



JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL
JÖNKÖPING UNIVERSITY

Managing Change in the Recording Industry

- response measures to the impact of downloading

Master thesis in Business Administration

Author: Mattias Helgesson

Daniel Mattsson

Tutor: Leif Melin

Jönköping May 2005

Master Thesis in Business Administration

Title:	Managing Change in the Recording Industry
Authors:	Mattias Helgesson, Daniel Mattsson
Tutor:	Leif Melin
Date:	May 2005
Subject terms:	Change management, MP3-downloading, discontinuous change, music industry, strategic change

Abstract

Since 2001 the recording industry has lost a third of its total sales and the future of music consumption is almost daily debated in media. On one side there are voices proclaiming free downloading and music sharing over the Internet and on the other side there are artists and record companies explaining that they need the revenues to survive. A currently delayed law proposal to illegalise unauthorized downloading, planned to be implemented from July 2005, is being considered by the Parliament. The future outcome is uncertain, but the music industry is currently and unquestionably experiencing big change.

The purpose and intention with this thesis is to examine how major record companies in Sweden are managing the environmental change, imposed by downloading over the Internet, focusing on strategic choices, actions and organizational change implemented by subsidiary level top management.

We have used previous research and theories within the area of strategy and change management as a platform for analyzing what approach these companies have to this phenomenon and also what measures have been implemented since the problem was first recognized. In Stockholm we met with representatives from the three largest record companies in Sweden; EMI Sweden, Universal Music and Sony BMG. Our data was collected from these interviews, which were based on our questions referring to different parts of the management process when experiencing big change.

One conclusion we have drawn is that the reaction from the recording industry has been too slow in order to fully capitalize on the possibilities in music distribution over the Internet. The reasons for this are many, but their relatively static structure and the fact that they have been caught up in old patterns are certainly part of the explanation. However, even though the record companies were somewhat slow from the beginning, they have now caught up substantially and since many of the measures suggested by previous research have been implemented, they are now to a larger extent equipped to meet the future needs. This thesis contains more specific elements on what responses to downloading the record companies are currently working with, such as restaffing procedures, rethinking the operational environment and reshaping strategies.

Magisteruppsats i Företagsekonomi

Titel:	Managing Change in the Recording Industry
Författare:	Mattias Helgesson, Daniel Mattsson
Handledare:	Leif Melin
Datum:	Maj 2005
Ämnesord:	Change management, MP3-nedladdning, discontinuous change, musikindustrin

Sammanfattning

Sedan 2001 har skivindustrin förlorat en tredjedel av sin totala försäljning och framtiden för musikkonsumering är näst intill dagligen debatterad i media. På ena sidan finner man förespråkare för fri nedladdning och fildelning över Internet, medan den andra sidan består av artister och skivbolag som förklarar att man inte kan klara sig utan intäkter för musiken som produceras. Ett försenat lagförslag, ämnat att träda i kraft i juli 2005, som skulle förbjuda nedladdning av otillåtet material på Internet behandlas just nu av riksdagen. Framtiden är oviss, men det råder inga tvivel om att musikindustrin just nu undergår stora förändringar.

Syftet och avsikten med den här uppsatsen är att undersöka hur stora skivbolag i Sverige hanterar de omvärldsförändringar som skett till följd av nedladdning över Internet. Vårt fokus ligger på strategiska val, aktiviteter och organisatoriska förändringar som implementeras av ledningsgrupperna på respektive företag.

Vi har använt oss av tidigare studier och teorier inom strategi och change management som en plattform för att analysera företagets aktiviteter och inställning till nedladdningsfenomenet sedan problemet identifierades. På deras respektive huvudkontor i Stockholm intervjuade vi representanter från de tre största skivbolagen i Sverige; EMI, Universal Music och Sony BMG. Datan som samlades in baserades på de frågor vi formulerat med hänvisningar till olika delar av managementteorin som behandlar diskontinuerlig förändring.

En slutsats som vi dragit är att skivbolagen reagerat för sent för att till fullo ta tillvara på möjligheterna som musikedistribution över Internet trots allt besitter. Anledningarna är många, men deras relativt statiska strukturer och det faktum att man varit fast i gamla mönster är en stor del av förklaringen. Trots att man från skivbolagens sida reagerade ganska sent på förändringen så har man nu hunnit i kapp utvecklingen avsevärt och efter att ha tagit många strategiska steg på rätt väg är man nu till en större utsträckning förberedd att möta framtida behov. Den här uppsatsen innehåller mer detaljer och specifika element av deras strategiska respons, bland annat personalbyten, tydligare omvärldsanalyser och strategiförändringar.

Table of Contents

1	Introducing the area of research	1
1.1	Problem Discussion.....	2
1.2	Purpose	3
2	Previous research and theories of relevance.....	4
2.1	The Core of Strategy	4
2.1.1	Two different perspectives.....	5
2.1.2	Organizational resources.....	6
2.2	Developing competitiveness.....	7
2.2.1	Dynamic capabilities.....	7
2.2.2	Same game vs. New game	8
2.2.3	Hyper competition and the importance of flexibility.....	9
2.3	Change management	10
2.3.1	Varieties of change.....	10
2.3.2	The PESTEL Framework.....	11
2.3.3	Discontinuous and frame-breaking change	12
2.3.4	Generating new ideas.....	14
2.3.5	Response failures.....	15
3	A reflexive case study approach	16
3.1	Reflexive methodology	16
3.1.1	Data-oriented methods	16
3.1.2	Hermeneutics	17
3.1.3	Critical view	17
3.1.4	Poststructuralism and postmodernism.....	17
3.1.5	Our reflexive methodology.....	17
3.2	The case study approach to the downloading phenomenon	18
3.3	Semi-structured interview	19
4	Empirical data	20
4.1	EMI Sweden	20
4.2	Universal Music Sweden	25
4.3	Sony BMG	28
4.4	Reflections on our empirical findings	31
5	Analysis	33
5.1	Environmental analysis - PESTEL.....	33
5.2	The Discontinuous Change Process	34
5.2.1	Recognition	34
5.2.2	Strategic choices and Organizational Redesign	35
5.3	Alternative solutions	40
5.4	Analytical reflections.....	41
6	Conclusions	42
6.1	Final thoughts.....	44

References.....	47
Appendix 1	50
Figures	
Figure 2-1 Same game vs. New game (Ellis & Williams, 1995).....	9
Figure 2-2 Grundy’s three varieties of change (Senior, 2001).....	10
Figure 2-3 The PESTEL Framework (Johnson et al., 2005).....	11

1 Introducing the area of research

In the 21st Century the competitive landscape for most companies look somewhat different from what we have experienced towards the end of the last century. It is an environment marked by constant and unpredictable change, often seeing revolutionary and discontinuous changes which affect the entire structure of all organizations (Kuratko & Welsch, 2004).

It is a well known fact in management theory that in order to survive, companies and organizations must adapt to and interact with the changing environment. All organizations are faced with a large number of factors that to different extent interfere with the current way they conduct their business. Each and every one of these factors are in themselves an incentive for organizational change (Stoner & Freeman, 1992). Forcing organizations to act in order to stay competitive, these factors are generally referred to as triggers for change and are grouped into four subcategories where *technological factors* today is the category that have come to play an ever increasing role (Johnson et al., 2005). Hence, understanding the importance of change management is essential. Seizing opportunities and sidestepping pitfalls that comes hand in hand with change is best achieved through leveraging strategies, operational processes and organizational structure (Kuratko & Welsch, 2004).

The Internet is often regarded as the most powerful technological trigger since it normally influences all activities in a company. Managing the opportunities the Internet can offer is crucial for any company that wishes to remain competitive. Emphasis is often on reviewing possible improvements within Internet-based communications. The big majority of companies view Internet as a tool, as something very useful, something capable of improving communication channels, operation processes and marketing procedures (Senior, 2001). However, there are also a few industries where the Internet has become so much more. It has grown to be a possible threat while at the same time also a necessary ingredient in a recipe for survival. We are talking about the music industry in particular.

According to IFPI, the International Federation of the Phonographic Industry (2004), the Swedish record sales has dropped 33% since 2001 in absolute numbers. Accompanied by the film-industry, the music industry is believed to have suffered severely due to the high increase in free downloading over the Internet. Since 1999 when the file sharing network Napster became worldwide-known to the public, concerns with MP3-downloads have been frequently discussed in the news and it has become an issue drawing everyone's attention. In the Napster trial, evidence was presented by the prosecutor saying that downloading was indeed harmful to the recording industry, while the defender showed proof of the opposite. According to Stan Liebowitz (2004) it cannot be stated for sure that the decrease in record sales can be fully blamed on the downloading phenomenon, leaving the door open for other contributing factors.

Since the early days of downloading our legal system in Sweden has not been able to provide sufficient protection of companies that might be negatively affected. As the law is stated today, you are not allowed to provide files for others to download, but you are allowed to download from others. However, in July 2005 there will supposedly be a change in this law, making it illegal to also download files/MP3s from others (Brandel, 2005). Of course, if this law is implemented it has the potential of having a positive influence on sales for the recording industry. It is an interesting thing to look at the practice of the recording industry today. The common view among the general public seems to be that record companies try to fight back by prosecuting Internet users who have unauthorized material available for others to download (Liebowitz, 2004). However, this is most certainly only a small part of the overall strategy.

1.1 Problem Discussion

With this thesis we attempt to dig a little bit deeper into the recording industry. It is certainly a unique situation they are facing, as they are up against a new abstract artificial competitor, a phenomenon that might threaten the very core of their businesses. This thesis is designed to provide an insight to the thoughts and actions within three of the biggest record companies that are present in Sweden; Universal Music, Sony BMG and EMI. Focus will be on change management, how they handle the phenomenon of MP3-downloading strategically both internally and also externally focusing on alternative ways to improve sales.

Below we specify four main themes/questions that will be the core of this thesis. They will be the foundation on which we will base our empirical research. We are going to perform an analysis on these themes, using the theories that are later presented in chapter two as our framework. The conclusions we draw from the analysis will be presented in the final chapter. First of all, in order to understand the problem from the record companies' perspective:

- **What are the general views among major record companies on the recent years' development with MP3-downloading? What threats and possibilities do they see?**

At the centre of the controversy is the notion that the recording industry is afraid that downloading will cause mortal damage to them, unless they can somehow stop online "trading" (Liebowitz, 2004). We would like to raise a question mark to this notion, asking if they really see themselves falling with the survival/death of MP3-downloading. After all, they are currently in a phase of obvious change and many previous real-life cases highlight several proper actions/measures to follow/implement in order to improve one's situation (Kuratko & Welsch, 2004). Our major focus in this thesis will be to highlight the important elements of the change process, asking:

- **Given existing theories and previous research on change management and strategy, are they taking appropriate measures to respond efficiently to the changing environment?**

Comparing the phenomenon of downloading music to the CD, another obvious area of interest for us is the benefits inherent in buying a CD. There is obviously some value in a CD that you cannot retrieve from downloading the songs from the Internet. Asking what the recording industry can offer but downloading can not, is a central question in order to understand the forces behind the strategies that they have for the future:

- **What is the future of the CD as a medium? What ways are there to take advantage of the added value inherent in a CD, compared to downloading?**

Is alternative ways of selling music something that will be at the core of every major companies strategy in the future? It certainly seems as downloading is here to stay and in order to remain competitive as a music producing company core-changing actions would in that case have to be taken (Liebowitz, 2004). The question is how the recording industry views the future and to what extent they are prepared to pursue alternative ways to sell music to its customers:

- **Do they have concrete ideas on how to regain "market shares", focusing on alternative ways to sell music using Internet as a tool? What are they and to what extent are they being/will they be implemented?**

There have been few studies on this area before, since the phenomenon of MP3-downloading is relatively new. This is why the area provides an interesting natural experiment for any economist.

1.2 Purpose

Our intention is to examine how major record companies in Sweden are managing the environmental change, imposed by downloading over the Internet, focusing on strategic choices, actions and organizational change implemented by subsidiary level top management. .

2 Previous research and theories of relevance

This chapter focuses on research and literature that will help us analyze the data gathered from our chosen companies. Analyzing how they are managing the current situation requires that we apply established managerial guidelines within the area of strategy and change management, theories that can hopefully help us to answer our questions.

As was touched upon in the introductory chapter the competitive situation the recording industry is facing today is in many ways unique in a sense that they are up against a substitute that their customers can get for free. There are little if any literature or models that explicitly describe this sort of problematic area, leaving us with theories that might not in all cases be suited and applicable to our research. It is important that the reader understands that focus in this thesis is not on the competitive battle between firms in the music industry, but instead on the competition from downloading. There are vast amounts of strategic literature and specific models describing strategic management in the face of a changing environment, but a major part of them are based on the assumption that your opponents are rational human beings who react and act accordingly. Hence, we have focused on theories that with no doubt have relevance in any setting where change and strategy is at core of the study. Besides, we are aware that diving into theories that are only marginally touching upon certain aspects of our situation of interest, but in fact are designed for analyzing completely different scenarios, would lower the credibility of this thesis.

Initial focus will be on strategy and different perspectives on how to look at this area of economic theory. We describe general views on strategy, reviewing important concepts for this thesis such as the ‘dynamic capabilities’-concept and new game vs. same game theory. We move on to the area of change and what characterizes settings undergoing radical change. Since focus in our analysis will be on the change process, the theories on change are slightly more relevant for our purpose than the ones on strategy, explaining the fact that we have kept the theories on strategy fairly general. By linking change to strategy we later examine what strategic choices managers face in the light of competition and environmental change and what appropriate actions are suggested to various aspects of the change process.

2.1 The Core of Strategy

There is no single accepted definition that covers all aspects of strategy. It is a concept that is present in everything an organization does and not separable from anything. To get an overview of what strategy can be about we use Henry Mintzberg’s framework (Burnes, 1996). Mintzberg uses what he refers to as the five P’s to define strategy. They represent five different ways to look at the concept:

- **Plan** Explicitly or implicitly having a plan which the organization will follow.
- **Position** Seeing strategy as how a specific product/service is positioned on particular market to use it for competitive advantage.
- **Perspective** Taking an internal view on the organization’s own way of doing things, regarding people and processes. Strategic actions need to be related to the organizational culture.
- **Pattern** Seeing strategy as a pattern of behaviour over time, regarding assessments and evaluation and processes.

- **Ploy** Using strategy as a manoeuvre to outwit your competitors. Threatening to lower prices to keep new entrants out of the market is one example of this.

Mintzberg says that one perspective does not rule out another in this model. They are all useful in a sense of adding width to the concept of strategy and to create a discussion around it. Meanwhile, they can be seen both as complements and alternatives to each other (Ellis & Johnson, 1995).

However, while there seems to be an endless amount of theories regarding strategy there are only three different groups of models that are really applicable to reality (Teece, Pisano & Shuen, 1997). These are *the competitive forces view*, *the strategic conflict view* and *the resource-based view*. In the forthcoming sections we outline these groups of views, in order to create an understanding of what different aspects there are on the area of strategy. Reviewing the content of the separate strategic schools we have chosen to put more emphasis on the resource-based view. The reason for this is that the two others pay little attention to skills, path dependencies, know-how and are to a larger extent focused on the competitive battle with other firms, whereas the resource-based is concerned with internal strengths and capabilities (Teece et al., 1997). Since this study is more focused on the internal capabilities of the record companies in handling competition from a phenomenon rather than actual competitors, this distinction was made. However, there are also two contributing ideas taken from the competitive forces view and the strategic conflict view that will be highlighted in section 2.1.1. We will not look into distinguishing features of the prescriptive and the analytical stream of thought within management, as it is not relevant for the purpose of this thesis.

