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Music Streaming Platform

Is it a viable business model for the music Industry?

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Abstract

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The aim of this thesis was to create the new business model of a record company and try to figure it out if this business model is viable in the coming years or no. Indeed, after almost two decades of depression the music industry new a growth in 2015 of 3,5% due to the new streaming technologies. However, Spotify the main actor of those has never been profitable. The aim of this thesis was to know if this is a problem or not as well.

The method used was an exploratory research and qualitative and quantitative methods were used. For the quantitative method, secondary data were used from various sources, report, article, books and newspapers while for the qualitative, primary data were used by doing an interviewed of a product manager in a record company in Sweden.

The results found were that the streaming technologies totally changed the business model and have an enormous power and place in the music industry. The new business model is profitable and has good chances to be viable in the future. However, some limitations must be solved such has the Value Gap or the fact that only the big record companies might survive to this new business model.

In order to solved this limitation which must be solved for the business model to be profitable, the states regulations have to create laws in order for the streaming/video platform to pay enough royalties to each actors of the industry. This will solve the problem of the Value Gap.

Keywords	Music Industry, Streaming Platform, Business Model,
	Marketing, Diffusion Process of Innovation, Disruptive
	Technology, Long Tail, Pareto's Principle



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Introduction

The music industry consists of making money by selling music to consumers. This industry has changed a lot over the time but basically there are several actors that remain the same from the beginning. First, there are the composers that create the songs and secondary the singers, performers that play those songs. Sometimes the composer and the singer are the same person. However, there are also companies involved in this business such as the publishers, which deal with composers, the record companies that deal with the performers and singers but also the companies that help the artist for their live performance (Passman, 2012). Those actors have evaluated over time but they are still present today. Therefore, this thesis will discuss and evaluates the understanding of the problems that the music industry deals with. To better understand the topic and the industry it is important to quickly cover the music industry history.

The first time that music has started to be sold was in the early 1890 thank to the invention of the Gramophone (Bourreau & Labarthe-Piol, 2004). Indeed, Emile Berliner invited the Gramophone which the first way of listening to recorded music. He started selling it by creating a company with some of his friends the company was known as "United States Gramophone Company". Therefore, we can say that from this moment it was the beginning of the music industry. The aims of this new industry was to produce music from artists that were well known because of their live performances because of that it was easy to know that the record companies will sell lot of records. It was based on general demands and then mass-produced. Also, the contracts that were signed were only contracts of distribution and licensing. This way of selling music stayed in place until the 70s and is also based on the same principles that are used today however, with some changes.

In the 70s the first big changes happened (Waelbroeck, 2010). Indeed, the huge record company labels changed the way of making money out of music. The media influenced a lot on what was happening thereby, the record companies were more focus on producing and looking at the chart single to make their deals than in the popular live artists. Also, they started to control the distribution and the medias but more important they were doing merger and acquisition between them and lie in the other businesses. It was the beginning of the golden age of the music industry, they were earning large sums of money by selling the cassette tape which was launched in 1963 by Phillips. The



CD was also invented by them in 1979 and was launched in 1982 by Philips and Sony (Philips, 2016). The CD was a huge gift for the music industry it gave the opportunity to make even more money.

In November 1996, the MP3's patent was delivered in the US (Tunequest, 2007) and this was the beginning of the biggest changes in the industry. By the launch of the MP3 file it was the first time that music did not have to be written on a physical format (Cassette tape, Vinyl, CD), it has developed into a digital format, which people can share with each other. The growth of Internet at this moment did not help either indeed, it was possible for the consumers to share those files globally. The record companies did not have the control anymore over their products: the records. New platforms were launched such as Napster in June 1999 by two students: Shawn Fanning and Sean Parker who helped later Mark Zuckerberg to create Facebook (Lamont, 2013). Napster was built as a platform peer to peer, it was possible for the users to share the files on this platform with all the other users around the world and it became very famous mainly due to the possibility to find music on this platform. Of course, it was illegal because it did not respect intellectual property and the copyrights.

The way of making money that the principal actors of the music industry were using could not be applied anymore. Indeed, even if they were controlling the medias and promoting their artists the record company and the publishers could not make money anymore for the fact that the consumers were rather using the free peer to peer internet platforms rather than listening to their favorited music through CDs. Who was going to pay for something that they can have for free? Moreover, at that time most of the people knew that this industry was earning a lot money, by the way the artists were living but also the way of life the people working in this industry had. That is the reason why people did not feel guilty for downloading music online.

That leads to the new changes in the industry because of this crisis, the actors in this market could not make money anymore by selling CD's, even if the aims of this business is still the same: making money by selling music. Lot of companies were having huge difficulties. Instead of trying to work with Internet they tried to work against it and hoping that this will have an end and they will sell CDs again. For example, Universal Music sued YouTube in court and spend lot money for lawyers for no reason, because



they did not win anything at the end. For a few years now the industry actors try to work with those new technologies, which lead us to the subject of this thesis. The new technologies that may finally end the crisis in the music industry are the streaming technology: Spotify, Apple Music, Deezer and YouTube. And those technologies are the causes of the creation of new actors in the music industry (Waelbroeck, 2010).

The music industry had to move on, sine 2011 the growth of the digital revenues is exponential. Indeed, in 2011 the revenues were around 600 million dollars while in 2015 2800 million dollars (IFPI, 2016). This new way of music consummation had considerably changed the business model of the industry and its sources of revenue. Thank to this phenomenon, in 2015, after 20 years of decline, the music market increased by 3,5% due to the new streaming technologies (Rauline, 2016). Indeed, the share of the CDs in the revenues are still decreasing while the share of the streaming grows year on year thereby, this increase is due to these new technologies. This thesis will cover the new business model of the music industry and try to know if it is sustainable or if there will be some other huge changes. In other words: Are the streaming platforms a viable business model for the music Industry?

Why should everybody care about this subject? Music is everywhere in our lives and that since the human being exits. Indeed, Michel Dauvois, from the Institute of Human Paleontology and Iegor Reznikoff, from the Philosophy department of Paris 10 explored the sound reflection of prehistoric caves. It has been proven that this aspect was certainly taken in consideration by the prehistoric men, which decorated those caves they want to live or paint in, because it is possible to correlate the sound dimension and the pictorial work, "the underground song caves", more than 35 000 years ago (Reznikoff & Dauvois, 1988). To simplify, music has accompanied humanity since its first steps. The Isturitz cave reveals flutes and lozenges, the oldest ones are dated back to 30 000 years ago.

Also, music is very powerful as it is one of the first to communicate ideas but also to communicate our feelings, for example the Blues for the Black people in America was a way for them to express their feelings but also to have hope that one day they will have a better life. Music is also freedom as it makes us able to communicate our ideas, ideologies and political standpoints.



