only one journey

—Naomi Judd, singer and songwriter.

3.1 Research Approach

There are two different types of approach when it comes to research; the first one is inductive and it refers as a “generalized conclusion from particular instances” (Mish, 1991, p.615, cited in Martin, 1996), the latter one is deductive which according to Ennis (1969, p.7, cited in Martin, 1996) means that “the conclusion is drawn from a logical chain of reasoning in which each step follows necessarily from the previous one”. The chosen research approach for this paper is deductive; since there is no benchmark of a similar study in Sweden, the propositions are based merely on empirical data. Moreover, the author presents the background of the industry as a whole and then it deepens to a more specific area where assumptions are drawn and through a quantitative method they will be confirmed or discarded, following the deductive approach.

3.2 Choice of Data Collection

According to Zikmund (2000) and Saunder, Lewis and Thornhill (2007), there are two sources of data: primary and secondary. While primary data is collected and processed for a certain research project, secondary was gathered in order to solve other problem rather than the one in hand; nevertheless, the information has to be accurate, available and relevant to the research. The author will use secondary data since it is the most appropriate to answer the propositions.

3.2.1 Secondary Data

When it comes to analyzing data it can be done using a qualitative or quantitative method; depending on the nature of the research and the available data one method will be more suitable than the other one. The secondary data will be gathered from IFPI’s annual reports on digital music and financial statements from the companies provided by the database Amadeus”; therefore, the author will use a quantitative method to measure and analyze the information.

3.2.1.1 Strengths and Weaknesses of Secondary Data

Working with secondary data is quicker than conducting a new investigation and if the required information already exists the researcher should not waste time carrying out the same study (Fay, 1997, cited in Brannick & Roche, 1997). Besides saving time to the researcher, secondary data saves monetary resources as well; primary research often requires professional assistance which could be expensive. Another advantage is the broader view of the context for the study, the author has the opportunity to benefit from it.

The most delicate weakness of secondary data is the source of it, since the author did not collect the information itself, he or she is at the mercy of those who did. Recognizing mis-
takes or identifying problems is much more difficult and the author has to pay more attention on the methodology used to get the information in order to detect any signs of bias or flawed data. Old secondary information is also a weakness since the people that carried out the study might have used outdated data but did the analysis recently.

3.3 The “Raw Data”

As mentioned in the last section, the information will be gathered from IFPI International and IFPI Sweden; the federation counts with global annual reports such as the Recording Industry in Numbers (hereafter, RIN) and Digital Music Report (hereafter, DMR), for Sweden there are reports available from Grammofon Leverantörernas Förening (hereafter, GLF) which is the Swedish branch of IFPI. These data will serve for the overview of the industry as a whole and for the analysis of the music organizations a company report will be used.

The financial statements such as: balance sheets, income statement, profitability and operational ratios will be collected from Amadeus Bureau van Dijk which is a “database of comparable financial information for public and private companies across Europe (Bureau van Dijk, 2012). All the information is “raw” since it has not been altered for a certain research or any similar, giving the author the opportunity to gather unbiased data.

3.3.1 Type of Data

According to Buglear (2005) there are four basic types of data: nominal, ordinal, interval and ratio; the first one is the lowest form of data because it contains the least amount of information, while ratio is the highest with the most amount. The data from IFPI is ratio type since it consists of labels such as turnover and cash flow, they are measured numerically and the ratios between the observations are consistent.

Moreover, the quantitative data can be continuous or discrete with the main difference that continuous information has no gaps between feasible values, the author will be working with continuous data. Data can be classified as soft or hard as well, soft data are beliefs, attitudes and behaviors while hard data are facts, measurements or characteristics; using hard data offers a bigger scope for quantitative analysis which is what the author intends to do. Lastly, there is cross-section and time series data, the first one is collected at the same point of time while the latter one is collected at regular intervals over time; since the data from IFPI is presented over the years, it represents time series data.

3.3.2 Delimitations of Data

The research will be delimited to the country of Sweden due to the limited available information. Restricted resources and time had led the author to concentrate the research in one sector of the industry; the study will use information of 4 music companies which have offices in the country or in a Scandinavian one. These corporations were chose because they represent more than 80% of the market share and therefore they serve as benchmark for the industry.
3.3.3 Data Analysis

The author analyzed the figures and records from the music industry using Microsoft Office Excel (hereafter, Excel) and the Statistical Package for the Social Sciences (hereafter, SPSS); Excel was used to create charts, diagrams and tables while SPSS served for the purposes of analyzing the multivariate data.