2.1.1 Two different perspectives

The competitive forces approach

According to the *competitive forces view* it is essential to align the organization with the environment. Proponents claim that the industry sets the rules of the competitive game and indirectly therefore influence the range of strategies available to the competitors (Burnes, 1996). Further, it focuses on what actions a firm can take in order to create positions that are effective against competitors (Johnson et al., 2005).

The most influential writer in this area is Michael Porter who claims there are really only three generic strategies companies can pursue: *low-cost*, *differentiation* and *specialisation by focus*. They are all based on his “five forces” framework which was created to determine the industry potential within a firm. Entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers and competition among competitors, are all forces to take into account (Christensen, Anthony & Roth, 2004).

We would like to highlight the differentiation approach, which says that an organization only can gain sustainable advantages through a constant search for new markets and to exploit them (Christensen, Anthony & Roth, 2004). Porter further points out that the firm’s ability to be profitable is in direct relation to its ability to influence the forces in the industry. This idea can be connected to the well-known *contingency theory* which states that all organizations are open systems where performance is dependent on circumstances and forces affecting each organization. Thus, there is no best way to follow for all organizations (Burnes, 1996).

The strategic conflict approach

Using the tools of game theory, the *strategic conflict approach* focuses mainly on the competitive interaction between rival firms (Teece et al., 1997). A big part of the research under this approach lies on the assumption that manoeuvres are made depending on what one firm thinks another one will do in a specific situation. Hence, the level of economic performance is a consequence of the firm's ability to outsmart its rivals (Burnes, 1996).

An interesting aspect with this approach is the idea that you by taking certain actions can influence the market environment (Teece et al., 1997). Doing this successfully can increase your profits substantially. Common strategies to influence the market and gain customers include price strategies, advertising and investments in capacity (Burnes, 1996).

However, it is important to realize that these conflict-based strategies do not take into account the wide range of both internal and external factors that of course also affect the competitiveness of a firm. Hence, the usefulness of this approach is limited (Burnes, 1996).

2.1.2 Organizational resources

Emphasis in the *resource based view* on strategy is on internal resources and to what extent firm-specific capabilities work to take advantage of these endowments (Teece et al., 1997). Burnes (2000) claims that, since gaining new competitive capabilities and resources is hard to do, firms are pretty much stuck with the endowments and resources that they already have. Hence, internal management is crucial to economic performance. The emphasis on managerial capabilities and different organizational skills leads to an approach which integrates many areas of management and strategy research such as management of R&D, human resources, intellectual property and organizational learning. The organizational capabilities of a firm are defined as its ability to accomplish against competition and circumstance, whatever it sets out to do (Teece et al., 1997).

Also, in an industry where innovation has become a powerful presence in the form of computers and the Internet, there is constant *creative destruction* at work (Durand, 2004). Touching on the area of change, Durand highlights the need for all companies to respond to change, something that normally goes hand in hand with the disruption and re-evaluation of current operational processes and organizational strategies. In a situation where a line of business is about to be redefined, there are no established rules for how this competitive game will be played. Instead the rules will be a result of the deconstruction-reconstruction process that will take place. What this means from a strategy point-of-view is that there is an opportunity for involved actors to take action in order to shape these new rules. In order to do this, a firm needs to exploit its resources and respond to opportunities in the environment. As Durand (2004) puts it, making an analogy to the medieval alchemists:

"In medieval times, alchemists were seeking to turn base metals into gold. Today managers and firms seek to turn resources into profit. A new form of Alchemy is needed in the organization. Let's call it competence" (Durand, 2004, p.126)

The concept of *core competence* was first highlighted by Hamal and Prahalad in 1990 and really made a major contribution to the resource-based view on strategy (Durand, 2004). For a resource to be classified as a core competence three criteria have to be met:

- It offers real benefits for the customers.
- It is difficult to imitate.

- It provides access to various markets.

If a company can create a unique combination of their core competences, there is a good chance they can achieve some sort of competitive advantage. The degree to which a core competence is distinctive depends on how well endowed the company is relative to its competitors (Teece et al., 1997)

Porter is of the same opinion, saying companies must put their core competence in the centre of strategy in order to stay competitive (Burnes, 1996). Meanwhile Ellis and Johnson (1995) claim positioning can no longer be considered as a choice of strategy. To remain competitive in a fast-changing industry, companies must balance their competitive edge, their core competence, with an ability to constantly adjust to changes. Hence, the environment prevents companies from being too static.

Doing what you are best at is an old idea that can be traced back to the theory of comparative advantage. As was previously mentioned, many proponents of the resource based view believe an organization is stuck with the capabilities and endowments it possesses. This is not something that can be easily acquired. Therefore you have to figure out what your edge is, what you have that can be turned into an advantage and then simply focus on that area (Burnes, 1996). However, the resource based view also invites consideration of managerial strategies for developing new capabilities, which brings us to the concept of *dynamic capabilities* (Teece et al, 1997).

2.2 Developing competitiveness

The traditional stable business-environment does not exist anymore. Today the competitive environment is characterized by technological change, competitors that emerge from places previously unknown and a higher degree of globalization. In addition to the resource based view, Duyster, Nagel & Vasudevan (2004) put forward a theory saying that not only should a company deploy its resources in the most efficient way, it also has to view the capability to alter the rules of the game as an asset in itself. Hence, the challenge for companies in changing industries is to find the means by which they can “develop a capability for changing the rules of the game” and also to be flexible in the face of new ideas.

2.2.1 Dynamic capabilities

Resource based ideas become particularly interesting in a context where technology plays an important role and that is what has happened recently in many industries. Flexibility is a key feature often mentioned when talking about the new rapidly changing environment we often encounter. As a result, consumers have a wide range of choices, making the chances of establishing a *sustainable competitive advantage* based on durable competences very slim. Meanwhile, we can often see companies that extend during a period of change (Johnson et al., 2005). Hence, they must possess an asset that gives them an edge in a changing environment.

Teece et al. (1997) introduced the concept of “dynamic capabilities” as an extension of the resource based view but with tighter focus on the importance of adaptability in a changing environment. The term ‘dynamic’ refers to the capacity to renew competences in order to meet the needs of the changing environment, while ‘capabilities’ emphasizes the role of the manager to adapt and reshape the internal skills of the organization. All choices that are made by a manager today puts a limitation on what will be the internal toolbox when adapting to changes in the future (Teece et al, 1997).

These capabilities can vary very much between different companies, they can be formal or informal. Examples of formal dynamic capabilities are organizational systems for new product development or major strategic moves, such as an acquisition of another company in order to widen the knowledge of the organization. On the other hand they might be very informal such as in the way decisions are made, how to speed up the process if necessary and how to deal with particular circumstances that require innovation (Johnson et al., 2005).

Eisenhardt (2000) makes an important point regarding acquisition procedures, saying that the chance of being successful after a merger depends on how well the new organization can capture synergies.

2.2.2 Same game vs. New game

Both of the approaches described in this section work to achieve a *competitive advantage*, that is, to be able to outperform rivals in the market over a consistent period of time, given commonly accepted criteria (Ellis & Williams, 1995). Even though our focus is not on the competition among the record companies, we have chosen to include this theory. We believe it fills an important function, giving a perspective on the type of competition that in fact exists.

According to Ellis and Williams (1995) business strategy is by definition “how a business seeks to compete in its chosen product-markets”. Organizations can basically compete by approaching strategy in two ways:

- Taking an already existing concept of strategy, i.e. a competitor’s, and then try to do it more efficiently and more successful. This is called *same game strategy*. (Ellis & Williams, 1995).
- Creating an innovative new strategic way and benefiting from first mover advantage. This is intuitively called *new game strategy* (Ellis & Williams, 1995).

Studies have shown that same game strategies often result in “cutting down on costs”-behaviour, a situation that often just leads to harder and harder head to head competition and no real progress for any of the competitors. If the conditions under which competition takes place become less appropriate, it is likely to result in a business that is doing just worse. Meanwhile, when following a new game strategy, you avoid head-to-head competition and instead concentrate on trying to outflank your opponent in areas where you think you can provide better value for the consumers. Thus, new game strategies are about building rather than cutting. Emphasis is on developing new markets, market features and competitive approaches (Ellis & Williams, 1995).

Figure 2.1 gives an overview of what the characteristics, strategic intent and potential outcomes are in each of these approaches.

Same game	New game
<p><i>Characteristics</i></p> <ul style="list-style-type: none"> ▶ Identify market segments. ▶ Decide positioning within segments. ▶ Serve market more efficiently and effectively than the competitors. 	<p><i>Characteristics</i></p> <ul style="list-style-type: none"> ▶ Strategic innovation; product, process or market discovery. ▶ First mover advantage within a market. ▶ Avoidance of head-to-head competition.
<p><i>Strategic intent</i></p> <ul style="list-style-type: none"> ▶ Outcompeting rivals using similar strategies to those carried out by the rivals. The aim is to assess competitors' actions and do the same thing better. 	<p><i>Strategic intent</i></p> <ul style="list-style-type: none"> ▶ Outcompeting rivals by investing in new strategic solutions. Emphasis is on innovation and vision, as the organization sets out to create a new approach to meet consumer needs.
<p><i>Potential outcome</i></p> <ul style="list-style-type: none"> ▶ Achievement of parity or an incremental competitive advantage when compared to rivals. 	<p><i>Potential outcome</i></p> <ul style="list-style-type: none"> ▶ Achievement of a competitive superiority, which gives the organization a distinct advantage when compared to competitors.

Figure 2-1 Same game vs. New game (Ellis & Williams, 1995).

2.2.3 Hyper competition and the importance of flexibility

The level of competition can vary widely between different industries. One concept that is frequently used when describing an environment where the competitors are constantly aiming for leadership is *hyper competition*. What forces an industry into this state is normally a growing operational complexity and a fast rate of innovation carried out by companies seeking competitive advantages. However, these advantages are generally only temporary and what really makes a company successful in this environment is its ability to satisfy customer needs (D'Aveni, 1998). The underlying assumption here is, that to gain a sustained competitiveness in this type of environment you need to engage in a sequence of short-term moves that hopefully will lead your company through the turbulent times (Johnson et al., 2005).

Chakravarthy and Gargiulo (1994) argue that competing in a hyper competitive environment requires a flat entrepreneurial organization where the two most important attributes has to be the ability to achieve a culture of trust and empowerment among the employees. Entrepreneurial strategies have to be encouraged and prioritized while at the same time be flexible in an unexpected event of failure of a chosen course of action. The last part here is something that they emphasize in particular, especially since the window of opportunity in this type of environment normally is very brief. If the organization is too hierarchical, changing the course of action once set becomes very difficult.

Senior (2001) states that organizations have different structures depending on whether they operate in a stable market or in a dynamic and frequently changing market. She mentions studies conducted on this area that has shown that mechanic and bureaucratic structures are more suitable to a stable environment, while organic and decentralised structure are more fit to dynamic environments.

Everyone within an organization may be capable of being innovative, especially if they are put together in a group. But according to Bessant (2003) we can in reality see several elements in average day business life that work to suppress this innovative behaviour. Employees may feel that innovation is not part of their job and that it is part someone else's. They might feel a bit anxious about expressing new ideas. Out of fear for what other employees will say they may feel it is not worth the effort. Maybe there are no incentives whatsoever within the organization for this sort of behaviour, maybe there is no time, suitable structures or procedures to support it. This is a challenge for the management team. To first communicate the direction of the company and then carry out all necessary actions to make the entire organization, people as well as structures, work towards this same goal. Routines have to be established that allow development of skills, expression of ideas and innovative behaviour in general (Bessant, 2003).

2.3 Change management

2.3.1 Varieties of change

There are many different forms of change and there are many different views among managers what change is. Some consider change to be an enemy of stability, while others realize the opportunities that comes with it (Senior, 2001). One model that has been frequently used when describing different sort of change is Grundy's (1993) *three varieties of change* as shown in figure 2.1 below.

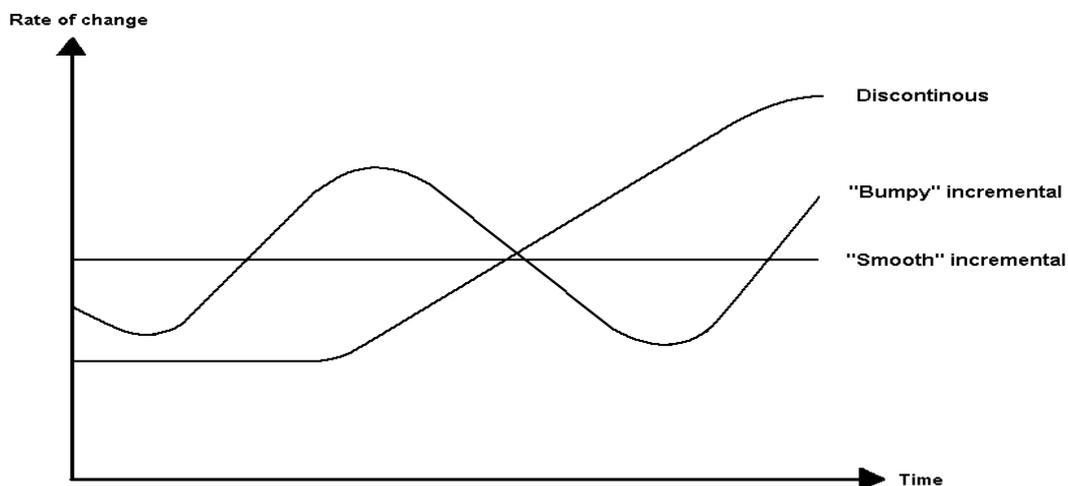


Figure 2-2 Grundy's three varieties of change (Senior, 2001)

According to Grundy (1993), *smooth incremental change* is when it is easy to predict the future. The figure indicates that the rate of change stays on the same level and there are no sudden or radical changes whatsoever. *Bumpy incremental change* is characterized by a lot of ups and downs in the rate of change, caused both by external and internal factors. External factors include all triggers that will be mentioned in the next section describing the PESTEL-

framework. Internally, the change can be driven by reorganizations, measures to improve efficiency and working procedures (Grundy, 1993).

Discontinuous change is the third type of change. When a business or industry is forced to adjust their strategies, structure or culture due to an environmental situation that is permanently changing, we have a situation of discontinuous change (Grundy, 1993). More about this type of change will be covered in section 2.3.3.

2.3.2 The PESTEL Framework

Senior (2001) says that the discontinuous change process as well as other types of change are always triggered by a specific or a number of environmental factors. Analysts have found it useful to group these different factors into several categories depending on their characteristics. The groupings look slightly different but basically have the same meaning. Johnson, Scholes and Whittington (2005) classified these factors in six groups and named the framework PESTEL. The six letters are short for *political, economical, sociocultural, technological, environmental and legal*. Using this framework will help create an understanding of the forces affecting an organization experiencing environmental change.