Then, we should all care about the future of this industry as music was one of the first ways to communicate our ideas but if the industry does not have revenues anymore, will music survive? Moreover, the new business might tend to lead to a "winner take all" situation which would mean that in the future we will only be able to listen to a few numbers of artists that are very famous, is it a restriction of our freedom and of our ways of communication? This thesis will also cover this "winner take all" situation and try to know whether it is true or not.



1.Literature review

In order to answer to the goals of this research it is important to review surrounding theoretical factors about marketing, the buying behavior, the business model, the disruptive technologies, the diffusion of innovation, the long tail theory and finally the average revenue per user. Reviewing all those topics will give us a better understanding of the thesis subject and it will be easier to understand its critical points and analyze them in the research part.

1.1 Marketing definition

First of all, to clearly understand the subject of the thesis it is important to give a definition of Marketing. Philip Kotler is one a of the most famous author on this subject. His definition of marketing states that "Marketing is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is "meeting needs profitably" (Kotler & Keller, 2012). The American Marketing Association Marketing defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large" (American Marketing Association, 2013). William Simcoe, senior lecturer at Metropolia University of applied science give his definition of marketing in the book "Win win: English for your Business Career", he thinks that the aim of Marketing is to achieve a sustainable competitive advantage (Simcoe, 2009). Indeed, marketing has always existed, everyone needs to achieve a competitive advantage in order to survive. For instance, when people apply for a job they have to have a competitive advantage compared to the other applicants. It can be said that this sustainable competitive advantage, in the business field, is a sustainable value wanted by the consumer, yet is not offered by the competition. In order to survive the ongoing competition, a company needs to come up with and sell products or service, that meet consumers wants. By studying these wants/beliefs/goals a company can achieve its sustainable competitive advantage (Simcoe, 2009). Usually when people think about Marketing they associate it with communication, advertising, creating new products and mainly selling products. But Marketing it is not only those parameters, those are part of the Marketing System (Simcoe, 2009).



It is now important to define what is the Marketing System. According to William Simcoe, it is composed of independents variables which are the problems and opportunities (causes), and dependent variables which are the symptoms (effect) (Simcoe, 2009). The independent variables are composed by the Marketing Mix strategies, which is controllable and it is composed of the 4Ps: Placement, Product, Price, Promotion (Simcoe, 2009). There are also the situational factors, which are uncontrollable, those are: the demand, the competition, PESTEL (Political, Economic, Social, Technological, Ecological, Legal), the internal resources, demand, competition, etc. (Simcoe, 2009). Moving on to the dependent variables which are impacted by the independent variables seen above, they are composed by behavioral response of the combination, of what has been done with the marketing mix from the situational factors. They are for example: awareness, knowledge, preference, liking, intent to buy and purchase. Not to forget the performances measure, with which it is unable to see if the outcome was good or not: to sales, ROI, market share, profit, cost, etc. Below we can find a diagram to comprehend this system from William Simcoe

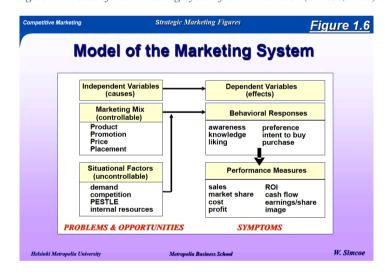


Figure 1 - Model of the Marketing System from Mr. Simcoe (Simcoe, 2009)

It is important to better understand the Marketing Mix elements to understand how companies make their strategies to sell product and services. The 4ps (Product, Promotion, Price, Placement), is what the company has control on and from those 4ps they can built strategies to answer the consumer needs (Simcoe, 2009). It is through those element that companies try to attract, increase, convert and maintain their consumer base from the information they have thank to the Situational Factors. First, companies want the answer to a want from the people by creating a product or service which is the Product. Then, they have to make aware their potential consumer about this product, this the Promotion. People are willing to pay an amount of money for a



certain product or service, companies have to find out about it and choose the right price for the potential consumer but that also that will cover their cost this the Price. And finally, the product or service has to be at the right place and the right moment in order to be bought, this the Placement (Simcoe, 2009). The marketers have to control over those 4ps, and take their decision from situational factors that can view has the market analysis. Those situational factors, as it has been seen previously, are the demand, the competition, the PESTEL and the internal resources, they have to analyzed by the marketer (Simcoe, 2009).

Companies target certain group of people, which can be called markets. We define a market by its function (Simcoe, 2009). Mr. Simcoe says: "The car market is for transportation; the watch market is for time measurement (...). However, we must be very careful in how we define our function, for that defines our competition. If I started a bus company with one bus and traveled between two cities (...), what would my function be? If I say "transportation", then I have defined all those in transportation as my competitors (too broad). If I say "transportation by bus between these two cities" (...) (too narrow). If I say "transportation between city A and city B", then I will look at the trains, taxis, other buses, anyone offering transportation between these two cities" (Simcoe, 2009). Then, it is possible to know what product, price, placement and promotion strategies has to be use the answer to people wants and then achieve a sustainable competitive advantage (Simcoe, 2009).

Within market there are segment. A segment is defined by its features and benefits (Simcoe, 2009). "Within the time measurement market there are segments of wall clocks, wristwatches, and other mechanisms. If a company makes only wristwatches, then this is their entire market, and segments could be men and women, dress, and children's watches" (Simcoe, 2009).

Philip Kotler says that there are 10 types of entities that can be marketed: goods, services, events, experiences, persons, places, properties, organizations, information and ideas (Kotler & Keller, 2012). In this thesis which is related to the music industry, we will look at persons that can be marketed (artists), events (concert), but also properties (musical works). Music can also be within Kotler's entities and be categorized as a good as well (Kotler & Keller, 2012).



Mr. Simcoe says that Marketing's function is to:

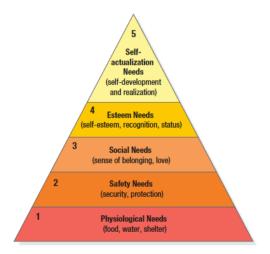
- Define market groups and find out what they want (Simcoe, 2009)
- Group different wants into categories segment (Simcoe, 2009)
- Select different want groups that the firm can best serve understand their belies and goals (Simcoe, 2009)
- Determine the "right" (from consumers' point of view) marketing mix (Simcoe, 2009)
- Alter the mix elements continuously in order to meet changing wants and circumstances (Simcoe, 2009)
- Achieve a competitive advantage (Simcoe, 2009)

From this definition of Marketing the goals-wants-beliefs are the sources of everything, the marketers try to understand them and then answer or influence them. This is the consumer buying behavior, it is now important to review the theory about it.

1.2 Consuming behavior

Every one of us has needs that marketing tries to satisfy and those needs can be prioritized by the Maslow's Hierarchy. This pyramid is divided in five parts that describes the needs. Each stage starting from the bottom, needs to be fulfilled to access the one above. The approach is based on psychology. The five stages are: physiological, safety, social (love/belongings), esteem and self-actualization need. All those are analyzed by the marketers leads to the buying behavior (Kotler & Keller, 2012).