3.3.4 Limitations of Data

Using secondary data represents some limitations to the study, since the author will work with time series information it is important that all years are represented in order to have a more valid study. Unfortunately, collecting information from the music industry is relatively expensive and the free reports are missing some periods; nevertheless, more than one report will be used to cross tabulate the information and make sure that all years are presented in the study.

3.4 Validity

Nachmias & Frankfort-Nachmias (1996) describe three different types of validity in research methods: content validity which is the author’s ability to use the adequate instruments to evaluate the data, empirical validity that refers to the relationship between the measuring tool and the results, and construct validity that consists of the assumptions and concepts needed to confirm the results. Since validity is one of the most important features of a method, the author has ensured the three types of validity with the help of relevant literature and guidance by experts in the subject. Furthermore, the use of well-known and consistent data from one of the biggest music associations worldwide, guarantees rich information with clear dimensions, aspects that according to Collins & Hussey (2003) are vital for a valid research.

3.5 Reliability

The term reliability is related to how consistent is the information that has been gathered; Saunders et al. (2007) explain four problems with reliability: honesty that refers to a biased analysis; analysis of the data which means that if the information is evaluated by different people they might have different opinions and the results will vary; different time period, the results might not be consistent if they are from dissimilar periods over time; and amount of observations, this has to do with the sample size and if it is enough to represent a whole community or useful to generalize a fact if that is the case of the research.

In order to make this study as reliable as possible, the information will be analyzed by the author only decreasing problem two; the author does not belong to any music company and therefore his opinion will be unbiased and honest; furthermore, the collected data is presented in yearly periods which makes it consistent; lastly, the amount of observations was delimited to the country of Sweden for this purpose.

The author has approved the utilization of this method by anyone attempting to measure its validity and reliability.
4 Empirical Findings

Truth is like the sun. You can shut it out for a time, but it ain't goin' away

—Elvis Presley, musician and actor.

In the next sections the author will present the secondary data. It will be divided in two main parts: the music industry in Sweden and music companies in the country; in order to evaluate the situation from a general and specific point of view.

4.1 Music Industry in Sweden

This section will include four parts: total, album and digital sales and market share; single and video sales will be overlooked to concentrate on answering the purpose of this paper.

It is important to remark that digital products were reproduced and distributed illegally before their appropriate introduction in the later 2000s. As it was mentioned before, digitization of the industry did not happen until 2004 and there are not reports until 2006; therefore, that year will be used as a benchmark for further explanations of the effects of digitization.

4.1.1 Total Sales

Music total sales had a peak in the Swedish industry in 2000 when it amounted SEK 1,654'458,651; for the next eight years total sales decreased until 2009 when they started to recover with the introduction of digital sales. Moreover, it can be observed that the crisis in 2008 did not have such a big effect in Sweden like it did on a global level.

*Graph 1* shows the behavior of music sales in Sweden from 1998 to 2011:

![Graph 1](Image)

*Total music sales in Sweden 1998-2011; (IFPI, 2011)*
4.1.2 Album Sales

In 2001, album sales reached their maximum point with SEK 1,569,817,663; after that point, the sale of albums has been declining every single year with the exception of 2009 that they increased for approximately SEK 13 million. In the last two years the tendency has not changed and sales continues to plummet. *Graph 2* depicts the escenary of album sales in the last 14 years:

*Graph 2*

*Album sales in Sweden 1998-2011; (IFPI, 2011)*

After dividing the sales of albums by the units sold, it is evident that the price per album has a negative linear relationship, its peak point was in 1999 at SEK 68.29. *Graph 3* illustrates the behavior of the price per album:

*Graph 3*

*Average price per album in Sweden 1998-2011; (IFPI, 2011)*
### 4.1.3 Digital Sales

There is no record of digital sales in Sweden before 2006 and the units cannot be counted since IFPI does not count with a system that can verificate the sales of each individual song in the different services available online. As it can be appreciated on Graph 4, digital sales had a slow start in Sweden and it was not until 2009 that the boom of digital music went off in the industry.