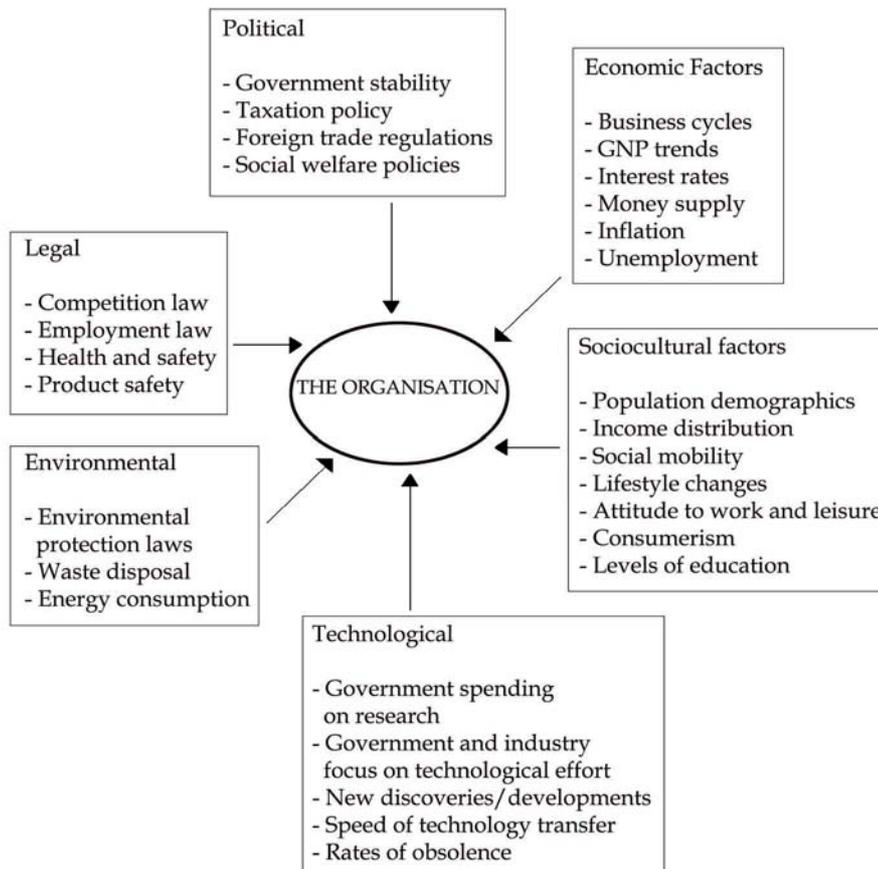


Figure 2-3 The PESTEL Framework (Johnson et al., 2005)

The main purpose with the PESTEL framework is to identify the key drivers of change. Many of these are linked together, but they all represent macro-environmental factors that are likely to affect the structure of a sector, market or industry. Johnson et al. (2005) further state that for most organizations it is the combined effect of just some of the factors, rather than all of them, that are important. The authors further stress the importance of using the

framework proactively, looking at future aspects of the impact of the environmental factors.

2.3.3 Discontinuous and frame-breaking change

Nadler (1998) describes discontinuous change as a process of five stages under which business leaders have to manage three core challenges. The first challenge is a matter of *recognition*, asking whether the organization has the ability to fully recognize new threats early enough to create a response. As a leader, can you make the right choices so that your organization can survive or even make a profit from the new situation? This is the second challenge named *strategic choice*. Thirdly, is the organization capable of reshaping the core components in order to fully pursue this new strategic direction? Is *organizational redesign* possible without posing a too big threat to the survival of the company?

A different framework for change than Grundy's was put forward by Tushman, Newman and Romanelli (1988). Different from Grundy, their framework is based on empirical results from several studies and emphasis is on the rapid implementation process. They claim most organizations conduct two types of converging change within, that is *fine-tuning* and *incremental adaptations*. Both types are actions done due to changes in the environment with the aim to maintain the relationship between organizational processes and strategy, though incremental adaptation is considered a somewhat larger adjustment. However, as the organization's environment undergoes large changes, conducting incremental adjustments might not be enough. Instead severe changes in strategies, structures and activities might be necessary, a procedure Tushman et al. (1988) call *frame-breaking change*.

Going back to Nadler's (1998) framework, the three mentioned challenges are constantly present over the discontinuous change cycle which can be broken down into shorter stages. The first stage emphasized by Nadler (1998) is *recognizing the change imperative*, meaning you carefully have to examine all components of the organization in order to see what is working and what is not and also to identify the causes of the change.

When recognizing the magnitude of the problem the next important step will be to *develop a shared direction*, a direction that can be supported by the entire management group. It is essential to have support when engaging on an endeavour that will change the entire essence of the organization. Nadler (1998) claims here is where many impatient top executives often make their first mistake, not realizing that having everyone on board from the beginning prevents major time delaying corrections in the chosen plan in the future.

Implementing change is the third step really overlapping both previous and upcoming stages. You can also say that the major part of the frame-breaking process presented by Tushman et al. (1988) takes place during this stage. Clearly, implementing change is a complex procedure involving many core activities necessary to succeed in realizing the goals you have set for yourself. According to Nadler (1998) and Tushman et al. (1998) the primary focus in the process of frame-breaking change should be on:

- Redefining strategy and rethinking the nature of the work required to pursue the new strategy. Core values and the company's mission are normally revised and changed to match the needs of the future.
- Redesigning the organization's formal structures, systems and processes.
- Rebuilding the operational environment of the organization and creating informal arrangements that support the new strategy and work requirements.

- Restaffing: making sure the right people are in the right jobs in keeping with the new strategy, structure, work and culture.

To perform a successful process of frame-breaking reshaping of an organization, speed is absolutely necessary. Otherwise the organization might end up in a situation where losing market shares are inevitable. Most frame breaking reorganizations involve a few or all of the features mentioned above (Senior, 2001).

Frame-breaking change is quite revolutionary in that the entire nature gets reshaped. To work effectively it requires continuous change in strategies, structure, capital and processes and more importantly; it has to be done simultaneously and rapidly. There are several reasons to why that is. The most important one may well be the riskiness and the vulnerability that the company faces during the restructuring period. Longer implementation means higher uncertainty. Therefore there is also a constant need of actions from management that send signals throughout the organization that things are in motion, that progress is achieved. Who manages the transformation is an important issue, since it requires both talent and energy. There is a dilemma when choosing the executive, since the current executive may be the one with the widest knowledge of the company but he may lack the energy and the passion for carrying out such an internal revolution. Meanwhile, a fresh set of executives in the management team could bring new skills and a different perspective to the table. Studies show that when frame-breaking change has been combined with executive succession, the company performance has been significantly higher (Tushman, Newman & Romanelli, 1986) Another reason to why speed is important is the synergies you can take advantage of when all parts of an organization work together along the same guidelines (Tushman, Newman & Romanelli, 1988).

The fourth stage in the discontinuous change process is *consolidating change*. This phase starts when the activities that were once radical and new, now is part of the everyday procedures of the organization. During this phase it is crucial to diagnose and evaluate what is working properly and what is not and then make refinements. Management can reward proponents of the new status quo and remove those who are still resisting (Nadler, 1998).

Finally, when things seem to be working correctly, you would like it to stay that way, hence *sustaining change* will be the last part of the discontinuous change cycle. A threat during this phase is that the organization might gear down a few notches when things are looking steady again. Here is where the leaders have to maintain their vigilance and determination. Often the optimal situation for a worker is stability, while many leaders grow accustomed to view change as a part of business life (Nadler, 1998).

One concept closely related to discontinuous change or even a part of it is something the literature describes as a 'divergent breakpoint'. This is an event of innovation or a new business idea that affects all actors within an industry (Strebel, 1996). A good example is the opportunities that have emerged after the development of the Internet. Many organizations have due to this innovation been forced to make major adjustments throughout the organization to be able to stay competitive. However, it is important to realize that not all types of discontinuous change are a result of technological innovations, but to all environmental turbulence (Senior, 2001). For change to qualify as a breakpoint it has to be sudden, radical and fundamental in its nature. Also it should cause a significant change in the performance trend and break the rules of the game making previous experience inadequate.

Radical change is yet another term in the same line as frame-breaking change, used to describe the change a permanently changing business is facing. The practical meaning

however is close to the same. Radical change is said to begin with the complete breakdown of systems followed by a period of complete confusion and finally a rebuilding process with new core values, production systems and structures. To make a process like this successful it is important that the management team is able to provide an optimistic vision for the future. It is part of strategic thinking. Lacking a clear motivating vision it is likely that the organization will fail to achieve a full-blown reshaping process and instead follow old paths resulting only in some incremental adjustments (Newman & Nollen, 1998).

2.3.4 Generating new ideas

After conducting interviews with a number of executives in companies faced with unexpected competition caused by the Internet, Duyster, Nagel and Vasudevan (2004) formed a number of rules for how a company can generate new ideas and think in new terms how to change the rules of the game. Yet quite simple, the authors claim if implemented they can have a huge effect on the progress in the company's reshaping process. We have touched upon these paragraphs previously but here they are stated clearly in four sections. The guidelines/rules are:

- ◆ *'Seeing things differently'*. It is essential to constantly re-evaluate your vision and your business model and to modify them for the future. It is important to question the relevance of current goals and views within the organization and try to generate insights from all personnel and create a climate that encourages thinking in new perspectives (Duyster et al., 2004).

- ♥ *'Doing things differently'*. While the first rule may be the first step out of a difficult situation, it is useless without action. According to the study by Duyster et al. (2004) many companies realize the need for change but they have big trouble to actually accomplish it.

- ♣ *'Establishing culture of experimenting and learning'*. Many organizations are embedded in orthodoxies that dictate what they should do, as opposed to what they want to do or what they can do. Sharing knowledge through effective internal communication is essential for an organization that wants to embrace change and create the future. Encouraging "out of the box" thinking must be accompanied with a tolerance for errors, since unique insights to problems may just as well be found in other disciplines (Duyster et al., 2004).

- ♠ *'Developing a portfolio of options in future markets'*. When engaging on escapades trying to change the rules of the game, it is important to have a safety net, to be able to respond to unexpected events. Today's discontinuous environment is forcing companies to constantly be in the front of technological innovations. Otherwise they will most certainly lose ground. However, it is impossible to be at the cutting edge of all areas of innovation. The challenge companies are facing is therefore to develop their own core competences while at the same time have access to the competence of competitors. It has become common within many industries to form strategic alliances (Duyster et al, 2004).

Creating an internal capability to change the rules will enable the company to exploit opportunities faster than its competitors. Fulmer (2000) mentions the company Seiko as a good example. The key element to Seiko's early success was that they created two identical divisions with separate research, design and production facilities. As a result they competed with each other in being as productive as possible selling to the parent.

2.3.5 Response failures

According to Want (1995) most companies/managers who fail to respond to change often merely reaches for the easiest fix or pre-determined solution. Benchmarking, Total Quality Management (TQM) and decentralisation are all examples of “easy” ways out. The problem is that these actions do not really change the foundation of the corporation, something that occasionally is absolutely necessary. Fulmer (2000) says that implementing these development programs does not necessarily have to be bad, but they lack the understanding that all problems are interrelated with other problems. Hence, managers who tend to see specific problems in isolation instead of stepping back and take a look at the bigger picture are likely to fail.

Want (1995) gives a few reasons for failure that frequently can be seen. Managers often devote too much time to operational and financial issues instead of focusing on strategy. When looking for improvements they are also too much attached to the latest internal fix, while the best solutions are probably found beyond the company. New ideas and innovations can not be limited to the own organization. There are probably several reasons to this tendency. Fulmer (2000) says fear is definitely one of them, referring to studies that have shown that even though managers realize the seriousness and potential threat of a situation, they are reluctant to take action. Instead of seeing potential gains, they tend to focus too much on the risk involved. Donald Valentine, a successful CEO and founder in Silicon Valley explains why this situation is all too common:

“Every company eventually accumulates legacy customers and applications. They are run by silver-haired guys who are very protective of the past. They are historically oriented. They just do not believe in the abandonment of the past. For a bunch of reasons, they are locked into it. Most recognize what’s going on. They just can’t decide what to do about it. Remember how late it was when Microsoft discovered the internet? 1995. They must have been on a trip to march” (Fulmer, 2000)

In many companies, pressure from interest groups such as boards and shareholders, force quick results which results in short-term goals. Though this is necessary in order to make everyone work together, it is even more important to have a clear view on what the long-term goal is. If employees are kept in the dark the organizational operations and culture will be crippled (Want, 1995).

When companies loose track of their customers during the change process, they have got big problems. There are many examples of business leaders who have blamed failure on all sort of external fixed factors, such as legislation. Meanwhile, they forget what is most important in order to run a successful business; to satisfy customer needs. Research has shown that companies that intensely stay in contact with what the customer wants are generally more successful than companies who see the customers only as a source of income (Want, 1995).

3 A reflexive case study approach

In this section we will present our method of choice, the reflexive methodology, and describe how we aim to adapt to our own qualitative research study. Despite not quite fulfilling the criteria for a case study we are going to use some of its more important elements, in order to clarify our way of working for the reader.

The two basic approaches to research can be classified in qualitative and quantitative studies (Nyberg, 2000). Whereas the quantitative study is primarily used for interpreting numbers and quantities, the qualitative research is used to receive in depth knowledge and understand phenomenon from data of less quantitative character. Lundahl and Skärvad (1999) further argue that the qualitative research method is used to understand the respondents' view and perspectives, which is not necessarily an objective truth. Stake (1995) states that the essence of the qualitative research is the emphasis on interpretation and he points out the importance of reflection and patience in order to avoid misinterpretations in smaller collections of data.

In our case the music industry has witnessed a downfall in sales with around 33 percentage between the years 2001-2004 (IFPI, 2004) and we do not believe that we will be able to derive a single truth that can account for this, but rather to interpret our respondents' reflections and thoughts to get an understanding of the phenomenon of downloading music over Internet and how they choose to work with/against it. This more interpreting way of analyzing our empirical findings, where we do not expect to find a single and objective truth, leads us into a hermeneutic philosophy within the qualitative research method. As was already mentioned in the introduction to the theoretical chapter; when we consider our theoretical framework and the somewhat unique position that the recording industry is in today, we believe that some of the theories only will be partly applicable. We will further discuss this in our analytical reflections, but it would hint that our research is more depending on the actual empirical findings. Hence we would be adapting more of a data-oriented method. The mixture of these philosophies goes hand in hand with what Alvesson and Sköldbberg defines as the reflexive methodology.

3.1 Reflexive methodology

Data-oriented methods, hermeneutics, critical theory and postmodernist views are all examples of philosophies of science. To put it simply they represent different schools of collecting and interpreting data. We will hereby give very brief descriptions of each one of these approaches and, in line with Alvesson and Sköldbberg (2000), argue for the combination of these four schools – the *reflexive methodology*.

3.1.1 Data-oriented methods

Data-oriented methods focus almost purely on the empirical findings and the usage of techniques to process data. Grounded theory, the biggest school within the data-oriented family, addresses the analytical operations and aspects of the qualitative research (Locke, 2001). By systematics and research procedure techniques, and by taking a somewhat natural distance from theoretical aspects, supporters of data-oriented schools can be seen as empiricists (Alvesson & Sköldbberg, 2000).

3.1.2 Hermeneutics

“Philosophical hermeneutics opposes a naïve realism or objectivism with respect to meaning and can be said to endorse the conclusion that there is never a finally correct interpretation.” (p.195, Denzin & Lincoln, 2000)

This goes in line with how Grix (2004) describes it, as an analysis from the perspective of the person who is doing the actual research. Hermeneutics is a challenge to the claim that an interpretation can be absolutely correct or true, since the answer is always based from the perspective of the eye of the beholder (Patton, 2002). In other words, the result is only one interpretation rather than a definite answer and the focus on the interpretation makes hermeneutics an important part of reflection (Alvesson and Sköldberg, 2000).

3.1.3 Critical view

The critical view is based on the point of view that social science never can be completely neutral or objective in relation to a social study. Personal interests influence any study in a positive or negative way, regardless of the researcher’s awareness or not. Politics and money are two of the more obvious underlying reasons to subjectivity in social studies. Critical theory can be described as a deeper kind of hermeneutics, where weight is put on reflections on the unconscious level, ideologies and power relations in order to analyze findings that at first glance seem objective. The theoretical framework is of high importance to draw the guidelines for the interpretation, but it is just as important to see beyond the empirical findings to analyze the respondents’ conception of the world and to see his/her part of the totality (Morrow, 1994).