Figure 2 - Maslow's Hierarchy of Needs (Kotler & Keller, 2012)





William Simcoe said: "Many books on marketing focus on needs and desires to lead to buying behavior, but this inaccurate. Needs gives rise to wants (and a desire is only a conscious awareness of an unfulfilled want)" (Simcoe, 2009). He beliefs that the buying behavior comes from people wants, beliefs and goals which is O'Shaughnessy's theory.

Below is O'Shaughnessy's diagram about the buying behavior. He says that "buying behavior, like all human, is purposive. Consumers in their purchases seek "the good life"" (O'Shaughnessy, 2015).

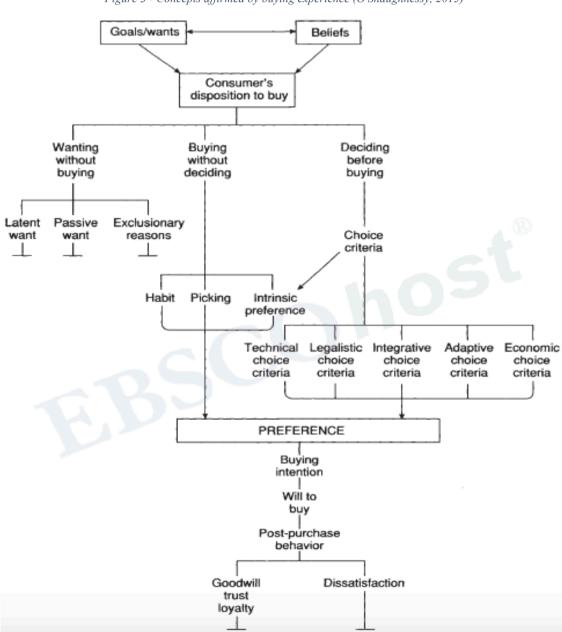


Figure 3 - Concepts affirmed by buying experience (O'Shaughnessy, 2015)

For O'Shaughnessy, the consumer's disposition to buy is based on the structure of goals, wants and beliefs, which is connected to behind all human intention action. All humans want to have a "good life", as it has been written previously this is the composition of the goal. In other words, when people buy a product or a service they expect to fulfil a goal: "having a good life" (O'Shaughnessy, 2015). For instance, our goals can be about being healthy, instead of sick or being entertained instead of being bored and so on. Those are goals in buying, which means for example that by buying medicine we expect not to be ill anymore and then to have a "good life".

There are two other parameters which are the reasons we then buy. Firstly the "want", also from O'Shaughnessy "*To want* "*X"* is to have a disposition towards using, consuming or possessing "X"" (O'Shaughnessy, 2015).

A belief can be about the benefit of having a product or its performance. To illustrate this theory Mr. Simcoe used a very good example in his article: "People need food. Now, if you're the only one with food, you will be successful, but then you don't need marketing tools. (...) People need food but they may not buy your food. They may even want your food (say potato chips) but may still not buy if this would conflict with their beliefs (they believe your food is unhealthy or fattening for example) and/or their goals (say, to be healthy or thin respectively, so marketing can then be used to shift their focus onto other features and benefits of the product" (Simcoe, 2009).

Wants, goals, beliefs are the three elements are the core of the buying behavior.

Music can be seen as satisfying the need and want of consumers desiring to "have a good life" or be happy and as noted earlier companies use marketing techniques to satisfy consumer needs and wants. In order to satisfy those needs and wants companies create products and service that provide value and one way companies achieve this is by developing business models that to outline value to different consumer segments. Now the business model theory has to be covered.

1.3 Business model

According to Alexander Osterwalder and Yves Pigneur, the definition of the business model is: "A business model describes the rationale of how an organization creates, delivers and capture value" (Osterwalder & Pigneur, 2010). Then, the business model can be used for every organization, institution and for the Music Industry. The business



model contains nine different elements: Customers segment, value proposition, channels, customer relationship, revenue streams, key resources, key activities, key relationships and finally cost structure (Osterwalder & Pigneur, 2010).

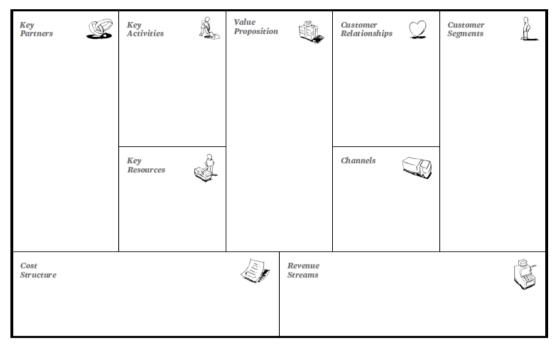
- The consumer segment represents the different groups of people that an organization, firm, company aims to reach. This is the center of the business model, as it has been reviewed before, every organization needs to achieve a competitive advance by creating value from people needs. Then, it is easy to see that the consumers take the largest place and the most important one. There are several types of consumer segments: mass market, niche market, segmented, diversified and multi-sided platforms.
- The value proposition is what this company or organization sells, product or services, in order to create value and answer to the needs.
- The channels represent how the company reaches its consumers to offer the value proposition (service or product), but also to communicate about it and create awareness.
- The consumer relationship shows the type of connection between the company and the consumer segment.
- The revenue streams are very important as well, as it is written in its title, this block shows the money that the company makes from each costumer.
- The key resources are the most important assets required to make the business model work. Those resources are indispensable in order to create the value proposition and then to reach the right market while maintaining with the consumer segment and earning money.
- The key activities define what the company must do in order for the business model to work. For example, a pharmaceutic company must do a lot of research and development to hold its competitive advantage, enter new market, create value and to answer to new needs.
- The key partnerships: in order to work, the business model always needs key
 partners such as suppliers or partners. Without supplier, it is not possible to
 create value. Then without those key partners the business cannot exist.
- The last point is the cost structure. As it is written in its name this block shows all the cost that implies this business model when creating value.



Those are all the blocks are contained in business model, this one can take the form of a *Business Model Canvas* which gives the opportunity to work easier on it. Here is an example.

Figure 4 - The Business Model Canvas (Osterwalder & Pigneur, 2010)

The Business Model Canvas



Valerie L. Vaccaro and Deborah Y. Cohn published an article "The Evolution of Business Models and Marketing Strategies in the Music Industry" that describes the all business models of the industry, the old ones and the new ones. To better understand the subject of this thesis, which tries to know if the Music Industry can rely on its new business model, built around the new streaming technologies, it is interesting to look at what they say and the Business Models they created. They are several models that can be created, as a publisher does not have the same one than a record company for example. But most of the blocks are the same.

Creating a business model does not mean that it will be profitable. Now, what must be covered is how can we define a business model that is or will be successful, in other words does it create revenues or not.