![Digital Sales](image)

**Graph 4**

*Digital Sales in Sweden 2006-2011; (IFPI, 2011)*

### 4.1.4 Market Share

As it can be observed on Graph 5, the market share of six out of eight companies has become smaller in the last two years. EMI and Universal have increased their share by 3.7% and 5.2% respectively.

![Market Share](image)

**Graph 5**

*Market share in Sweden 2009-2011; (IFPI, 2011)*
4.2 Music Companies in Sweden

After reviewing the situation in the Swedish industry, the author will introduce the data from particular companies in the country to give a more specific perspective of the state of the music industry.

4.2.1 EMI Svenska AB

As Graph 5 shows, EMI’s sales were decreasing years before digitization hit the industry, but it was not until 2006 that the decline started to be more severe. In 2010, the company started to recover and show a positive linear function.

In terms of assets, they did not fluctuate as much as sales; in 2004, they decreased but the next year the sum increased and continued to do so until 2007. The next three years EMI’s assets declined for more than EUR 10 million and in the last year the organization managed to gain almost half of that amount in only 12 months as it can be seen on Graph 6:

In terms of assets, they did not fluctuate as much as sales; in 2004, they decreased but the next year the sum increased and continued to do so until 2007. The next three years EMI’s assets declined for more than EUR 10 million and in the last year the organization managed to gain almost half of that amount in only 12 months as it can be seen on Graph 6:

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Graph 6
Sales revenue, EMI Svenska AB, 2002-2011; (Amadeus, 2012)

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<td>Millions</td>
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</tr>
</tbody>
</table>

Graph 7
Assets, EMI Svenska AB, 2002-2011; (Amadeus, 2012)
4.2.2 Sony Music Entertainment Sweden AB

The sales of Sony Music Entertainment do not show a normal behavior following the digitization of the industry, as it can be seen on Graph 7, in 2004 sales were rocketed for more than EUR 10 million reaching its peak in nine years. In the last three years, sales were not volatile and continued to increase.

There is not available data for the year 2008; therefore the value is 0.

![Graph 8: Sales Revenue](image)

Sales revenue, Sony Music Entertainment Sweden AB, 2002-2011; (Amadeus, 2012)

The assets of Sony had a similar behavior than the sales revenue, but with the difference that they grew in 2004 and not one year later. Its peak was in the same year, 2005, and in the last years the company has seen a positive performance. It can be observed on Graph 8.

There is not available data for the year 2008; therefore the value is 0.

![Graph 9: Assets](image)

Assets, Sony Music Entertainment Sweden AB, 2002-2011; (Amadeus, 2012)
4.2.3 Universal Music AB

The performance of Universal Music had a negative tendency; in 2008, the company reached the lowest sales revenue but the next year they started to increase for approximately EUR 5 million per period reaching 34'731,500 in 2010. It can be observed on Graph 9.

There is not available data for the year 2011; therefore the value is 0.

![Graph 10](Sales Revenue, Universal Music AB, 2002-2011; (Amadeus, 2012))

Universal Music assets had a steady behavior from 2002-2007, fluctuating between 80 and 90 million EUR. 2008 represented a year were assets decreased only to raise by more than 20 million the next year as it can be seen on Graph 10.

There is not available data for the year 2011; therefore the value is 0.

![Graph 11](Assets, Universal Music AB, 2002-2011; (Amadeus, 2012))
4.2.4 Warner Music Sweden AB

Warner Music sales were varying over the years, having its peak point in 2002 with approximately EUR 21 million. The following periods had positive and negative tendencies, having 2008 the lowest value that can be explained with the economic crisis of that period.

There is not available data for the years 2003 and 2011; therefore the values are 0.

![Graph 12](Sales Revenue (EUR))

Sales revenue, Warner Music Sweden AB, 2002-2011; (Amadeus, 2012)

The assets of the organization were very similar to the sales revenue, have the same peak point in 2002 and but the lowest one in 2010.

There is not available data for the years 2003 and 2011; therefore the values are 0.

![Graph 13](Assets (EUR))

5 Analysis

I define nothing. Not beauty, not patriotism. I take each thing as it is, without prior rules about what it should be

—Bob Dylan; musician, songwriter, producer and director.

5.1 Presentation of propositions

In the following part, the author will present the relationship between the propositions and results of this study in order to answer the purpose of this paper; each proposition will be analyzed individually.