3.1.4 Poststructuralism and postmodernism

Researchers argue whether or not poststructuralism and postmodernism share its origins and key concepts, and since this is not to greater importance for our study we will not go into any further details of their differences. A common key concept within them both is *deconstruction*; old truths are no longer seen as truths and the postmodernists strive to question the underlying presumptions and authorities to existing theories and systematic models. Postmodernists/poststructuralists try to minimize the external aspects of a text, taking a kind of perspective that its given contextual truths are in fact not true in order to view the text purely isolated (Alvesson, 2002).

3.1.5 Our reflexive methodology

All four schools above and their different levels of performing a qualitative study have contributed to what Alvesson and Sköldberg (2000) call the reflexive interpretation. It can be described as a method of interpreting and relating to data where the essence lies in a mix of the different levels and where the main point lies in the reflection and interpretation rather than looking at something from a static structure, as in the cases above. One or more levels of interpretation can be dominating, but the most important part of the reflexive interpretation is the actual interaction between levels.

As previously argued our own focus will be something of a mix of two levels; the data-oriented method and hermeneutics. This will be the base for our analytical work and can be resembled in our reflections further ahead. Alvesson and Sköldberg (2000) argue that reflections in the shape of notes or additional sections can be inserted to critically relate to empirical findings and its interpretations. We have inserted reflections both after our empirical section and the analysis. By critically reflecting over themes such as power,

politics or ideology the main point with the reflexive methodology is to generate an interest by innovative interpretations and results. Original questions asked and/or creatively structured observations can be of big help in the interest creation process (Alvesson and Sköldbberg, 2000).

Four of the elements, one collected from each of the four schools, provide the framework for reflective research (p.7, Alvesson and Sköldbberg, 2000):

- 1 Systematics and techniques in research procedures
- 2 Clarification of the primacy of interpretation
- 3 Awareness of the political-ideological character of research
- 4 Reflection in relation to the problem of representation and authority

Bearing these four points in mind we will critically review and reflect over our empirical findings and analysis in order to try to fulfil the criteria of adapting a reflexive methodology. These reflections can be found at the end of chapter four and five.

3.2 The case study approach to the downloading phenomenon

The case study is one of many different approaches to research strategy just as experiment, history and survey strategies are, and the boundaries between these strategies are not always sharp (Yin, 1994). In other words, clearly defining the origins of a study is sometimes difficult since the approaches overlap each other. In our own study we simply state that our approach is highly influenced by important elements of the case study approach, rather than arguing whether or not our research fulfils the criteria and depth of a case study. We will later go more into our interviews and the choices we have made that stand out somewhat from a traditional case study.

The case study can be performed either as a single-case or as a multiple-case study. They both have their strengths and weaknesses and where the single-case study is more appropriate to use when going deeper into a special case the, multiple-case study is often argued to be more robust and able to provide more compelling evidence (Yin, 2003). For this reason, he further states, that when having the choice between the two the multiple-case study is preferred, even though it is usually more demanding in terms of time and resources (Yin, 2003). Stake (1995) argues that multiple case studies sometimes are required in order to understand certain phenomenon that a single case can not explain. Since we have the possibility to choose how many respondents we will take into consideration, and in order to deepen our understanding for as many aspects of the on-going change as possible in the music industry, we will perform something similar to a multiple case study, although not quite as deep.

Face to face interviews will be combined with additional secondary data retrieved from the Internet and newspapers. Our primary data will be collected during interviews with EMI Sweden, Sony BMG and Universal Music, three of the biggest record companies in Sweden. The usage of multiple sources is argued by Yin (1994) to be of high importance to the validity and reliability of the research.

The environment and the respondents should be chosen for their ability to contribute in the context of the study (Ryen, 2004). This is primarily done by choosing an area of study and then simply searching the most appropriate environment for the study. Another

important factor to take into consideration is the variety of the selection. To cover a broader spectra of the research area the respondents should be of a selection that covers the heterogeneity within the homogeneity of the targeted population (Ryen, 2004). In our case, focusing on the ongoing change in the recording industry, we chose to approach a number of large record companies which we presume have the resources to work with and the ability to relate to our downloading related questions in the best way possible. We decided further that in order to get an understanding for the phenomenon we did a selection of our respondents based upon their respective jobs. Our conditions was that they have to be a part of the management group and well familiar with the strategic planning of the organization, while at the same time have a good insight in the work with downloading issues. The following respondents accepted to take part in our study:

- EMI Music: Mattias Wallin, Sales Manager and Klas Lunding, A&R manager ¹
- Universal Music: Jens Eriksson, New Media Manager
- Sony BMG – Carl Ekdahl, Digital Business Director

In the end, and in accordance to what Grix (2004) states about the qualitative research method, we have focused on our interpreting role to analyze data that has been flexibly collected, referring to the open way of gathering data. This way of data collection will be further described in the semi-structured interview.

3.3 Semi-structured interview

First of all, the questions we are going to ask are mostly of *how* and *why* character, once again an important element from a typical case study (Yin, 1994). The questions can be found in appendix 1. In accordance to how Ryen (2004) describes the semi-structured interview we will have a frame of main questions and a comprehensive theme, but with a number of openings for more detailed and spontaneous questions as the interviews advance. Asking open-ended questions where the respondents will answer in both terms of facts as well as own personal reflections, is the essence of the semi-structured interview (Yin, 2003). We will take advantage of adapting this kind of loose structure in order to follow up ideas and ask deeper questions in order to increase our understanding (Arksey and Knight, 1999)

Using a recording device we hope to minimize potential data loss and in accordance to Arksey and Knight (1999) we will be able to focus on the actual conversation rather than writing down everything that is being said. We will, however, take notes during the interview, which is argued to be an important way to grasp immediate reflections. Ryen (2004) further states that notes are even the first step of the analytical work.

Some of our questions might be of sensitive character due to their strategic nature, but since we outspokenly state that our intention is not to make a comparison between the companies we hope that our respondents will open up during our interviews. We will further ask for permission to come back to the respondents with any additional questions through e-mailing, which is argued by Ryen (2003) to have some obvious advantages of convenience and time for reflection. They will also be given time to read and correct any data from the interviews that they disagree with or want to leave out, due to its sensitive nature.

¹ During our interview with Mattias Wallin at EMI Music, we were suggested to further discuss our topic with Klas Lunding, who contributed with details more regarding the artists' perspective on downloading.

4 Empirical data

In this chapter we will introduce our respondents and the record companies they work for and present our empirical findings categorized in five main themes. The categorization was done in order to structure our empirical findings in relation to our questions.

All data in this chapter is based on the interviews that we performed with representatives from the three record companies. Throughout this text we will introduce our respondents under each subchapter. References in the text are used when necessary, where it is unclear who said what. In the rest of the text, given the fact that it will be stated in each company introduction when the interviews took place, we only refer to their names.

4.1 EMI Sweden

Introduction to the company

EMI Sweden is regarded to be one of the most influential companies within the recording industry, now containing several strong labels that were previously on their own, including Virgin Music. As most companies in the recording industry, they have recently witnessed a severe decline in sales and has conducted major cuts in personnel, leaving only 40 in Sweden. During our visit at EMI, we met with two of the directors within the management group in Sweden.

Mattias Wallin is the sales director since the fall of 2002 and is currently also temporarily handling the tasks of the marketing director. He has a background in the area of sales from several major companies and has recently been working 6 years as sales director for an organization active within satellite communication. As sales director at EMI it is his first time working with what he calls “fast-moving” products such as records, downloading and ring tones (M. Wallin, personal communication, 2005-04-14).

Klas Lunding has on the other hand a long history within the recording industry. He founded his first record company at the age of only 17 and was also one of the forces behind Dolores Recordings, a well-reputed company that is now a part of the EMI concern. Currently he works as the A&R Director within EMI. In other words he is responsible for artists and repertoires (K. Lunding, personal communication, 2005-04-14).

The interviews with Wallin and Lunding were conducted separately.

Views on the downloading phenomenon

Wallin and Lunding are of the same opinion saying that downloading is definitely here to stay. It is not something that they are trying to reject or defeat. In fact it is quite the opposite as they are trying to take advantage of this new situation they are facing. Commenting on the phenomena of downloading, Wallin says they try to see the positive sides and to evaluate the possibilities that after all exist in this new medium.

For instance, Lunding mentions that the possibility to distribute music in a more efficient and quick manner, surely is one of the big incentives to focus more on the possibilities that Internet does bring. He says that Internet as a tool has become a constant necessity in most businesses and that the recording industry should in fact be happy that they do have a virtual product that can be sold digitally now and in the future.

Personally, Wallin believes downloading is one of the minor contributors to the declination of sales, but agrees on the notion that Internet has made a certain behaviour possible

among people, a behaviour that has caused some problems for the recording industry. He says it is hard for them to determine if the decline in sales really can be blamed on downloading, since there is no way for them to know if the person downloading the file would have otherwise in fact bought the album, or the single (M. Wallin, personal communication, 2005-04-14).

Meanwhile, when asked about alternative factors that may have contributed to declining sales numbers, he mentions that they may have had trouble keeping up with the environment in developing services and other solutions that can fulfil the needs of the customers, focusing on how people prefer to apprehend and listen to music. To some extent they may have pushed the development of free downloading forward, since they seem to have been offering the wrong product to the wrong price and hence is somewhat responsible for the current situation themselves. Maybe the CD is not lucrative enough in all instances anymore, but at the same time it is really hard to compete with something that can be apprehended for free, he says.

Strategy and change

The business idea and vision in EMI today is to be able to provide music on all platforms in all environments and in a fashion so that the products are perceived among the customers as the best buy. It has officially changed somewhat since the introduction of digital downloading. In what way, Wallin is reluctant to talk about, claiming they have to focus on the future.

Wallin says the organization is now very hierarchical and gets support from Lunding, but claims local branches do have the possibility to be entrepreneurial. He says EMI used to be extremely tight and somewhat stale, but obviously it has not been working the way it should. Now employees are indeed encouraged from top management to be flexible and open to new entrepreneurial opportunities. Meanwhile, Lunding is eager to point out that this creates almost a dilemma, since the declining sales has put a constraint on available resources and there might not always be room for entrepreneurial ideas seen from an economical perspective. He refers to the recent climate of layoffs and cost reductions and compares to his earlier days working within an independent record company, saying it was so much easier to explore new opportunities of doing business. Basically what they are saying is that even though the ambition is there to be entrepreneurial and take advantage of possibilities, the current situation of poor economic performance gives little room for doing so.

Since the phenomenon of downloading was first accepted as something that has to be taken into account, EMI has been taking actions to create a platform to stand on in the future. As was already mentioned in the introduction, the workforce has been reduced and decomposed, leaving qualified employees especially with technical expertise in positions where they can best contribute. Employees who work with music and artists have to some extent been redirected to work with the genre of music that they have an interest in personally. New personnel have also been hired to work specifically with downloading and other technical aspects such as ring tones. In contrast to how the internal work structure looked like before the downloading era and during the first years of declining sales-numbers, Wallin claims they now have developed routines for how to work with these new technical aspects of its business. In the medium in which music can be sold, the package has become a central issue, which is reflected in the fact that they now have personnel working solely with this area

The turnover of members within the management group has also been relatively high. Since Wallin was hired three years ago, the management group has occasionally changed in composition, something that he says of course have had both positive and negative repercussions. The positive side is that it sends out signals that things are happening and it definitely brings more new ideas to the table. On the other hand the uncertainty regarding new layoffs has the possibility to increase somewhat. He says the major difference in the composition of the people now compared to what is used to be is that there are more people in the management group and throughout the organization that do not solely have a background from within the music industry. The aim with this change has been to increase the pure business skill of the organization and hiring people who are experienced for example in the area of building a business. At the same time he emphasizes the value of keeping true music oriented people on board to keep the core values and knowledge that they do possess within the organization.

Wallin says that they came to a point during the fall/winter of 2002/2003 when they realized that something had to change radically within EMI in order to be able to meet the needs of the future. A new plan was created by the management group and some very important strategic choices were made. Specifically what this new plan is, Wallin is reluctant to reveal for competitive reasons. However, he feels that this new plan has been a turning-point for EMI, saying they have now an understanding of what has to be done and there is also a will to do it.

EMI attempts to provide music for everyone. The target group is everyone. However, the composition of the people who buys records has changed somewhat since the introduction of downloading. It is an effect of the fact that young people are more likely than older to download music and as a result, certain genres of music have experienced bigger damage on sales than others. Pop is definitely one of the genres worst affected. However, there are genres that are still doing good, genres that are predominantly targeting older people such as dance band-music (K.Lunding, personal communication, 2005-04-14).

Wallin says downloading has started a chain reaction resulting in a situation where it is hard for EMI to have a vast diversification among artists. Instead we can see a tendency that EMI and other recording companies seem to focus more on safe cards, artists that are already established and can provide a close to risk-free income. When comparing the last five years with the last part of the nineties, it is easy to see that there is a big difference in the number of new artists that has managed to succeed and become established popular artists. Lunding puts emphasis on the fact that there is a big risk in this because the diversification within the supply of artists tends to decrease constantly and we risk having a situation in a few years when it is not possible for new artists to be given a chance. Commenting on the notion that several artists have managed to succeed by launching their music over the internet in lack of opportunities to sign with record companies, Wallin says the media has had a big influence on this common misconception. In fact, there are very few if any artists that have managed to succeed doing this.

The diversification problem and how choices are made when it comes to signing new artists are two of the ingredients in what Wallin believes is the biggest overall strategic change that has taken place within EMI since downloading became an issue, that is. Previously, most record companies were doing pretty good, signed artists stayed popular a little bit longer, more long-term contracts could be written without thinking too much of the consequences and the procedure with artists was simply very different from now. Today the situation is much more complex. Now artists are selected more carefully as they might be afraid of ending up with contracts with artists that have not succeeded and thus have to finance them all the way. In a fast-changing environment where you are focusing

on cost reduction and to catch up economically, you do not want any old contracts hanging above your head. The result is that since they were not taking the possibility of bad times into consideration when many of the current contracts were written, it takes longer time now for EMI to improve financially (M.Wallin, personal communication, 2005-04-14).

EMI has not been the organization leading the development of new solutions how to distribute music, partly because it has previously been what was earlier referred to as rather stale focusing on what it was doing best, selling records. Now they have caught up with the leading major companies and when asked what competitive advantages they might possess, Wallin mentions as an example the amount of music they have in their digitalized catalogue. He also talks about the width of the artist supply and the fact that EMI early went out and said that they want to focus on local artists; Swedish artists in Sweden, Norwegian artists in Norway and so forth. Looking at the track lists in Sweden today you can see that a big percentage consists of only Swedish artists, something that Wallin believes shows that they have chosen the correct focus.

Developing alternative solutions

The development within EMI when it comes to digital business is still in the initial stage. The everyday business is still conducted with focus on what always has been the focus for all companies within the recording industry, selling records. However, as already mentioned, increasing attention is given to the development of new digital systems and sales through digital music. Lunding mentions one pure digital hit single that they had with one artist in a commercial for Apple's iShuffle, but points out that the revenue from these type of sources so far is minimal, but that it has a larger value seen from a marketing perspective. It sends out a signal that EMI is out there taking part of the new digital revolution.