1.4 Business model viability

In order to be profitable a company has to sell its products or services, but to that they need to have consumer. According to David Skok there is three core elements for a company to fail: team, product and market that are usually being studied. But he believes that the reasons for failure (in this thesis Spotify and the other streaming platform) is the cost of acquiring consumers that turns out to be bigger than expected, and exceeds the ability to monetize those consumers (Skok, 2010). Then from his point of view he adds to the team, product and market and fourth factor which is the need for a viable business model. Business viability comes down for the balance of two variables:

- Cost to acquire new consumers (CAC) (Skok, 2010)
- The ability to monetize those consumers, or LTV (Lifetime Value of Consumer)
 (Skok, 2010)

This can be applied mainly in the web based business models. To know what is the cost to acquire new consumers, the entire cost of sales and marketing (even salaries) over given period must be added (Skok, 2010). Then, to calculate the Life Value of a Consumer, the expected margin gross from a consumer has to be calculated including any considerations such as support, installation and serving cost. Below it is the diagrams of an out balance Business Model and a well-balanced Business Model.

A well balanced business model

An out of balance business model

Cost to Acquire a Customer (CAC)

Monetization (ITV)

Monetization (ITV)

Figure 5 - Well and out-balance Business Model Diagram (Skok, 2010)

Those two diagrams, even if obvious, shows that the CAC should be lower than the LTV. This thesis will try to define what are the costs to acquire a consumer for the streaming platform and what is the monetization expected. Indeed, in 2015 even if Spotify revenues increased from 1 billion euros in 2014 to 2 billion euros in 2015 the loses increased as well which were 173,1 million of euros (Ingham, 2016). Since its creation, Spotify has never been once profitable (Ingham, 2016). On aim of this thesis will then be to know



at what point Spotify can be profitable, in other words, when the cost to acquire consumer will be lower than the monetization.

A second theory about the business model viability is the "Startup metrics for pirates: AARRR!" from Dave McClure. The approach, as it is written in its name analyses metrics to know if a business model is or will be viable. Those five letters refer to: Acquisition, Activation, Retention, Referral and Revenue. Again, this for the business based on the web (Microsoft RSLN, 2014).

- The first parameter is Acquisition, which mean "how do users find the website or platform?" The channels they used to go to the website or platform must be analyzed. It can be from add on social network, or google search and so on. Then what must be analyzed is what do they do on the website or platform and how long they stay on it (Microsoft RSLN, 2014).
- The second parameter is Activation, which can be related to "do users have a
 great experience?" If they have a good experience then they will subscribe for
 the newsletter for example or even create an account. The conversion rate is
 usually very low. See the example below on the diagram (Microsoft RSLN, 2014).
- The third parameter is Retention, "are the user coming back to the website or platform?" At this stage, the fidelity rate must be analyzed. To know that what can be checked is that are they opening your new letter for example, coming back on your website and staying etc (Microsoft RSLN, 2014).
- The fourth stage is Referral, "are the user ambassador of the platform or website?". If the users come back several time you have to analyzed if they speak about your platform or website and what they thing about, is there any word of mouth? (Microsoft RSLN, 2014)
- And the last stage is Revenue, "how does the platform or website make money?" this is the most important parameter of all this process and that is why it comes at the end, thought the all process the consumer had time to try the service and if he stayed until this stage he now wants it and he is willing to pay for it. It is only at the stage that we can know how much you can have from the number of user that went to our website or platform from the Acquisition stage (Microsoft RSLN, 2014).

Below is a table that show the percentages of conversion step after step from Ken Law. There is no true rule for this, it is estimation and to illustrate the process.



Figure 6 - AARRR Conversion Table (Law, 2015)

Stage	Conversion Status	Conv.
Acquisition	Visitors -> Site/Widget/Landing Page (2+ pages, 10+ sec, 1+ clicks = don't abandon)	60%
Activation	"Happy" 1st Visit; Usage/Signup (clicks/time/pages, email/profile reg, feature usage)	15%
Retention	Users Come Back; Multiple Visits (1-3x visits/mo; email/feed open rate / CTR)	5%
Referral	Users Refer Others (cust sat >=8; viral K factor > 1;)	1%
Revenue	Users Pay / Generate \$\$\$ (first txn, break-even, target profitability)	2%

In the research part of this thesis this theory will be used in order to know at what point Spotify will be able to make as they a free trail with advertising in order to make their user at some point pay. Then, this will be analyzed through the AARRR process.

1.5 Disruptive technology

As shown previously the new technologies had a huge effect on the music industry's business model. Therefore, it seems important to review the theory of Disruptive Technology. According to Clayton Christensen who is the architect of the theory, the disruptive technology "describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors" (Christensen, 2017). Usually, companies focus on the most demanding consumer and then the most profitable one, as they can charge the highest prices and neglect the other segments. It gives possibilities to new entrants, that can target those forgotten segments at the bottom. They can come up with an innovation that is disruptive, and then all the people from the bottom market can get access to a product or a service that before has only been only available for the people that have a certain amount of money or specific skills. Furthermore, if the quality of this disruptive innovation improves, it can take the market share of mainstream market, because the new product will have same features and

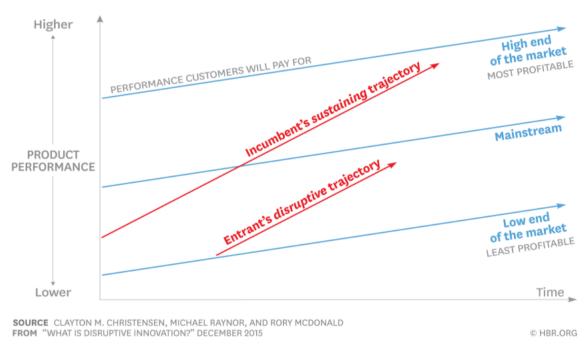


benefits, but a lower price (Christensen, et al., 2015). Below is the diagram from Clayton M. Christensen, Michael Raynor and Rory Mcdonald to explain the concept of disruptive innovation and how it works.

Figure 7 - The Disruptive Innovation Model (Christensen, and al., 2015)

The Disruptive Innovation Model

This diagram contrasts *product performance trajectories* (the red lines showing how products or services improve over time) with *customer demand trajectories* (the blue lines showing customers' willingness to pay for performance). As incumbent companies introduce higher-quality products or services (upper red line) to satisfy the high end of the market (where profitability is highest), they overshoot the needs of low-end customers and many mainstream customers. This leaves an opening for entrants to find footholds in the less-profitable segments that incumbents are neglecting. Entrants on a disruptive trajectory (lower red line) improve the performance of their offerings and move upmarket (where profitability is highest for them, too) and challenge the dominance of the incumbents.