5.1.1 Proposition 1

*Market share has changed and independent labels have increased their size*

Proposition one has to be rejected, there is insufficient information to conclude that the market share of independent labels or firms has increased after digitization of the industry in Sweden. Cosmos Music Group AB decreased its share in two years by 5.5%, Nordisk Film Sverige AB and Playground Music Scandinavia AB kept their market share very similar in comparison to 2009 but in the year 2010 it fluctuated considerably. Sound Pollution AB lost 0.8% in the last two years as well.

Even though these percentages are small, they do represent the situation of the four firms in the Swedish music market. In 2009 they hold a 13.4% of the whole market, a condition that did not continue in 2010 when it decreased to 10.7% and to 6.8% in the last calendar year.

Some reasons behind this behavior are the consolidation of labels that belong to the *big four*, plus EMI’s subsidiary in Sweden is still owned by them, something that is not happening in other countries since EMI was sold to other organizations. Moreover, only EMI and Universal could take advantage of the change in market share, gaining 3.9% and 5.2% respectively.

5.1.2 Proposition 2

*The demand in the music industry has had a steady growth*

As mentioned before, in order to determine the demand of a certain product or service, it is imperative to measure the price of it. Graph 3 showed of the price of albums has had a negative linear tendency in the last years; since it is impossible for IFPI to determine the units sold in digital form the author decided to use the total and digital sales to determine if the demand of music has increased or not.

The reports show that in 2006 digital sales started with a slow pace, until 2010 that they increased by more than 200%; which represents a large percent in the total sales in the music industry. Nevertheless, the whole pie is shrinking anyway, digital sales are not making up
for the losses of album and single sales; some other factors such as age of the users, leisure
time and income are important to determine if the demand has increased but at least in the
Swedish market consumers are not buying as much music as before.

Therefore, proposition two is rejected as well.

5.1.3 Proposition 3

Overall sales in the music industry have increased

In Graph 1 it is shown how sales have decreased in the last decade, 2008 was a difficult year
with the crisis that hit the world and after that it can be appreciated that sales have had a
steady performance in the last 3 years. Sales have varied for SEK 30 million which
represents 3.4% of total sales approximately, as a result this proposition cannot be rejected
nor accepted since it is not statistically significant to draw a conclusion.

Old fashion music companies are not doing better than before and small firms are too un-
dersized to make an impact in the industry; the emergent companies are growing everyday
but their business models are not suitable for this sort of study since their revenue streams
are from subscriptions rather than product sales. iTunes is the only service that works simi-
larly to a music company but their financial data and sales are not available for the public
making it impossible to determine if they are benefiting the industry or not.

In a more specific situation, EMI and Universal have increased their sales revenue while
Warner has not been able to do it and Sony has kept they relatively the same in the last
three years.

5.1.4 Proposition 4

Music companies have increased their asset value

In Graph 14 (Appendix) the comparison between the assets of the big four in the last decade
can be observed. EMI and Warner had their assets lowered, in the case of EMI it is under-
standable as they company was split and sold to other organizations; on the other hand,
Universal and Sony increased their assets and by considerable amounts since they were the
companies that bought EMI's departments. Smaller companies like Nordisk Film and
Sound Pollution saw their assets increased as well, while Cosmos and Playground did not.

To conclude, proposition four is accepted because of the positive correlation between the
asset value of the companies and the industry as a whole.

To summarize, only one proposition can be accepted as the other three lack of enough evidence or are
statistically insignificant.
6 Conclusion

Knowledge speaks, but wisdom listens

–Jimi Hendrix; musician, songwriter and producer.

6.1 Conclusions

The author can conclude that digitization has positive effects in the music industry in Sweden but the effects are not evident in all aspects yet. Only one proposition out of four was valid showing that it is difficult to find evidence of the positive effects of digitization.

The major music companies in Sweden have maintained their market share stable while the smaller firms have been struggling to keep with them. New services have appeared in the industry, representing a threat to the existing companies; nevertheless, they are rebalancing the industry as a whole. Their contribution is still unmeasurable since the music associations cannot keep a record of the digital sales and subscriptions; therefore, further studies need to be done in order to appreciate the real positive effects that digitization has brought.