Wallin says there are basically only two ways people can consume music today. By owning it or by listening to the radio, analogue or digital. When you listen to the radio you can not even choose what you want to hear. These are the two ways we have seen music consumption so far. However, he talks about a new way to distribute music called subscriptions/thattered downloads, an idea EMI Sweden and also other labels are currently working with. It has previously been tested in different parts of the world but not yet in Scandinavia. The idea is to offer customers a subscription for which they pay a monthly fee in the lines of 150-200 SEK per month. He says the concept is somewhat similar to normal cable or satellite subscriptions for TV. For this amount you get the rights to consume an unlimited amount of music whenever you want, wherever you want. It is possible to download the music to MP3-players but to get this feature to your contract the monthly fee will be a little bit higher. Wallin claims the music available will probably be all released material by the four of five biggest record labels today, giving access to hundreds of thousands of songs. As an additional option you will be able to create your own playing lists or even download previously prepared lists, a feature that will have a smaller extra fee to it.

Wallin is eager to explain that in addition to the idea with subscriptions they are trying to come up with new innovative ways to sell music not only digitally but also through variations of already known production methods. He mentions as an example the dual disc, designed similar to the old two-sided vinyl records, where you have the music on one side and for example a live performance in DVD-format on the other side. Another strategy he mentions is differentiation, that is to offer the same record, but in several different

versions. First distribution of a standard version with no extra features and then additional more expensive versions containing for example more material, live performances, video tracks, a more exclusive booklet, different package and other extra features.

To the question of what added value you can derive from a CD compared to downloading music digitally, Lunding points out a few features that he believes give the CD an advantage. The feeling of ownership, the booklet, to be able to have something concrete that you can get a lot of joy out of and develop a relationship too, are all aspects you miss out on when downloading music for free on the internet. Wallin believes the CD as it looks today is not very attractive to the customers. He emphasizes the need to further develop the package. One of the advantages he mentions is collector's value. It is hard to derive that sense of feeling from downloading.

However, they do try to develop new ways to make the CD more attractive, working on extra features that would be possible to include in the package you get when you buy a CD. One of the major setbacks now is that younger people may not want to spend money on CDs when there is so much competition out there within the area of entertainment. Hence, what is lost is the feeling of buying and listening to a new record (K.Lunding, personal communication, 2005-04-14).

Wallin points out that when comparing the CD with downloading, an interesting angle is to look at the behaviour of the listeners. In the "old" days when there was no Internet, people listened to music in a different way than how they do now, he says. You really listened intently, eyed the package from the beginning to the end and took time just to simply listen to the music. Nowadays our lives are often so stressful that we do not give time to really dive into a record, there is no time to sit down and just listen.

"Today people do not listen to music, they consume it. It is a different climate compared to what it used to be like" (M.Wallin, personal communication, 2005-04-14)

This is according to Wallin one of the main reasons to why they have to start thinking in new ways and crop many of the old strategies that might be outdated. The subscription idea that was previously mentioned is one of the potential responses to this new behaviour. He also emphasizes the importance of simplicity in this system, again referring to the need of getting the attention of customers in the chaotic media buzz that we are experiencing.

What lies ahead

The law proposal previously mentioned in the empirical framework is likely to have little effect on the tendency to download music for free, Wallin says. Although he thinks it will have some effect, it all comes down to how the record companies will handle this new law. Bottom line here is that he is sceptical about the influence this new law will have:

"It is not about creating laws to make downloading disappear, it is about what we have to be better at offering the consumers services and products that they are prepared to pay for"(M.Wallin, personal communication, 2005-04-14)

Lunding highlights the danger of a situation where this law has no effect whatsoever, since there is a sensitive moral issue involved. Where do you draw the line for what you can charge people for and what you can not? If you cannot charge people for music, there is an obvious risk that this tendency will spread to other areas of the society and other areas of production. He hopes this new law proposal will be implemented, since it can be an important milestone if it does has the effect they hope for.

Looking 15 years into the future Lunding says there will be a bigger emphasis on digital music, but he still believes the CD will survive as a medium. Wallin is of the same opinion, but believes the record will be seen as an exclusive product directed to a target group that are prepared to pay a little bit more. He also hopes some of the old values in music will be back, talking about genres of music with bigger cultural interest than commercial, mentioning Swedish folk music as one example. As the situation is today it is very unusual to sign a record contract if you are an artist within this genre unless your name is Benny Andersson, he says.

Talking about the future role of EMI and other recording labels, Wallin says there will always be a role for them to fill since there will always be an interest among artists to reach their audience, no matter through what medium it will be distributed. He also thinks they will be active in new environments and cooperation with for example the gaming industry. A future idea could for example be to sort of integrate the subscription idea with buying a computer game. For instance, when you buy your game you get two weeks of subscription for free.

Concluding their thoughts on the future, they do say that the term record company does not exist anymore. They are in the music industry and believe they are capable of adapting to the future.

4.2 Universal Music Sweden

Introduction to the company

According to the company's official website (universalmusic.se, 2005) Universal Music, from here on referred to as "Universal", is one of the leading record companies in Sweden with approximately 20% market share. Our respondent Jens Eriksson has been working as New Media Manager at Universal since the fall of 2002. He has a background in marketing and joined the company when it was already undergoing changes. During the last few years Universal has been forced to lay off half of its workforce due to falling revenues and today only about 40 people remain in Sweden. The company's approach and attitude has also shifted from outspokenly belonging to the "recording industry" to today belonging to the "music industry". This change has also altered the business idea, going from "selling records" to "selling recorded music" (J. Eriksson, personal communication, 2005-04-13).

Views on the downloading phenomenon

Eriksson believes that downloading can be one of many reasons why the CD-sales has dropped about 30% during the last few years, but he further says that the most likely reason is the increase of "competition" for people's money. This competition comes from DVD's, video games and cell phone bills. The youth, often considered to be the group that downloads the most, is also the group that buys the least number of CDs today.

Eriksson says that Universal sees downloading as something that is here to stay and as a new channel for distributing music. Rather than seeing downloading in itself as a threat to the record companies, he thinks that there will always be a role for them to fill, and maybe even more clearly through Internet than before. The argument that artists can easily go independent and make more money without the backup of a record company is somewhat rejected by Eriksson. He says that it can be even more difficult for artists to promote

themselves and to be seen on a webpage than in a traditional record store. All the music in a record store have basically the same space to fill, thus equal promotion, but in an Internet based music store you only see the front page when you enter and hence the artists that are big enough to afford the space. On the extreme end, Eriksson holds going independent for unrealistic for new and unknown artists, but perhaps something that a few already well established artists are able to do.

Universal is by no means working against downloading. It rather prepares to use this new technology and are currently launching its own Internet sale service (2005). The work with digitalising the company's entire music catalogue is done and now the company is opening distributing channels over the Internet in Europe and North America. Distributing downloads via the cell phone market is also one future possibility in some countries.

Strategy and change

Looking at recent changes, a new vice president has been assigned for Universal. Also, Eriksson claims the organizational structure at Universal has overall become a lot more hierarchical in the last few years. Earlier the level of entrepreneurship and independency was high or even very high within the company, but along with cut downs came a bigger need of cost control and the company guidelines are now very strict with high levels of centralization and clearly defined areas of responsibilities.

"Perhaps this is somewhat of a mismatch, centralizing and making the organization less flexible in a time when the environment is undergoing constant and big changes... On the other hand this kind of control was needed to be implemented due to huge debts and the fact that Universal came close to disaster a couple of years ago." (J. Eriksson, personal communication, 2005-04-13)

Cost control systems are now in use, giving the headquarter of Universal in London all the information they need to keep track of where the money goes, something that Eriksson sees as a necessary improvement to a formerly very loose control. The biggest and most obvious change that Universal has gone through recently, is the 50 percent cut downs. Despite moving to a smaller office there are still plenty of rooms standing empty today.

In London, where Universal has its head office, they have been working with digitalizing the systems to meet the demand for new distribution channels for a couple of years, but the information regarding how to meet this new challenge never really got out to their Swedish subsidiary. Eriksson claims it took a long time for the company to realize the need to adapt to the technological change, but since last year (2004) personnel have been specially assigned to work with downloading in the Stockholm office. Today Universal's music can be bought as downloads on cdon.se and more openings are under progress.

Eriksson has a general feeling that Universal is seldom first at introducing and adapting new technologies, but more of a company that relies on the core of their business, the music and their repertoire, and let others take care of the technological innovation process.

A long term consequence with dropping revenues is increasing risk avoidance. Eriksson hopes that this will change in the future, maybe when the record companies have found a new model which can make them enough money again, but today there is basically no room for failures. The artist signing process, along with album releases are today more and more linked to their commercial success potential.

"In the past we could release albums purely for its qualities, thinking that this album deserves to be available on the market, even though we knew that it would not sell that well - it was more of an act of

cultural interest. This does not exist anymore. Today we will basically produce anything as long as we believe that it can make enough money. Because if we don't make enough money, who knows if we even have our jobs to return to tomorrow?" (J. Eriksson, personal communication, 2005-04-13)

Eriksson believes that rather than seeing the CD as a somewhat abandoned medium, the launch of Internet based distribution is more of a way of broadening the product range. Downloading is today the fastest and easiest way for the consumer to obtain music and the CD is looked upon as a little bit more exclusive than before. Original packaging and extra features like limited edition DVD's are more frequently being used and they sell very successfully.

Looking at the CD-price today (the example given was 160SEK), the consumer pay about 40SEK VAT, 20-50 SEK to the record store, leaving about 70 SEK to the record companies of which about 20 SEK goes to the artists. Eriksson states that since basically every record company today is making a loss it would be difficult to argue for lowering the CD-price. This has already been tested in the USA, but without any significant increase in sales volumes and Eriksson believes that the CD-price is in balance with the market today.

Due to relatively high fixed costs and smaller marginal costs (producing, marketing etc.) big volumes are very important today in order to make as much money as possible:

"One artist selling two million albums is worth more than four times as much as two different artists selling one million albums each due to the high fixed costs. Signing a 'star' is incredibly important." (J. Eriksson, personal communication, 2005-04-13)

In order to illustrate the importance he half jokingly mentions that if Universal would focus and keep only a star like Eminem and sell everything that is not linked to him, they would make more money than they are today, as long as he is selling albums of course.

Developing alternative solutions

Universal has their entire catalogue of music digitalized and Eriksson believes that this is where the future is. By offering a wider product range including basic CD's, more exclusive limited edition CD's as well as downloads Universal wants to differentiate themselves. The company is already working a lot with packaging and extra features on their albums, but downloads will be the fastest and easiest way to obtain music. Eriksson mentions the somewhat skewed price difference today, when basically all albums cost 99 SEK over the Internet, regardless of the price of the physical CD in a traditional store. He believes that this will soon be adjusted and says that singles are for example available for 10 SEK per song, which is a better adjusted price level, compared to 29SEK in physical stores.

Apart from working with downloads Universal also has one employee responsible for developing music products and services that are being distributed over mobile phone networks. A typical music related product that is popular amongst younger people is ring tones that are being sold like never before.

Eriksson says that the added value in a CD compared to downloaded music, is in the feeling of owning and also the actual packaging. While album sales are declining, there is a growing demand for CD's to include bonus features in exclusive packaging. He further argues that having digital music stored on a computer can not replace the feeling of ownership, but naturally, this fact does not seem to bother the young people downloading music for free.

What lies ahead

At Universal there are big expectations on the likely law change that is planned to make the actual download of copyright protected material illegal. Eriksson believes that the fact that downloading illegal music will be classified as a crime will have a big impact on peoples' attitudes and it will also provide the record companies with the ability to more publicly go out with information and actually press charges to set examples. At the same time he sees the need for record companies to work hard on their medial image, which today is portrayed as everything but appealing in media.

Eriksson believes that even if the CD would completely disappear the record companies would still survive without any bigger change in their business, since the music is now digitalized and the actual core of their business that is concentrated around the CD is relatively small. The biggest losers would of course be CD-factories that would basically lose their business.

In 15-20 years Eriksson thinks that the relationship between digital music and its physical equivalence will be around 50/50 and people will still in some form want to physically own their music. He further relates to today's society in general, with people chasing the cheapest products and the fastest possible ways of consuming, and hints that this type of consumer behaviour might also spread to the music industry. But the future is very uncertain and Eriksson says that regardless of how sad that scenario seems, we might as well have a reaction in the exact opposite direction.

4.3 Sony BMG

Introduction to the company

Sony BMG is today the biggest record company on the Swedish market, with approximately 26% market share (IFPI, 2005). Carl Ekdahl is Sony BMG's Digital Business Director, which basically means that he works on a strategic level with digital music, including everything, not only music on actual CD's. After working in different Internet bureaus with music related products in the 90's he was hired by BMG in 2000 to develop new ways of marketing music over the Internet. This role has later evolved from marketing to a sales function, now that digital sales are being realized, and the two companies (Sony and BMG) merged very recently in the fall of 2004. Today, along with Ekdahl, the management group consists of a mix of ten people from both Sony and BMG, and the CEO from Sony is according to Ekdahl very interested in new technology and its possibilities.

Views on the downloading phenomenon

The total market has lost about 30% of sales in the past three years, but Ekdahl believes this is due to a number of reasons, downloading being one of them. He also mentions the competition from more products such as video games and cell phones along with new ways of music consuming as key factors to the declining sales figures. Ekdahl further states that the target group has shifted upwards looking at average age. The youth of today does not fit into the traditional music business model, since they lack this kind of buying behaviour. Rather than owning CD's they consume hits through radio, Internet and TV and today

when the law is not pointing in any clear direction, the big problem is that it does not send signals that it is wrong to download illegal music.

According to Ekdahl every CD has its target group and since the youth is buying less and less CD's, record companies are today a little bit more careful with their releases towards younger people. He is eager to point out that he believes that the actual consumption has not decreased, but it is the *way* that music is being consumed that has changed.

“Urban music, such as Hip hop and Rn'B, is selling very bad in Sweden in terms of CD's, but if we in this genre release music or ring tones over the cell phone net, the sales represent a very big part, indicating the younger generation's different buying behaviour.” (C. Ekdahl, personal communication, 2005-05-14)

Strategy and change

Ekdahl says that today, when the debate is bigger than ever regarding downloading copyright protected material over Internet, the need for the entire branch of trade to cooperate has never been as important. Previously, no one apart from journalists and record stores, knew anything about record companies, but today with the big debate, more or less everyone has an opinion about how they should run their business. This new demand to meet the public is, according to Ekdahl, a totally new area for record companies and it calls for a more open and outgoing image from the entire branch in order to communicate successfully with the public. According to Ekdahl, the official representative organization for the recording industry, IFPI, has in some cases taken legal actions against people spreading illegal copies of music in order to defend the interests of the music industry.

Ekdahl joins in with the representatives from Universal and EMI saying that the biggest change in the entire industry is the cost savings. During the merger of Sony BMG about half of the work force was laid off and today about 40 people still work in Sweden. Ekdahl says that the merger has also brought together two very different types of management. BMG has traditionally given a lot of independency and entrepreneurial space for its local subsidiaries, while Sony has always been more of a centralized and hierarchical company. Today these two philosophies are meeting and blending with each other to create Sony BMG's own way.

Ekdahl explains that in 2000 BMG was probably the only record company in Sweden to have a full time employee working with Internet and its possibilities. Marketing managers were usually taking care of this on the side, but today he believes that most companies have their own special staff for this function. Ekdahl says that maybe record companies were late to realize the change that Internet brought along, but it is important to remember that the essence of their business has always been the artists and the actual producing of music and they have never been platform designers.

“We have always sold our music through record stores and never directly to end consumers, hence having expectations that record companies alone could have come up with a functioning distribution system over Internet is a little bit naïve. Joint venture with ‘an Apple’, great at packaging and consumer marketing, is probably needed in this process.” (C. Ekdahl, personal communication, 2005-04-14)

According to Ekdahl the innovation level at Sony BMG is relatively high and once again two different traditions are merging in the company. Sony has more of a high level technical history of innovation, being one of the largest home electronics producers in the world with products ranging from cell phones (Sony Ericsson) to TV's. In BMG's case, with its higher level of local entrepreneurship, the innovation process has been more

focused on being early with adapting new technologies and searching new ways for distribution, such as being first with music videos over the 3G mobile network. Ekdahl describes the different philosophies and background of the two companies as somewhat of a melting pot, taking the better of two worlds.