Let's take an example to better understand, in 1971, IBM had a market share of 75% of the world mainframe computer market. They specialized in producing software and big computer machines. But during the 70s and 80s, IBM faced some huge problems, the first big problem was that the market, that IBM was in, was starting to be more mature, which means that there were no growth possibilities anymore. But there also was a second problem: its competitors started offering low-cost mainframe systems. IBM did not take that into consideration and they focused even more on the big mainframe computer and let its competitor sell their mainframe system to the bottom of the market. Before this selling strategy of IBM's competitor, it was impossible for the majority of consumers to buy a computer, due to too high prices and that the systems were only focused on companies' needs. IBM thought that its computers, that were bigger and then more expensive, were more profitable. Following, DEC and Apple could offer the



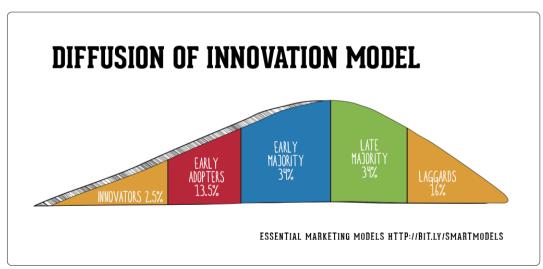
same capacities with smaller PCs and at a lower price. Which to this situation, in 1985, the North American market share of IBM was at 37% and in 1992 decreased to only 12%. The competitor with their disruptive technology took the market of the leader. It is not always like that sometimes/often the disruptive technologies fail. What we can say about this example is, that the disruptor is Personal Computer and the disruptee is mainframe computer.

This theory of the disruptive innovation leads this review the diffusion of innovation. Indeed, it is possible to now and to analyze at what stage of its life a product or service is in. It is then important to cover the diffusion of innovation.

1.6 Diffusion of innovation:

This leads the diffusion of innovation; this theory was created by Everett Rogers. He describes a product's innovation life cycle. As you can see below this diffusion process is composed of 5 stages (Vliet, 2014). Each stage is a different user group, that may accept the new product or service. The cycle can determine the success of a product. It can also be used by the marketer to adjust their promotion or the price following in what stage the product is in (Hanlon, 2013). The five groups are: Innovators, early adopters, early majority, late majority, laggards (Vliet, 2014).

Figure 8 - Diffusion of Innovation Model (Hanlon, 2013)





Let's now go a little bit deeper into each group according to Everett Rogers:

- The innovators: it is the smallest group, they want to be the first, whenever an innovation comes out, to try it. They usually like taking risks, they are also trend setters and they can increase the sales.
- The early adopters are possibly the more important group. They are considered as opinion leaders, then they share their positive opinion or negative opinion about the product or the service. That is why they are very important, because as a marketer you can know if an innovation is going to work or not, but also improve it in order for the early majority to adopt it. They can provide guidelines on how to use the product.
- The early majority prefers to wait and see what the early adopters say about an
 innovation. When this group has been reached, the product or service is very
 popular and then at some point, when the demand has reached its highest point
 the demand will decrease.
- This will lead to the late majority group, they prefer to be able to have a lot information before taking their decision and they also wait in order to be able to compare. As the product is now very famous, they have all the information they need to take their decisions.
- Finally, the last group is the laggards, which tend to like innovation. The reason they buy the product so late might be, because they wait for the price to be at the lowest (Vliet, 2014).

By analyzing this process, it is possible to know at which stage the product or service is and then change the strategy or create an innovation, when the old product is the beginning of the early majority, as it is known that the demand will reach its highest point soon after the late majority. By analyzing the diffusion of innovation process, it is then possible to manage his product portfolio in order to always have one product or service in the early majority or late majority of the process (Simcoe, 2009).

1.7 Long Tail Theory

In 2004, Christ Anderson, editor-in-chief of the Wired Magazine published his research on the "Long Tail Theory". This research states that, thanks to digitalization, the future



of the entertainment industry will be as much in the niche, than the "hits", the mainstream markets (Guadamuz, 2015).

According to Christ Anderson, "Many of our assumptions about popular taste are actually artifacts of poor supply-and-demand matching – a market response to inefficient distribution" (Anderson, 2004). He described two main issues about the physical world about its limitation. Those are:

The first need in the physical world is the audience. Indeed, a company in the entertainment industry needs to have a large audience in order to make profit. They have stocks limitation and cost limitation, for example, a CD retailer cannot take the risk to have a CD in stock, that would only sell a few times a year. According to Christ Anderson "An average movie theatre will not show a film, unless it can attract at least 1,500 people over a two-week run; that's essentially the rent for a screen. An average record store needs to sell at least two copies of a CD per year to make it worth carrying; that's the rent for a half inch of shelf space". Consequently, the offer is restricted to the "hits" and the consumers do not have a large choice and it is very hard for the niche to get famous or make money because they are not represented in shops. (Anderson, 2004)

The second restriction from Christ Anderson is physics. For example, there are limited amounts of radio stations, of TV and because of those physical constrains and they can only be filled 24 hours per day. This restricts again content that might be available and then the consumers have access only to the mainstream content, as if it was possible to have more, they would have more choice. Because of the physical constrains, the biggest audience possible cannot be reached. Another physical constraint, as it has been exposed before, is also the available space in the brick and mortar shops. And it is still possible to see this constraint today - the cinemas or the radios play only the biggest hits. (Anderson, 2004)

But for the last 20 years something has changed: the apparition of the digital world. Thanks to that, the costs of distribution and production fall, particularly online, but also the physical constraint tends to disappear. The consequence of this, according to Christ Anderson is: "One example of this is the theory's prediction that demand for products not available in traditional bricks and mortar stores is potentially as big as for those that are. But the same is true for videos not available on broadcast TV on any



given day, and songs not played on radio. In other words, the potential aggregate size of the many small markets in goods that don't individually sell well enough for traditional retail and broadcast distribution, may someday rival that of the existing large market in goods that do cross that economic bar" (Anderson, 2006). This new system enables us to move from a "world of scarcity" to a "world of abundance". Christ Anderson looked at Rhapsody, which is now known as Napster. It is a subscription based music streaming service that offered, when he researched on it, more than 735,000 tracks (Anderson, 2004). What was found out, is that on this platform the demand curve was similar with the one in the bricks and mortars stores. This means that the demand was huge for the hits and then a quick decrease for the less popular. What he found out is, that if we look below the 40,000 first tracks (which represents the amount of content available in the physical world) the demand does not stop. Also, in the 400,000 top tracks they all have been streamed one time in a month while in physical world only 40,000 tracks would have been available (Anderson, 2004). According to Christ Anderson this shows that the non-hits (which are theoretically infinite) could be as much profitable as the hits. These non-hits are the Long Tail, below you will find Anderson's diagram (Anderson, 2004).