This research was done in order to analyze the positive effects from only one sector which has been most damaged in the beginning of the digitization period, as every process it will take time for companies to recover and since moving from analog to digital has happened in the last decade it is reasonable that the positive effects are not clear.

Moreover, the author was able to create a framework of the reproduction sector in the music industry that will help further research on the field. It is evident that most of the researchers focus on the negative effects that digitization has brought and studies on the positive ones are difficult to find; but this is changing as companies are trying to focus on the solutions rather than the disadvantages of digitization.

6.2 Discussion

The study shows that the information about the music industry is very restricted and most of the times it is very difficult to come across reliable data; each company reports its own sales and only a few federations and associations are able to gather all the information and make it public.

Music users are unaware of most of the new business models and revenue streams, consumers are bombarded with advertisements about piracy and copyright laws; most of the efforts by the major companies are towards regularizing the P2P services. Different authors agree that the organizations should focus on giving and added value to the users in order to boost profitability and sales.

There has been isolated cases of success were digitization has been the trigger to them; unfortunately, those cannot be used to generalize the situation of the whole industry. Experts on the subject are still skeptical of services like Spotify that are strong in certain geographical areas like Scandinavia but that are struggling in the biggest market, which is the US.
6.3 Contributions and Further Research

This paper is the first one of its kind in Sweden and it will provide a good basis for future research on the topic. Since it was focused on only one sector, it will be very interesting to analyze all the three sectors to compare the whole industry and see the effects from another point of view. The acquisition by EMI worldwide has not been evident in the subsidiary in Sweden, which would change the results of the research once the company has been dissolved.

In addition, if in the future there is more information available in terms of subscriptions and digital units sold, the author suggests another study in order to include those figures that were not available at the present time. This new study would give a better overview of the results of digitizing one of the most successful industries in the last decades. Moreover, a demographic study would be recommended to measure the behavior of consumers towards the new services and products.

Furthermore, Chris Anderson proposes a theory for goods that can be digitized and online channels called long tail theory; he suggests that the shape of the demand curve changes when the consumers have access to specific products that satisfy their particular needs. A study of the effects of digitization in the music industry and the shape of the demand curve would be very important and highly insightful to music companies in order to understand how they can approach the consumers.
7 Abbreviation Index

AOL – America Online
ARC – American Record Corporation
ASCAP – American Society of Composers, Authors and Publishers
BMG – Bertelsmann Music Group
CBS – Columbia Broadcasting System
CD – Compact Disc
DMR – Digital Music Report
EMI – Electric and Musical Industries
GLF – Grammofon Leverantörernas Förening
IFPI – International Federation of the Phonograph Industry
MCA – Music Corporation of America
MP3 – Moving Picture Experts Group layer-3
MTV – Music Television
NBC – National Broadcasting Company
LP – Long Play record
P2P – Peer to peer
RCA – Radio Corporation of America
RIAA – Recording Industry Association of America
RIN – Recording Industry in Numbers
SME – Sony Music Entertainment
SPSS – Statistical Package for the Social Sciences
UMG – Universal Music Group
WEA – Warner-Elektra-Atlantic
WMG – Warner Music Group
8 References


IFPI. (2012). What services does IFPI provide?. International Federation of the Phonographic Industry. Retrieved February 27, 2012 from http://www.ifpi.org/content/section_about/services.html


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9 Appendix

Figure 1 Cost centers and percentage of costs for normally priced CD recording; source: “The Economics and Financing of Media Companies” (Picard, 2002).

Figure 2 The musical economy as a networked economy; source: “Time-Space Compression: Software Formats, Musical Networks and the Reorganization of the Music Industry” (Leysbion, 2001).
Figure 3 Market Share of Music Companies in Sweden in the Calendar Year 2010; (IFPI, 2011)

Graph 14
Comparison of assets, 2002-2011; (Amadeus, 2012)
Figure 4 Noteworthy mergers and acquisitions during the development of EMI Group; source: “The Music Industry” (Wikström, 2009). Updated by the author.
Figure 5 Noteworthy mergers and acquisitions during the development of Sony Music Entertainment;
Figure 6 Noteworthy mergers and acquisitions during the development of Universal Music Group; source: “The Music Industry” (Wikström, 2009). Updated by the author.
Figure 7 Noteworthy mergers and acquisitions during the development of Warner Music Group; source: “The Music Industry” (Wikström, 2009). Updated by the author.