In terms of album releases Ekdahl says that the falling revenues also affect the record companies' abilities to take risks and promote new and unknown artists in smaller genres. According to Ekdahl the big selling artists have always been necessary for the financing of the smaller ones. There is a risk with people turning away, choosing to download illegal copies thinking that "they are still making so much money". In other words, it has obvious consequences on the diversification of the supply of music.

Developing alternative solutions

Sony BMG receives around 80-90 SEK of a premium priced CD (~169SEK) according to Ekdahl. This money needs to cover many different costs of which marketing is the biggest part. If the physical medium of the CD would disappear, a big structural change would be required, cutting off for example storage, logistics and production. Ekdahl believes in the future of the record companies but says that they might face a problem unless they find new ways to distribute music, at least in certain genres due to the fall in demand for albums.

Ekdahl's opinion is that the CD is perhaps somewhat lacking added value in comparison to music in its digital format and that this is an area that needs to be improved in order to attract buyers again. Limited edition CD's and albums, including live performances on special two-sided CD/DVD's are at the same time more popular than ever. This could be an indicator and opportunity for the future. Ekdahl further states that CD's with a special unique code, giving access to continuously updated bonus material online is also something that Sony BMG is experimenting with.

Sony BMG sells downloads through CDON and Poplife (two Internet based music stores). They also sell ring tones, music and music videos over Tele 2, Vodafone and 3 (mobile phone operator) and Ekdahl believes that Sony BMG is adapting a relatively aggressive approach towards creating the future market.

"Right now, when there is no clear structure or platform for optimal distribution, we are basically trying to 'plant seeds' and back up all participants and let the market decide upon the winning formula. We have to focus on what we are best at and realize that we are selling music, regardless of the medium. In the end, the actual piece of plastic is completely uninteresting and in this digital era we might have to let go of the actual production facilities and focus on what we know best." (Carl Ekdahl, 2005-04-14, personal communication)

Ekdahl says that Sony BMG is mainly focusing on three areas of development; sales online, music for mobile networks and the development of the CD, but at the same time the company is very open to all new channels for distribution. He points out the importance of making downloads more buying-friendly, due to credit card costs when buying small quantities over Internet, and gives one idea of buying a special code at your local supermarket that would give the consumer access to a certain amount of downloads online.

What lies ahead

“Music is being consumed like never before, but at the same time the recording industry is going through a crisis due to the fall of revenues. But I believe that once the industry learns from its mistakes and gets over this period of uncertainty the industry will flourish. In the end we have to find a way to get paid for what today is given away for free.” (C. Ekdahl, personal communication, 2005-04-14)

Ekdahl says that learning the market better is very important today. The youth are to a much bigger extent consuming cell phone signals and services and this is a big opportunity for Sony BMG today. Perhaps albums will even disappear and a new way of consuming music will dominate that is more focused on hits, maybe even with a bigger number of artists than today. This could be the biggest challenge that the future might bring and it would lead to a completely new way of producing music for record companies.

Ekdahl argues that if this trend with falling revenues continues, where artists struggle to make money on their music, it might actually lead to the fall of the entire music industry:

“The scenario in which record companies lack the ability to neither finance new projects nor take risks, relying only on ‘safe cards’ and mass productions of Popstars and Idols, will also be the beginning of the complete collapse of the music industry.” (C.Ekdahl, personal communication, 2005-04-14)

He believes that in 15 years time there will still be multinational record companies as well as multinational artists, some of them maybe completely independent by then, selling their own music via the Internet. Ekdahl further states that this will probably only be an option for already well-established artists, who do not need the financial and promotional backup that a record company can provide. The CD in itself might be replaced by another medium, such as dual discs, super audio CD’s or DVD’s but he still believes in the demand for a physical medium. But the future is very uncertain:

“Perhaps we will realize in six months time that the best way to distribute music is by a subscription service where you pay a fee each month to download music from our website.” (C.Ekdahl, personal communication, 2005-04-14)

4.4 Reflections on our empirical findings

Our interviews were semi-structured and the kind of talk that we encouraged during our time with the respondents was heavily based on their own reflections and thoughts. The interviews were performed in Swedish and all of the material has later been translated to English, including quotes to make the text more alive and less heavy for the reader. In some ways it could be seen as our own interpretations of our respondents’ reflections, but the empirical findings, including quotes, have all been approved by our respondents.

Another issue with asking questions of strategic nature is whether or not the respondent is willing to answer and reveal sensitive material. In this case we believe, and also got the impression, that due to the present crisis in the recording industry they are more open to communicate their vision and ideas and to cooperate across the company borders. In the end the recording industry has always relied on mutual platforms and their means of competition has been their music and artists, and now they are standing in front of a mutual change.

We are aware that our own perspective and ideology, being somewhat of music fanatics, probably have influenced our choice of questions and it is possible that we undeliberately have asked questions that portrayed the ongoing change with more sympathy for the record companies than can be considered objective.

The fact that the data from EMI is more comprehensive in length, is of little relevance for the purpose of this thesis. Since focus is not on differences between our three companies, but rather on features that characterize the entire industry, we saw no problem in gathering additional information from Klas Lunding when the opportunity was given to us.

5 Analysis

Initially in this chapter we will focus on the characteristics of the environment the recording industry is currently in, what makes it unique and what affect it has on the individual company. Further, we will move on to assess the process of discontinuous change step by step, in order to lift out specific features of the strategic management within these firms. Thirdly, we will have a look at what possible alternative solutions how to distribute music they are working with and to what extent they are being implemented.

The recording industry is facing a possible threat in the shape of a technological phenomenon that they first became aware of maybe 5-6 years ago; downloading over the Internet. Since then, the influence it has had on the recording industry has grown to become a part of their daily agendas. To say that the occurrence of downloading has been a 'divergent breakpoint' (Strebel, 1996) for the recording industry would certainly not be exaggeration. It qualifies as both sudden and fundamental in its nature. It is hard to determine whether downloading will be permanent or not, but there is no doubt that the common perception within the recording industry is that it definitely will be. All our respondents claim they are currently working on how to best exploit the opportunities inherent in the usage of Internet as opposed to setting focus on making downloading disappear. Meanwhile, they want to highlight that the impact downloading has had on sales might be exaggerated, partly as a result from overexposure in media. They bring forward a number of other factors that they believe have had just as big an impact, if not bigger. We will account for these using the PESTEL framework (Johnson et al., 2005)

5.1 Environmental analysis - PESTEL

The entire recording industry has witnessed a number of key drivers of change that are presently affecting their situation very strongly. In order to analyze the origins of these key drivers, we will categorize the most important aspects retrieved from our respondents.

Sociocultural factors

All our respondents highlight the change in consumers' buying behaviour during the last few years as an important influence. Sales are down 33% across the industry, except for some smaller niche companies, such as dance band labels, with special target groups. The most dramatic change in buying behaviour can be found amongst younger people, who today are more or less standing completely outside the traditional music business model. Eriksson as well as Wallin talk about how society in general is more and more focused on fast consumption and hectic lifestyles, which is also affecting the way people listen to music. The demand for albums, which has always been the core of the recording industry, is no longer as high as it used to be and people are more interested in consuming hits. Our respondents argued that in times like these they will only release music that they really believe will sell enough to make a profit. Ekdahl adds that music is more and more becoming products, designed to fit the market, referring to TV-programs like Popstars and Idol. Another important sociocultural factor is the increase of substitute goods that compete with music today. Video games, DVD's and cell phones are all mentioned by our respondents as products competing for the same money as music.

Technological factors

Linked to our faster lifestyles, portable music players such as MP3-players, and downloading seem to be the perfect tools for a faster way of consuming music. Technological change is very rapid and today there are broad band Internet connections basically in every other Swedish home. Networks for file sharing and downloading are

providing people with fast and easy access to copyright protected material, and the technological progress in storage capacities are allowing people to keep tens of thousands of songs on one computer. Ekdahl says that the music consumption is actually higher than ever, regardless of CD sales, and due to the technological change no one really knows what the optimal business model for music distribution will look like in the future. The bottom line is that technological factors, the Internet in particular, have completely reshaped the music industry in its very foundation.

Legal factors

The Swedish laws today are basically allowing people to download music without risking punishment and this is according to our respondents something unique for the music, movie and software industries. The uniqueness in the situation is that they are basically up against a competitor that can offer their own products for free, which is an entire new phenomenon in a business world heavily relying on protection of patents and competition laws. The legal system, which today only is prohibiting people from *sharing* copyright protected material, will most likely be changed in July of 2005 and our respondents do have relatively high expectations on its coming effects. Wallin did have some reservations saying that focus should not really be on trying to implement laws as a response to downloading. He says it is more important to put emphasis on the internal strengths in order to try to get better and offer more attractive products to the customers. The success of the law is a function of how the record companies are handling it. However, there seems to be a consensus that classifying downloading as illegal and perhaps even setting some examples by lawsuits, is a necessary evolution in times like these. No one of our respondents believes that the current situation, where people can choose not to pay for their products, but still use them, is sustainable.

These three environmental groups of factors in the PESTEL framework are the ones affecting the recording industry the most, but neither one of them have a big influence on its own. It is the *combination* of them that causes an impact on the industry that is simply unquestionable.

5.2 The Discontinuous Change Process

From the discussion with our respondents we can see that all characteristics describing the process of *discontinuous change* seem to be applicable to the recording industry today. There is nothing that would advocate the notion of a future without digital music, Internet and downloading. Lunding at EMI supports this, pointing out that since they know for sure that Internet will be a tool that will without question be an important ingredient in the future, it is fortunate that they are selling a virtual product. Also as described in the previous section, it is probably not only the Internet that has caused the change for the recording industry, but also sociocultural factors such as people's behaviour. Hence, we will use the process of discontinuous change as a platform for our analysis, using the three core challenges *recognition*, *strategic choice* and *organizational redesign* as reference points.

5.2.1 Recognition

In this section we will look into how the recording industry recognized the need for change. This covers the first stage in Nadler's (1998) framework for discontinuous change, *recognizing the change imperative*.

Judging from our interviews it is obvious that the recording industry by now has realized the necessity of taking action. All our respondents are eager to emphasize that they are indeed working with response-actions and devote a large proportion of their time to develop new ways to distribute music. However, the time from when downloading first started to be an issue to be taken seriously, to when things started to move within these major record companies took years. BMG (later Sony BMG) seems to be the company that responded most quickly as Ekdahl claims they had an employee working with the possibilities of the Internet as early as 2000, whereas Universal and EMI did not pay significant attention to this area until 2002. In fact, one of these companies did not have personnel in Sweden working specifically with this area until 2004. Previously, it seems to have been the task of the marketing managers.

The late awakening has had severe consequences on the industry. Wallin at EMI, says they have probably in fact contributed to the increase in downloading, since they have not been able to offer a product attractive enough to impose any competition. Sure, it might be hard to compete with “for free”, but he still believes that the combination of a high price and the somewhat outdated CD has been a negative factor. Another reason is according to Ekdahl, the fact that the core of the record companies has always been selling music, not designing new platforms for distribution. They have no experience of a situation like this. Instead, in lines of the research presented by Want (1995) Ekdahl suggests cooperation with ventures like Apple in the future, companies that have the required specialisation. That way they are not limited to the competence within the organization. The same goes for Universal that according to Eriksson, is rarely at the front of innovation, but instead focuses on music and the repertoire and thus let others explore new grounds. Meanwhile, we have seen a tendency in all three companies of hiring more technically qualified staff, which points at a higher internal focus on possible alternative distribution solutions.

Basically, the record companies have been focusing on what that they are good at and not been fully aware of the importance of constant adjustment (Ellis & Johnson, 1995) Of course, it is important to keep your core competence at heart (Porter, 1996), but in a changing environment it is absolutely necessary to constantly look for opportunities to improve (Ellis & Johnson, 1995). In this area, these record companies may have lost momentum during the first years of downloading. They seem to have recognized the need for change too late in order to fully exploit the opportunities that came along. However, they have now caught up substantially, but are slowed down due to a number of obstacles, such as the obligation to fulfil old contracts with unsuccessful artists and an outdated legal system (M.Wallin, 2005).

5.2.2 Strategic choices and Organizational Redesign

After recognizing the need for change and defining the problem area, the next step for the management group is to *develop a shared direction* (Nadler, 1998) for how to improve the situation. This is absolutely essential to make the organization work as efficient as possible. BMG was with its relative high level of entrepreneurship (more about this later) early developing their strategy which clearly pointed to adaptation of new technologies and ways of distribution. After the merger with Sony, they still have a high level of innovation. For EMI, the need for radical change was realized in the fall of 2003 when a plan was created to match the future needs. Wallin claims this plan has created a common internal understanding on what should be done, but since we do not know exactly what the plan is, we lack information to support this notion. In Universal we can distinguish a slight problem since it took years from when the international office first started to develop ways of digitalizing music, to when the information how to meet the challenge of downloading

reached the Swedish subsidiary. According to Want (1995) this type of managerial error has a negative effect on creativity and productivity in an organization. However, it can be stated that all three companies now are pursuing concrete strategies.

Cost Reductions and the relationship to structure and entrepreneurial efforts

One common feature that presently is at core of the operations in all three companies is cost reduction as they have been forced to lay off half of their workforces and cost cutting has become a necessity to survive. These measures also influence the everyday business of the companies, something that certainly has put a negative restraint on entrepreneurial efforts. Eriksson talks about the mismatch in making the organization tighter in times when the environment is going through major changes. He gets support from Lunding at EMI who talks about the dilemma they are facing, in which entrepreneurship and new ideas are encouraged but rarely implemented. Duyster et al. (2004) points out that there is no use encouraging entrepreneurial efforts if there is no room for error, which seems to be the situation here.

Even though it would be hard to describe the competitive climate in the music industry today as typical *hyper competitive* it certainly possesses some similar characteristics. As written in chapter two the term 'hyper competition' is used to describe an environment in which there is a high level of technology and companies need to respond quickly in order to remain competitive (D'Aveni, 1998). The necessity of quick responses is present in the music industry not because there might be a competitor launching an immediate counter attack, but because the conditions of their operational setting are constantly changing. What we are referring to is the downloading trend as well as the constant change in consumer behaviour. Linking back to the issue of entrepreneurial structure we can see that these record companies do have a problem. According to the research conducted by Chakravarthy and Gargiulo(1994) on companies active in a market with hypercompetitive tendencies, it is crucial that the organization has a high level of entrepreneurial culture in order to quickly respond to opportunities. This is virtually impossible if the organization is too hierarchical. Universal has gone from fairly independent and entrepreneurial to very centralized and hierarchic, leaving little room for creativity. EMI has always been relatively hierarchical but encourage the employees to be entrepreneurial, something that according to Lunding is hard due to the constant presence of cost control. In the case of Sony BMG we can just wait and see what will happen with the structure, as they are currently in a process of fusion after the merger, but looking historically Sony has been very hierarchical while BMG has been very entrepreneurial.

Creatively there is a big risk here since cost reduction measures are signs of taking a step back in order to try to be more efficient and is hence an example of being caught up in old *same game* patterns. Ellis and Williams (1995) highlights that if all competitors fall into same game thinking the competitive environment will eventually worsen the situation for all of them, whereas new game thinking and avoiding head-to-head competition is more likely to have a positive effect on the individual organization. However, doing something differently than the competitors does not seem to be the top priority among these companies. Instead, in hard times of cost cutting, they have turned towards cooperation, an issue we will return to.