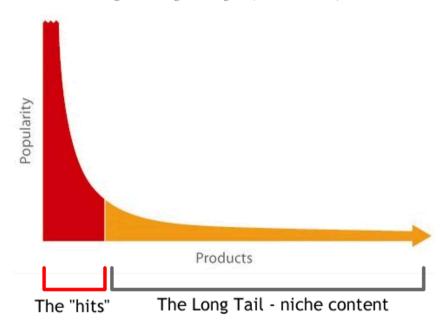


Figure 9 - Long Tail Diagram (Guadamuz, 2015)

However, some other researchers from the blockbuster approach criticizes the Long Tail theory. Anita Elberse is a huge author about this approach, she believed that the producer should only focus on producing hits, as it is less risky and more profitable (Guadamuz, 2015). Then, she looked at the data from Anderson and found that "the top 10% of titles accounted for 78% of all plays, and the top 1% of titles for 32% of all



plays." This may disapprove Anderson's Long Tail theory. The question now is: "Is the Long Tail dead?" (Guadamuz, 2015). In some parts of the industry of the entertainment such as books, film and TV, the phenomena have been exaggerated. But Netflix is a good example to show that it existed - some series, such at Sense 8 would not have been created by any mainstream producer (Guadamuz, 2015).

On the contrary in the Music industry it seems that the Long Tail does not exist yet and it is still a Blockbuster industry even with the emergence of on-line streaming platform (Guadamuz, 2015).

However, it is possible that the music market it is at its early stage of the diffusion of innovation through the streaming. It might be between the innovator and early adopter stage. Consequently, the Long Tail cannot take place yet (Guadamuz, 2015). And it may be possible that it will appear later as the people will listen to music through this channel. This part will be covered in research (Guadamuz, 2015).

1.8 Pareto's Principle the 80/20 rule

Vilfredo Pareto is Italian economist, he created in the beginning of the 20th century the 80/20. At the beginning, it was based on the fact from his observations that 80% of the money of Italy belonged to 20% of its citizens. And what this rule is about more generally is that in life thing are not distributed equally (Better Explained, 2007). In the business field this means that 20% of your effort gives you 80% of the result and what is interesting for this thesis is that 20% of consumers or products give you 80% of your revenue (Better Explained, 2007). Below it is a diagram to illustrate this theory.

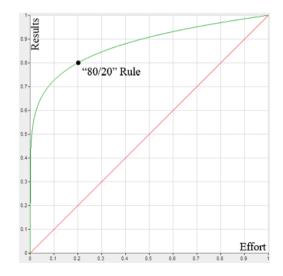


Figure 10 - Pareto Principle (Better Explained, 2007)



This theory might then go against Anderson's Long Tail Theory. Because it would mean that 20% of the artist on the market (Spotify, Deezer, Apple, etc.) generate 80% of the industry revenue. Which is not at all what Anderson thinks, it is even the opposite of what he thinks. This thesis through interviews and data analysis will try to know which of this theory is the more relevant.

Now that a quick review of the theory needed for this thesis has been done, it's possible to move on to the research part. But first a definition of what is a research and how it should be conducted must be done. This leads the development to the next part: the methodology.



2. Methodology

The purpose of this thesis is to define the new business model of the Music Industry and the new actors in the industry, but also to try to know if it is viable or not. This research will also cover the future of this business model and its limitation. The different theories that have been covered in the literature review lead to a research plan. It is now important to understand how the research has been conducted.

2.1 Research Design

From Philip Kotler and Gary Amstrong, a marketing research is "the systematic design, collection, analysis and reporting of data to a specific marketing situation facing an organization" (Kotler & Gary, 2010).

Firstly, a research design is a set of guidelines, in order to collect the data and the analyze it for a project, in this case the thesis (Malhotra, 2014). It provides the framework for the research by specifying the type of information collected, where they come from and the collection procedure (Malhotra, 2014).

Secondly, there are three type of researches: exploratory, descriptive and casual research. The exploratory research aims to gather preliminary information in order to define the problem and suggest hypotheses (Kotler & Gary, 2010). The descriptive research, as it is written, is used to describe marketing problems, environment, competition, situation or market etc. (Kotler & Gary, 2010). The casual research aims to test hypotheses about a cause and effect relationship (Kotler & Gary, 2010).

By comparing those three researches for this thesis, the most relevant seems to be the exploratory research, as the research will determine the new business model of the industry and try to know if it is viable or not. Therefore, from this analysis it will be possible to determine some hypotheses about the future of this business model and its evolution.

There are two types of information: secondary data and primary data. Secondary data are information that "already exit somewhere and that have been collected for other purposes" (Kotler & Gary, 2010). Primary data are information collected for the research



that is being conducted by the researchers (Kotler & Gary, 2010). In this thesis, secondary data will be used (example: data from the International Federation of the Phonographic Industry (IFPI), articles, news etc.), but also primary data will be used, as an individual depth interview has been conducted for this research.

2.2 Qualitative and Quantitative data collection

By the need of searching primary data, the researchers have two ways to do it: qualitative and quantitative research. The qualitative research "provides a holistic view of a research problem by integrating a larger number of variables, but asking only a few respondents" (Hollensen, 2011). The quantitative research "is based on questionnaires from a large group of respondents" (Hollensen, 2011). The diagram below gives an overview of the two different ways of doing the data collection.

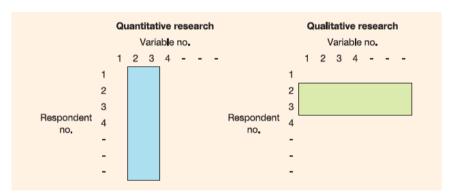


Figure 11 - The trade-off in the choice between quantitative and qualitative research (Hollensen, 2011)

The primary data collected for this thesis has been a qualitative research and no quantitative research with a large number of respondent has been conducted. The objective of the qualitative research is to "gain an initial and qualitative understanding of the underlying reasons and motives" (Hollensen, 2011). Moreover, the qualitative research is usually used in the exploratory research (the one that has been conducted for this research) (Hollensen, 2011). The topic of this research is very precise and needs a lot of knowledge of the music industry to answer to the questions, it was more relevant to interview people that are experts in this domain than lot of people that do not know anything about it and for qualitative research it is important to interview "keys informant" (Hollensen, 2011).



For this thesis one person has been interview: Sebastian Karlsson. He is the product manager of BMG Scandinavia in Sweden. BMG is one of the biggest publisher and record company in the world. It was relevant to interview Mr. Karlsson because of his expertise and his job location. Indeed, this thesis covers the impact of the streaming platforms on the music industry and as Sweden is the leading country in the world on this point (IFPI, 2016) it was relevant to have the answers of someone that works with those platform on his daily life. Interviewing lot of people that have no expertise on this field would not have been relevant at all. Moreover, to understand the impact of the streaming platform a case study of the market in Sweden have been made in the research so it was another point that the respondent had to work in this area.

The interview has been divided into 6 sections:

- 1. Music industry changes
- 2. Marketing and consumer behavior
- 3. Business model and viability
- 4. Diffusion of innovation
- 5. Long Tail/ Pareto's Principle
- 6. Limitation and Disruptive technology

The first section was more like an introduction of the interview and was made to have global information of the industry and its recent changes. The second section has been made to focus on the marketing and consumer behavior in the music industry. It covered the different markets and segment in the industry, but also the consuming behavior towards music and how the streaming platform changed the way of doing marketing for Mr. Karlsonn. The third section covered the business model of the industry and Mr. Karlsonn defined the different actors of the industry which will be used to create the business model. Then he answered his point of view of the viability of the new business model as an expert. The fourth section covered Spotify and at what stage of the innovation process it is and how it will change in the coming years. The fifth section covered the opposed two theories: The long Tail theory and the Pareto's principle. The respondent gave his opinion about which one is true right now and which will be true in the coming years. And the last section covered the limitation of the business model but also how it can be improved in the future. This section also covered the impact the Block Chain could have on the industry.



The interview was more like an open discussion between the interviewer and the respondent about general facts and the point of views of Mr. Karlsonn. However, the whole survey that has been used to conduct this interview is available in the appendix of this thesis.

2.3 Limitations

The main limitation of this thesis is the fact that only one interview has been conducted. Mr Karlsonn, as an expert on his field, gave very good and interesting information that will give a very good overview of the industry and answers to the future of the industry. However, it would have been better to have other points of view too, as they may have been the same but also completely different. To minimize this affect, the answer Mr. Karlsson gave will be compared to articles from the Financial Times and other newspapers but also reports from the IFPI on the importance of the streaming platform. Also, other secondary data will be used to either illustrate or challenge Mr. Karlsson answers.

The fact that only one person has been interviewed can be justified with the problem of finding people that take some of their time to answer to questions and this is accentuated by the fact that there are not a lot of people working in this industry and as those people are then rare it is very challenging to have the opportunity to meet them. Moreover, this thesis is a Bachelor thesis that has been conducted in 4 months due to the deadline of the home university of the thesis writer, by consequence unfortunately is was not possible due to lack of time to conduct other interviews.

Another limitation is that no member of Spotify has been interviewed. The thesis writer tried several times to contact them but received only negative answers. It would have been interesting to have their point of view on the situation. However, data from their website will be used. This can be also a limitation as the information they provide might not be too accurate or detailed, as it is in their own interest to give only positive information and opinion about themselves.

The last limitation is that as the thesis is an exploratory research it will only give hypotheses about the problem of the industry and an overall overview. But again, this can be explained by the lack of time as it is only a Bachelor thesis.



3.Results

3.1 Why do we listen to music?

This is a very broad question and there is a lot studies and research on this topic. For this topic, only one research and Mr. Karlsson's opinion will be used to answer to this question. Beforehand, it is important to understand why we listen to music before going further, as the fact that people listen to music created the business around it. When this will be covered, it will be easier to understand the changes that occurred.

In 2011, Adam J. Lonsdale and Adrian C. North did research, trying to understand "Why do we listen to music?" From a uses and gratification analysis (Lonsdale & North, 2011). Overall, this approach tries to understand, how people use media, in order to satisfy their needs and gratification. In this case, the source of media is music. This approach does not focus on how the media influences the people, but it focuses on how people use media to serve their needs. It implies that people are not only passive recipients. Adam J. Lonsdale and Adrian C. North did four researches. The first study is about "why do we listen to music?", so they asked 300 undergraduate students (150 males, 150 females) between 21 and 31 years old (Lonsdale & North, 2011). The second study focuses on ""Is music special?" A comparison of the uses and gratifications of music and other leisure activities". They interviewed 117 undergraduate psychology students (27 males, 90 females) (Lonsdale & North, 2011). The third study is "Why do we listen? A qualitative analysis" with 189 psychology undergraduates (148 females, 41 males). And then the last study is called "Reasons for listening to music a cross-sectional study", with 700 participants from colleges, universities and from members of the general public (Lonsdale & North, 2011). This study gives a very good idea of why people listen to music and then buy music which relies on the consuming behavior seen previously. The main results that have been found are:

In the first study the researchers focused on the reasons why people listen to music and what has been found is that people listen to music first and regulate their moods, but also to distract them from everyday boredom as well as to pass the time (Lonsdale & North, 2011). Those are the main reasons that participants named and those answers can be viewed as goals and wants. Indeed, it has been seen that people have goals, which rely on having a good life. Managing or regulating emotions describe this goal, as no one wants to be sad for example.



The second study tried to know if music was more important than eight other leisure activities through six factors. The findings were, that in for all those factors listening to music, except for two of them ("interpersonal relationship" and "surveillance"), was better than the other leisure activities at answering to people needs (Lonsdale & North, 2011).

The third study was an open-ended qualitative research and it was used to investigate on reasons for listening to music. The outcome was that people listen to music to "manage their moods, to provide background noise to accompany another activity, to participate in musical behavior, to reflect on the past, to enjoy the music, to encourage social interaction, and as a distraction" (Lonsdale & North, 2011). Those answers resemble the ones from their first research.

The last research was on trying to know if people listen to music for different reasons, according to their age. The two researchers themselves think that the finding for this research are not relevant enough, so it will not be used in this thesis (Lonsdale & North, 2011).

From those researches can be said, that people listen to music primarily to manage and regulate their moods, which can be described as our main goal, which is: "not to be sad and have a good life". People believe that music will make them happy, then they want to listen to a certain type of music. Music is part of our life, it is everywhere no matter if you want it or not. Also, it has been proven that in comparison with other leisure activities, music is the most important one and can serve more individual different needs than the other (Lonsdale & North, 2011). This supports the fact that music is very important to us.

Mr. Karlsson preferred to use Maslow's Pyramid of needs to tell why we listen to music. First of all, he thinks that music is something that cannot really be explained, it is a psychological need. In his opinion, music is connected to certain feelings and periods of your life - he took the example of the song he was listening to when he graduated, and that he still remembers. To connect that to Maslow's Pyramid, he classified music as a social need and esteem need, as he said it can depend on the person. He states that it is a social need, because music helps socializing. Indeed, teenagers for example can create groups of friends, according to their music taste Additionally, in the world and society we live in, one "should" know what the hit is, in order not be a "looser". But it is



also an esteem need, as some people may see bands as their friends, that help go through the difficult moment of their life.

Now that it has been seen that music is very important, it is possible to understand why a business has been created around it. In the following, this will be analyzed, which is necessary to understand the recent changes and why they might be problematic for the future.

3.2 Industry Analysis

First of all, it is important to analyze the music industry, its markets, its revenues stream and then analyze Spotify thought the researches that has been done and from the theory seen in the literature review.

Then, the new business model of a record company will be defined from the industry analysis and the interview that has been conducted. This business model will be tested through its application in Sweden. Indeed, Sweden is a precursor in the use of the streaming platform, so it is interesting to see if it works or not in this country. From this case study, it will then be possible to know if it is viable or not and if there are changes needed, or what changes could occur in the coming years.

3.2.1 Market Analysis

As it has been said previously, in 2015 the music industry grew by 3,5% thanks to the new streaming technology (Rauline, 2016). It is now important to quickly describe and understand the different types of revenues for the industry and thereby understand the importance and the growing power of the streaming platform. In order to be able to do that a market analysis is needed.

The music market is the fact of selling music through or delivering music, the CD sellers operate in this market, same as Spotify or iTunes, they are all competitors. In other words, the function of this market is to sell music.