We are definitely not saying that turning towards cost reductions was wrong since they were at the verge of disaster when they were first implemented, but taking this action has

had a negative side effect in that development and entrepreneurial activities has become slightly suppressed.

Implementation – responding to change

The third stage in Nadler's (1998) framework is the actual *implementation of change*. It is important to realize though that this stage stretches out and is overlapping both previous and later phases in the framework. It would be an exaggeration to claim that the recording industry today are engaging in a complete process of frame-breaking change, lacking the speed and full reshaping process inherent in this concept. However, looking at the separate parts of the process, we can reach some understanding of how the managers are thinking:

- ***Restaffing: making sure the right people are in the right jobs in keeping with the new strategy, structure, work and culture.***

Judging from our interviews, this is one aspect that seems to have been fully recognized by the entire industry. All three companies have had a high turnover of employees over the last few years, both in the management group and also throughout the entire organizations, leaving only around 40 employees per company in Sweden. This is a result from both cost reductions, but also according to Erikson due to the turbulent times in the market and new technologies. To draw any conclusion on the fact that they all seem to have the same number of employees would be hasty, but it certainly is an interesting point.

Wallin at EMI says that the management group looks completely different today compared to what it used to. Focus is now on attracting people with useful skills in how to be successful in business. In other words they have widened their knowledge base from a deep knowledge about producing music to also covering how to manage a business more successfully. This is promising, since earlier studies by Tushman et al. (1988) show that companies tend to reach better results after a management transition. Also the theory of dynamic capabilities (Teece et al., 1997) supports the acquisition of new knowledge in order to better adapt to a new environment. In this sense, it will also be interesting to see what will happen within Sony BMG as a result of the merger, as Eisenhardt (2000) says the degree to which the company can acquire new dynamic capabilities depends on how well they manage to integrate knowledge and take care of synergies.

Wallin as well as Eriksson says these changes have advantages as well as disadvantages. On the positive side it sends out signals to the rest of the organization that things are in motion and that it is a time for change. It can help everyone work towards the same goal, something that is emphasized by Chakravarthy & Gargiulo (1994). On the other hand as mentioned by Eriksson, the working conditions today can give employees a sense of not being safe at their position, leading to an atmosphere of uncertainty. In a hyper competitive environment this is bad, since what you need is a culture of trust where all employees can feel comfortable in their positions. If not they can not perform with satisfaction (Chakravarthy & Gargiulo, 1994).

- ***Redefining strategy and rethinking the nature of the work required to pursue the new strategy. Core values and the company's mission are normally revised and changed to match the needs of the future.***

As was stated in a previous paragraph, new strategies are underway in all of these three companies, although they are a bit reluctant to reveal exactly what they are. Duyster et al. (2004) highlights the necessity to re-evaluate the business plan and vision, when going through a reshaping process. We can confirm that the mission and business statement of these companies have shifted considerably. For example, with Wallin's words the vision and business idea for EMI today :

“to be able to provide music on all platforms in all environments and in a fashion so that the products are perceived among the customers as the best buy”

It illustrates the common notion that the term “record company” in fact is outdated. Judging from the answers we got, the business these companies are in is clearly the music business and the old idea that their focus is solely on producing records is no longer valid.

It seems as if our respondents are in many ways relating to strategic choices in a similar way, but there are some differences in attitudes and how the companies are dealing with the present situation and again, elements from the *same game* and *new game* (Ellis & Williams, 1995) theory can be identified. Meanwhile, it is not our intention to analyze where each company is located on a relative scale, but rather to highlight the important elements that shape their strategy. In theory, cost reductions are often associated with same game strategies and looking at what importance these reductions have had on the practice in our companies, it is hard to disregard what impact this might have on the potential outcome. Seeing it from this perspective it is unlikely that one organization will achieve any sustainable competitive advantage. Supporting this idea would be the fact that they are actually to a high degree cooperating in the area of digital distribution of music. Ekdahl reasoned, that consumers are likely to turn away from a service that lacks the support and music from more than one record company, implying the importance of the entire industry to cooperate. Working with this area at the same time, we can not see how anyone of them will end up with a first mover advantage.

However, there are also elements in their strategies that points towards new game thinking, such as the desire to create new approaches how to meet customer needs. Even though they cooperate to a certain extent in some areas regarding downloading, the strategic intent among these companies is still individually to put emphasis on new solutions in order to achieve a strong competitive position on the market. Wallin mentions the challenges inherent in getting the attention of customers who are living in a chaotic medial environment. He says it is absolutely necessary to disregard old strategies and focus on new ones. Ekdahl says something interesting that shows tendencies to new game thinking:

“Right now, when there is no clear structure or platform for optimal distribution, we are basically trying to ‘plant seeds’ and back up all participants and let the market decide upon the winning formula”

Want (1995) highlights one strategic error that many organizations do when facing problematic change. They tend to isolate the problem and come up with an easy fix. The problem with downloading is definitely not being isolated by the record companies. As was already mentioned in the first section of the analysis-chapter, there are many other factors that are recognized as influences on the current state of sales. Judging from our data we can also see that they have no desire to come up with easy fixes, instead it is about creating a whole new way of conducting business.

They are not afraid to look for solutions beyond their own organization, the cooperation with their competitors being one of the examples of this behaviour (Fulmer, 2000).

- ***Rebuilding and rethinking the operational environment of the organization and creating informal arrangements that support the new strategy and work requirements.***

The operational environment today looks very different from what it used to, as stated by all our respondents. Wallin says that there are now many ways in which you can consume music, something that of course affects the composition and characteristics of the market. Eriksson points out that apart from the CD-market these companies now also have to consider the downloading market, including the market for MP3-players and cell phones. Wallin talks about abandoning old strategies to make room for new and mentions the subscription idea as one example of a response to this new environment.

Also the competition from other relating industries such as the DVD-industry, the videogame industry and the mobile industry has had an impact on the music industry. According to Ekdahl this area can be blamed as well for the declining numbers in sales. The bottom line is that there are so many substitutes for simply just listening to music. We are living in a time where young people, previously the most frequent record buyers, now turn to other forms of entertainment. Eriksson states that young people today is the group that buys the least number of records. As a result the average record buyer is now older.

According to the *strategic conflict view* (Burnes, 1996) you can gain an advantage if you are successful in influencing the market. IFPI is the organization that takes care of common interests in the music industry. A general misconception among the general public is that Antipiratbyrån represents the recording industry, but they are in fact an organization tied to the movie and gaming industry. IFPI try to pass on information to the general public in order to increase their knowledge about the legal consequences of downloading and file sharing. They do this in order to influence people's behaviour when it comes to the way they apprehend their music. According to their homepage (www.ifpi.se), people who are informed that what they are doing is wrong usually stop their behaviour. Eriksson says that influencing the market by lowering prices was tested in the US but had little effect on the sales volume, showing evidence on that price campaigns may not have the desired effect. Since IFPI is working on behalf of all record companies, it is not a matter of influencing the market in order to get a competitive advantage, but rather to make it understand what effects downloading can have, both on the "pirates" personally and also on the music industry.

- ***Redesigning the organization's formal structures, systems and processes.***

The competitive forces view on strategy highlights the necessity of aligning the organization with the environment (Burnes, 1996). The environment has a clear impact on the organization and in order to remain successful adjustments has to be done. In our case we look at an industry that has been fairly stable over a long time now, the companies have not encountered any major disturbing elements, they have simply been doing what they do best. According to the theory (Senior, 2001), bureaucratic and centralized structures are more suitable to stable environments. Most major record companies have always been and still are fairly bureaucratic.

Again, the structure of Sony BMG is still in the merger phase and will be a fusion of the entrepreneurial history within BMG and the more hierarchical Sony. Now when times are changing there should be a need to align the structure with the environment (Burnes, 1996) in order to be more flexible. However, as was already mentioned earlier, due to cost reductions, the structures remain rather tight and centralized, although with an outspoken will to change.

The issue of risk avoidance in the process of signing new artists obviously have a close relationship to both the structure and the cost reduction programs of these companies and indirectly also to the level of entrepreneurship within the organization. Eriksson says the decline in record labels' willingness to take risks has serious effects on the diversification of the range of artists. All respondents seem to agree on this notion. Previously, the big selling artists provided sufficient income to make it possible to give room for new smaller artists. The big artists were financing the small ones. These are the same artists that are now most frequently targeted for free downloading online, diminishing the possibility for the record companies to uphold the same system (C.Ekdahl, personal communication, 2005).

The *consolidating change* phase in the framework for discontinuous change (Nadler, 1998) consists mainly of adapting routines and overviewing what was previously a radical change with all its consequences. Downloading is no longer ignored or seen as a threat in itself by our respondents and regardless of the big uncertainty concerning the future, they all have the new technology on their daily agendas and ideas how to reach this new market.

Looking at the current situation in the recording industry, it is justified to say that they are currently somewhere in the spectrum between the implementation phase and the consolidating phase. Focus is on implementing new strategies and new distribution systems, but at the same time they have to put efforts on making all alterations work efficiently.

5.3 Alternative solutions

Eriksson and Ekdahl talk about the importance for the recording industry to focus on the core of their business, which is the actual music, and support other actors with the technological skills to find the winning model for future music distribution. However, they are actively working with development of what possibilities there are to distribute music in the future. Some of the ideas will be mentioned below.

Previously music was all about owning records and albums, but today our respondents have two general approaches towards the development of the future medium for music; the CD and digital music. The CD is believed to still have potential and Eriksson talks about the success of adding bonus features, limited edition CD's and more exclusive packaging and highlights the added value of ownership compared to digitally stored music. Dual discs CD/DVD's, containing music on one side and videos or live performances on the other, is mentioned by all participants as a medium of the future and they all believe that some sort of physical ownership will survive in this digital era.

As a suggestion to add features to the existing CD, Eriksson as well as Ekdahl talk about including codes in the booklets of CD's that will work as a password to a special website on Internet. This site can later be continuously updated with bonus material, such as competitions for concert tickets and extra songs only released on the website.

Wallin strongly believes in a subscription service, where people pay a monthly fee to have unlimited access to music catalogues on Internet. The concept is similar to having cable or satellite subscriptions for TV, with a monthly fee somewhere around 150-200SEK. As an extra feature people would have to pay a little bit more to have access to music files that they could transfer to their portable music players (MP3-players). Ekdahl talks about credit card transactions and the difficulties of paying smaller sums of money online and reveals an idea of how to make the purchase more easier friendly. He suggests offering a simple card at the local supermarket, containing a unique code that enables a certain amount of downloadable songs online. This way you could pay for your music when you do your grocery shopping and bypassing the somewhat complicated and slow methods of payment currently available online.

Giving the consumer the freedom of choice seems to be the key to the future of music consumption, but right now we can see that the ideas are numerous and the uncertainty very big. We are not able to determine the ideas' future success potential, but it is indeed interesting to see that they are trying to develop new solutions to distribute their music. Smaller ideas and concepts can possibly be implemented by single record companies alone, but for the bigger and balder concepts, which we believe is really necessary for the industry to get back on its feet again, cooperation is a necessity.

5.4 Analytical reflections

In accordance to our previous discussion about most likely not being able to be completely objective, we are now open to the suggestion that if we would have another musical ideology it could result in a different analysis. In our opinion the increasing quantities of mass produced music that is characterized by fast and easy consumption is a horrible development. But like in any industry, the market sets the rule of the game and companies make most money by reaching as large target groups as possible. In other words, it is possible that we undeliberately have portrayed the threat against music diversification as larger than it really is. The industry crisis is, on the other hand, unquestionable and the ongoing debate in media is immense.

As has already been mentioned, theories and literature regarding strategy often contain elements of competition that do not fully apply to the recording industry. Today, competition between different record companies is not about releasing new kinds of products or services, but more focused on marketing aspects and artist signings. Hence, a united industry seems to be required in order to develop new platforms for music distribution, crippling the single company's ability to make bold moves. With this in mind we still believe that the chosen theories to a large extent help explaining the current situation and highlight the change phase in which the companies find themselves today.

While adapting a reflexive methodology in accordance to Alvesson and Sköldbberg (2000), we have in the end emphasised empirical findings and interpretation in our discussions rather than strictly relying on our theoretical framework. In other words we have taken most of our methodological influences from hermeneutics and grounded theory. This choice can be criticized for not linking all of our reflections to already existing theory, but the uniqueness of the recording industry makes the adaptation of currently available theories very difficult. We do believe however, that we have managed to point out some important aspects of an industry that is undergoing big changes.

6 Conclusions

The discussion and findings from the analysis will in this section help to answer the questions we stated in our introductory problem discussion.

Our ambition with this study has been to examine how major record companies, in our case EMI Music, Universal Music and Sony BMG, are strategically managing the consequences and change imposed to the industry as a result of MP3-downloading. In order to understand how they are handling the ongoing change, we wanted to focus on strategic choices, actions and organizational changes implemented by subsidiary top level management. The empirical data was gathered during interviews on location with selected respondents from the management groups in the three companies. We believe that the material that we have collected during these interviews and our analysis provides a good insight to the current situation within the recording industry.

General views

The general view among our respondents on the downloading phenomenon is that there are not only negative aspects, but also opportunities. Today, the Internet and the possibility to download music constitutes an important part of the agenda when planning for the future, as it enables record companies to benefit from a wider variety of distribution possibilities. The downloading technology in itself is in fact considered to be an opportunity, not only a threat. According to our respondents, it is free downloading in combination with other environmental factors (mainly sociocultural) that has influenced the consumer behaviour and negatively affected CD-sales. Sales have gone down approximately 33% since 2001, but at the same time Ekdahl states that music is being consumed like never before. It is all about meeting a big change in consumer behaviour and in the end “find ways to get paid for what today is given away for free”.

Strategic features

In our analysis we used the discontinuous change process as a framework for assessing what measures have been implemented during the process from when the record companies first started to realize the potential of the downloading phenomenon, up until now. As was already mentioned earlier, there is no doubt that they are trying hard to manage these times of change as efficient as possible. The respective management groups are struggling with how to best respond to the new environment they are facing and hence several changes throughout the companies has been or are currently being implemented. We will summarize our conclusions on this area in a few points, some of positive character and some of negative.

- *Putting the right person at the right position* is a necessary action that has been emphasized in all our companies, both on managerial level and throughout the companies. New specialised personnel have been brought in to fill positions that require their expertise. People with technological knowledge and also managers with skills within the area of building business have been coveted. Long-term, these actions are absolutely necessary and will certainly have positive effects on the future success of these companies, while short-term, the high turnover of employees might create an atmosphere of confusion and uncertainty.
- *Adjusting the definition of the operational environment and the business idea* is something that according to previous research is absolutely necessary when going through discontinuous change. This notion has in our case clearly been adopted. All our

respondents emphasize that the market has shifted from only covering records to today also covering distribution of music digitally through the Internet. They are also competing to a larger extent for people's money with alternative sources of entertainment such as DVDs and video games. Hence, these companies are obviously prepared to widen their perspective on what their business really is and according to our respondents they are prepared to do what it takes to be competitive in this new environment, whether it takes to redefine strategies, altering current processes or re-evaluating core values. However, these types of reshaping actions are of course easier said than done and even though there is an obvious desire to pursue them, it still remains to be seen if they manage to overcome the existing internal obstacles such as cost control systems and bureaucracy.

- *The problems inherent in the cost reduction programs* that are currently in place are definitely leaving a negative mark on the possibility for these companies to successfully align their organization with the fast-changing environment. Though necessary for the survival of the firms, they do put a restraint on the level of entrepreneurship and creativity. In addition, the relatively hierarchical and centralized structures are not suitable for an environment that contains elements of hyper competition. What is needed is more flexibility in order to react appropriately to opportunities and threats. Even though they realize the negative effects of the cost reductions, the current economic situation currently just does not give them any alternatives. Consequently, the speed and flexibility in which they can carry out necessary changes is to some extent limited.
- *To crop old strategies and focusing on developing new* is certainly an important aspect for these companies to consider in order to achieve a strong competitive position in the future. From our discussions with the respondents we can draw the conclusion that what is needed is consumer oriented strategies that can help to get the attention of consumers that are facing a large number of substitutes that today may seem more attractive and easily apprehended. Each and every company are of course pursuing their own (somewhat confidential) chosen course of action, but their view on what elements are needed seem similar. However, due to the economic situation and also the fact that the major record companies are to some extent cooperating in the area of digital distribution, it is difficult to see how any of them would end up with a sustainable competitive advantage.
- *Influencing the market in order to improve one's competitiveness* is an idea taken from the strategic conflict view. The behaviour among the general public to download music for free is criticized jointly by the record companies through the interest-organization IFPI. Price campaigns are not something that are being pursued, as history and previous research has shown that there is no extra gain in it. Consequently, it is not much the recording industry can do to right now to make people pay for the music they download, apart from spreading information and push for that the new law concerning downloads will be implemented.

Looking at these record companies today, they seem to be fully equipped to create a successful model for the future and to turn the negative trend in sales around. They are indeed going through a reshaping process, but there are still some obstacles such as the cost control and the relative static structure holding them back. However, we can clearly see that major steps in the right direction have been taken.

The future formats for distributing music

Our respondents are certain of the survival of the record companies and argue for their role within the music industry regardless of medium. They still believe in the CD or a similar format, in combination with digital music for the future. This is an interesting change, because since the decline of the vinyl records, music has more or less only been distributed on CD's. Today our respondents are turning towards diversification, where music is offered to the market both as a physical medium and in digital format. The physical medium is being portrayed as a more exclusive product and will be offered to customers that value bonus features, ownership and packaging. Digital music (downloads) will be the cheapest and fastest way of consuming music with instant access to songs over the Internet. Looking at the area of alternative solutions how to digitally distribute music, the record companies have many ideas, some that are already in use and some that are currently under development. The subscription idea is one that distinguishes itself from the others in the way that you do not pay for songs or albums separately, but instead for the time you are allowed to download the music. It works similar to any mobile-subscription although the success of a system like this is probably depending on a decline in the tendency of free downloading. As one of our respondents put it: *“It is not easy to compete with for free”*

Even if downloading has sometimes been portrayed hazardous for record companies considering the risk of artists going independent using the Internet, there will probably always be a need for the service that record companies provide. After all, they are experts in marketing and know how to work with artists and this will always be needed, even possibly to a bigger extent on Internet due to the difficulties of being seen in the massive information flow.

6.1 Final thoughts

We have seen that downloading has taken the recording industry somewhat by surprise and the slow reaction has led to a climate of big uncertainty. It would be easy to point out that the record companies should have been more open to change from the beginning, but in the years 2000-2001, when downloading really started to gain ground, they were experiencing two very successful years (IFPI, 2005). Hence, by looking at the case of the recording industry we see the importance of constantly re-evaluating markets and being aware of how environmental factors influence the company, even in flourishing times.

An interesting aspect that highlights the difficulties in being innovative for record companies is their competitive conditions. Brand names, at least in the perspective of the end-consumers, are completely unimportant; people simply choose the artists and the music they think they like and there is no such thing as brand loyalty, other than by chance. A record company's primary source to create competitive advantage is based upon the artist, not the service or any other parts of the product they can offer and we have found that competitive advantage theories to some extent lacks relevance under these conditions. Whereas brands in most industries are linked to a perceived quality or image, a CD produced by Universal sounds just as good in a stereo as one made by Sony BMG or EMI. Adding to that fact is that the broad public would hardly find a service user-friendly unless they have access to music catalogues containing music from more than one label. This indicates the problem for a single record company to offer unique and innovative products and services, something that in theory is typically characterized as “new game” strategy.

Cost cutting has more or less forced the companies deeper into their traditional “same game” strategy thinking and we see a risk that they might end up in a negative risk

diversion spiral. The respondents all state that their companies are more reluctant to take risks when signing new artists today than before. In the end this creates a smaller artist supply and it makes the record companies more dependent and more exposed to what they are trying to avoid; risk. What happens when a star fades, or when actual sales fall short of expectations? Will they turn to artists with even more success potential in a mainstream market? Without even touching upon the question of impoverishing the quality of music, we believe that this kind of portfolio management is full of risks, but we do recognize that this is a result of harsh times.

Before doing this study we had the feeling that the record companies considered the CD as loaded with costs when compared to music in digital format. The respondents however highlighted marketing costs and argued that production and keeping stocks are relatively cheap in comparison. The relatively high marketing cost would imply that the actual cost saving with digital music would be small, since there is no indication that marketing costs would decrease with digital music. On the other hand we were told about the importance of signing big selling stars, where one artist selling two million albums is worth four times more than two artists selling one million albums each, due to the high fixed costs. In the end we believe that the industry is not fully aware of the actual savings that digital music would imply and we believe it is important to remember that with declining sales every CD carries an even larger cost, making the big sellers more important than ever. It is however difficult for us to draw any conclusions on what impact downloading will have on the recording industry in the future as economic theory does not allow us to do so. The biggest damage has probably already been done and the industry is now set to take advantage of the potentials with Internet and create new channels of distribution.

Finally we would just like point out that we set out to see how these companies are managing the effects downloading has had on the industry. However, after the interviews we realized that downloading is certainly not an isolated problem that can be fully blamed for the decline in record sales. The change they are undergoing is so much more complex than that, something that we hope this thesis has shown.

Additional notes

The 11th of May 2005 Apple released iTunes Music Store in Sweden (Boda, 2005). Today iTunes Music Store offers approximately one million songs at a cost of 9 SEK per download in its Swedish version (Apple, 2005). Our respondents did not reveal this launch to us but EMI, Sony BMG and Universal are all providing their music to the market through this new store. Since the opening of iTunes in the USA, two years ago, Apple has sold over 400 million songs, but there are compatibility issues with the format since the songs are meant to be used in Apple's own music player - the iPod (Boda, 2005).

Together with iTunes Music Store the number of online music stores are increasing and a recent prognosis made by EITO (European Information Technology Observatory) indicates that the Swedish market for digital music distribution over Internet will by 2008 be worth 606 million SEK compared to 55 million in 2005 (cited in Granström, 2005). This drastic change would represent almost a third of the total music sales in Sweden, but future outcomes can today simply be nothing more than predictions and guesses. However, what is sure is that the music industry no longer runs with blindfolds. On May 25, the same day as we finish this study, the proposed law that has been discussed previously was accepted by the Swedish Parliament. This means that on July 1, it will be illegal to download music and film for free without the approval of the owner of the property rights. A consequence

will be that a minor fee will be introduced on recordable CD's and DVD's to compensate the property right owners for the illegal copying. It is still left to be seen how this will affect the downloading behaviour among the general public (Brandel, May 2005).

Finally, we would also like to thank the three record companies in this study and in particular Mattias Wallin, Klas Lunding, Jens Erikson and Carl Ekdahl for taking the time to participate. We appreciate your positive attitude and helpful insights to our problem area. Thank you.

References

- Alvesson, M. (2002) *Postmodernism and Social Research* Great Britain: Biddles Limited
- Alvesson, M. and Sköldbberg, K. (2000) *Reflexive Methodology* London: Sage Publications
- Alvesson, M. and Sköldbberg, K. (1994) *Tolkning och reflektion* Lund: Studentlitteratur
- Apple. (2005, May 11). *Världens bästa musikbutik på webben*. Retrieved May 14, 2005, from <http://www.apple.com/se/itunes/store/>
- Arksey, H. Knight, P. (1999) *Interviewing for Social Scientists* London: Sage Publications
- Belgard, W.H (2004) *Shaping the future: A dynamic process for creating and achieving your company's strategic vision*, AMACOM
- Bessant, J. (2003) *High-involvement innovation : building and sustaining competitive advantage through continuous change* Chichester: John Wiley & Sons Ltd.
- Boda, D. (2005, May 11). Itunes ska få Apple att växa i Sverige. *Svenska Dagbladet*, 62.
- Brandel, T. (2005, February 2) Lagliga sätt att ladda ner efterlyses. *Svenska Dagbladet*, 6.
- Brandel, T. (2005, May 25) Ny lag höjer priset på tomma skivor. *Svenska Dagbladet*, 28
- Burnes, B.B. (1996) *Managing change: A strategic approach to organizational dynamics* London: Pitman
- Chakravarthy, B. Gargiulo, M.(1994) *Organizing for Hyper Competition: The legitimization of Corporate Leadership* Fountainebleau, France: INSEAD
- Chatell, A. (1998) *Creating value in the digital era* Wiltshire, UK: Macmillan Business
- Christensen, C.M. Anthony, S.D. Roth, E.A. (2004) *Seeing what's next? : using the theories of innovation to predict industry change* Boston:Harvard Business School Press
- D'Aveni, R.A. (1998) Waking up to the new era of hyper competition *Washington Quarterly* Vol.21 p.183-196: Cambridge Massachussets: MIT Press
- Durand, T. (2004) Strategic options when facing technological change: trigger or shape, stretch or re-deploy? *Bringing technology and innovation into the boardroom : strategy, innovation, and competences for business value*.p.124-132 Basingstoke: Palgrave Macmillan
- Duysters, G. Nagel, A. Vasudevan (2004) Changing the rules of the game: Strategic alliances, the new competitive weapon *Bringing technology and innovation into the boardroom* New York: Palgrave Macmillan
- Eisenhardt, K. Martin, J. (2000) Dynamic capabilities: What are they? *Strategic Management Journal*, vol 2. pp.1105-1121 John Wiley & Sons Ltd.

- Fulmer, W.E.(2000) *Shaping the adaptive organization* New York:American Management Association
- Granström, K. (2005, May 17). Explosiv tillväxt för affärer på Internet. *Svenska Dagbladet*, 49.
- IFPI. (2005) *Svensk Skivförsäljning 2001-2004*, Retrieved February 16, 2005, from http://www.ifpi.se/02.images/01.top/02.subnav_pdf/02.statistik/pdf/GLF2004_m.pdf
- IFPI. (2005) *Marknadsandelar 2004*, Retrieved March 19, 2005, from http://www.ifpi.se/02.images/01.top/02.subnav_pdf/02.statistik/pdf/Marknadsandelar_2004.pdf
- Johnson, G. Scholes, K. Whittington, R. (2005) *Exploring corporate strategy* London:FT Prentice Hall
- Kuratko, D.F. Welsch, H.P. (2004) *Strategic Entrepreneurial Growth* Mason, Ohio: Thomson SouthWestern
- Liebowitz, S. (2004) Will MP3 downloads annihilate the recording industry? The evidence so far *Advances in the study of entrepreneurship, innovation and economic growth vol 15 . p.229-260* Oxford: Elsevier Ltd.
- Locke, K. (2001) *Grounded Theory in Management Research* London: Sage Publications
- Morrow, R. (1994) *Critical Theory and Methodology* California: Sage Publications
- Nadler, D.A (1998) *Champions of change* San Fransisco: Jossey-Bass Publishers
- Newman, K.L. Nollen, S.D. (1998) *Managing radical organizational change* Thousand Oaks, California: Sage Publications, Inc.
- Nyberg, R. (2000). *Skriv vetenskapliga uppsatser och avhandlingar* (4:th ed.). Lund: Studentlitteratur
- Patton, M. Q. (2002) *Qualitative Research & Evaluation Methods*. California: Sage Publications
- Ryen, A. (2004) *Kvalitativ intervjù – från vetenskapsteori till fältstudier*. Malmö: Liber
- Schwandt, T. (XXX) Three Epistemological Stances for Qualitative Inquiry; reprinted by Denzin, N. and Lincoln, Y. (2000) in *Handbook of Qualitative Research*. London: Sage Publications
- Silverman, D. (1993) *Interpreting qualitative data : methods for analysing talk, text and interaction*. London: Sage Publications
- Silverman, D. (1985) *Qualitative Methodology & Sociology*. Great Britain: Biddles Ltd.
- Stake, R.. (1995) *The Art of Case Study Research*. California: Sage Publications
- Stoner, J. Freeman, R.E. (1992) *Management* Englewood Cliffs, N.J: Prentice-Hall International

Strebel, P (1992) *Breakpoints* Boston, Massachusetts: Harvard Business School Press

Teece, D.J. Pisano, G. Shuen, A. (1997) Dynamic capabilities and strategic management
Strategic Management Journal Vol. 18:7. John Wiley & Sons Ltd.

Tushman, M.L. Newman, W.H. Romanelli, E. (1988) *Convergence and Upheaval: Managing the
Unsteady Pace of Organizational Evolution* California: The Regents

Want, J.H (1995) *Managing radical change* New York: John Wiley & Sons, Inc

Yin, R. (2003) *Case Study Research Design and Methods*. California: Sage Publications

Appendix 1

INTRODUCTORY QUESTIONS AND GENERAL VIEWS ON DOWNLOADING

- What is your position in the company and what are your duties?
- Could you please tell us a little bit about yourself and your background?
- What kind of sales trend have you seen the last couple of years and how do you see on future development?
- What are the factors behind this trend? To which account is downloading via Internet responsible? Are there other factors that have contributed? In that case, what are they?
- What is your company's general view on downloading? Is it seen upon as something permanent or just a fad? Is it something that must be checked?
- How has downloading affected your company? Cut downs?
- In what way is downloading a threat other than possibly affecting record sales? Are there any positive aspects or possibilities in downloading?
- What is your view on the existing legislation and what are your expectations on the possible changes taking affect this summer?
- How does the cooperation work between you and other record companies?

STRATEGY

- What is your company's business idea and vision? Has it changed recently, and in that case, how?
- How would you describe the structure of the organisation? Is it flat or hierarchical?
- What would you say is your branch of trade?
- What is your target group? Do you experience that there has been a shift in your key target group?
- When did downloading become a problem?
- How have you strategically been working with downloading since it started to impose its presence?
- Do you think that you are better than your competitors within innovation? Is your way of serving the common market more efficient?
- Do you feel that the management group is communicating a clear strategy of how you are going to turn the negative trend around? Do you think that it is different compared to other record companies?
- Are you putting aside resources to specifically work with downloading issues?

- Do you feel that you have a competitive edge in comparison to your competitors in the recording industry, concerning your view and way of working with the problem of downloading?
- Is there something that you strategically do that you consider “front line” compared to your competitors?
- Has there been any organisational change, in terms of structure, these last few years? What is different today, and is there some kind of link to new technology and downloading?
- How would you describe the composition of the management group today compared to 6-7 years ago?
- What is the management group’s priority? Is there a focus on operational or financial issues and how are external issues prioritized?
- Do you experience external pressure from interest groups? Stockholders? What kind of influence do they have on your company?
- When faced with new situations theory describes the necessity of implementing change. What is the biggest change that your company has gone through as a result of downloading?

CDs AND DOWNLOADING

- In your opinion, what are the biggest benefits with buying a record compared to downloading the music over Internet?
- If you break down the price of a CD, what do you actually pay for? How much and what are the costs of producing a CD? What does the end-consumer pay for?
- Who would be the biggest loser if the CD would be abandoned and music distribution would completely become digital?
- What do you say to people that argues “Why would I buy a CD when I can download it for free?”
- Do you believe in the concept of selling music as downloads over Internet? Are you currently adopting this new channel of distribution? Other solutions?

FINAL QUESTION

- If you would make a guess about the future of the recording industry, say in 15 years, what does it look like? What are your hopes?