This market can then be divided in two parts: the digital market place and the physical. Those are composed of different segments that correspond to certain features and benefits wanted by the consumers, as it has been seen in the literature review. The physical segment is composed of the CDs and Vinyl.



While the digital segment is composed of the streaming platform but also the downloading such as ITunes or the illegal ones: Torrent etc. In 2015, the downloads revenues decreased by 10.5% while the streaming revenues grew by 45.2% (IFPI, 2016). Those two form the digital revenues. In 2015 in the US, the consumption of the music streaming grew by 93%. Below is a diagram that represents the growth of the streaming segment from 2011 to 2015.

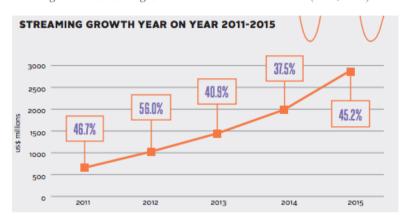


Figure 12 - Streaming Growth Year on Year 2011-2015 (IFPI, 2016)

This shows the exponential growth of the streaming platform as well as the growth of the demand from the consumers, to consume music by using those platforms. According to Mr. Simcoe's Marketing System, that has been seen in the literature review, what has apparently changed is the **P**lacement where the music is available, but the **P**romotion might have changed as well. This diagram represents a situational factor, which is the demand of consuming music through the streaming platform. From this situational factor, the companies in the industry can then create value and/or a sustainable competitive advantage, this will be covered later in this part. In order to get to this point, an analysis of the revenue must be done.

3.2.2 Revenues Analysis

The total revenues of the worldwide music industry were \$15 billions in 2015 while in 2014 it was \$14,5 billion (SNEP, 2016). In 2015, the revenues of the digital overtakes the physical with 45% of global (IFPI, 2016) revenues and the global digitals revenues grew by 10,2% (IFPI, 2016) . While the digital revenues were increasing, the physical



revenues decreased by 4.5% (SNEP, 2016). The digital revenues represented \$6.73 billions in 2015 and the physical revenues \$5.82 billions (SNEP, 2016). The streaming revenues grew by 45.2% in only one year and represented 43% of the digitals sells (IFPI, 2016) while the revenues of the downloading decreased by 4.5%. The other revenues came from the synchronization and the performance rights respectively the represented 2% and 14% of the revenues, which represented \$0.4% and \$2.1 billions (IFPI, 2016). On the right the diagram represents the different revenue streams of the industry in 2015 in percentages and below it represents the evolution of those revenue streams from 2005 to 2015 in billions of dollars.

GLOBAL REVENUES BY SEGMENT 2015 (US\$ BILLIONS)

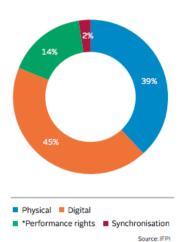
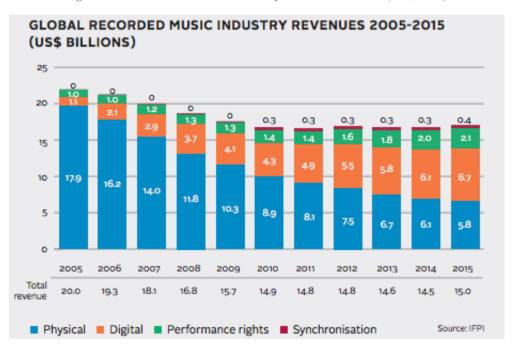


Figure 13 - Global Revenues by Segment 2015 (IFPI, 2016)





By doing this we can see the exponential importance of the streaming platform in the music industry. Indeed, the growth of the industry in 2015 comes from those streaming platform. Now, let's shortly analyze Spotify and how it works.



3.2.3 Spotify Analysis

Spotify is a music streaming platform that was created in 2006 (Nicolaou, 2017). It is a Swedish company that leads the streaming market with 50m paid users in March 2017 and 100m active user (June 2016) (Spotify Press, 2017) ,while Apple Music, the second streaming platform in the world, had 20.9m users in 2016 (Nicolaou, 2017). They offer over 30 million song and 2 billion playlists in 60 countries all over the world (Spotify Press, 2017). Spotify offers to ways to listen to music, the first one is free, but the user has to listen to advertisings between two songs, the second is subscription based, around €10 per month with unlimited access to their music data base.

Spotify revenues in 2015 €1.945 billions, which represents a growth of 80% compared to 2014 where the revenues were €1.082 billions (Ingham, 2016). This seems very impressive and like a very profitable company, but the problem is that Spotify has never been profitable since its creation. In 2014, the losses were €162.3 million and in 2015 they were €173.1 million (Ingham, 2016). Even if the losses grew slower than the revenues, it is an issue as the growth of the whole music industry reposes on the streaming platform, as it has been seen before.

In 2015, Spotify payed €1.63 billion to the music industry as royalties and in 2014 they payed €882.463 million, which represents a growth of 85% between the two years (Ingham, 2016). What can be said is that the more Spotify makes revenues, the more they have to pay royalties, but is this viable?

Spotify gives back the money to the different actors of the industry. Spotify only keeps 30% of its revenues for themselves, the other 70% are divided between the different

actors of the music industry. How do they divide it? They split them according to the amount of songs listened (Oeillet, 2014). For example, let's say that the total amount of listened songs is 1 billion, one artist has 1 million listened. What they do is that they divide 1 million by 1 billion which is 0.001. It means then that this artist will get 0.001% of the 70% of Spotify's revenues.

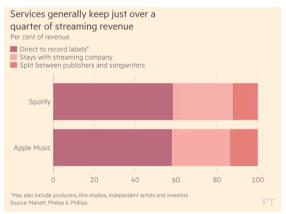


Figure 15 - How streaming platform divide their revenues (Nicolaou, 2017)



The interviewee Mr. Karlsson, he thinks that when Spotify was launched, its competitive advantage or value proposition was its catalogue and its freemium proposition. What it means is that you can listen to music as much as you want and for free and this was a completely new way of approaching the consumer. But according to Mr. Karlsson the problem is that this competitive advantage has been and can be copied nowadays, for example Apple offers the same catalogue at the same price. His point of view is that their competitive advantage is, that they had already a huge place on the market and are very well known from the consumers. Also, he thinks that it is very hard to move to one platform to another, because you lose your playlist, the artists you follow and that is Spotify's competitive advantage. His point of view is that Spotify did their app as Apple would do, which means it is very easy to use and you do not have to think about how it works. On the contrary, he tried Apple Music and he thinks that they did not built their App the Apple way, indeed, it is very complicated and not easy to use. This also, the value proposition of Spotify.

In a larger way, the streaming platform value proposition or competitive advantage is the fact that they offer huge amount of music for 10 euros per month while a CD cost around 15 euros for only one artist.

From the interview conducted, it is possible to say that the streaming platform came from a need from the consumer, but also from the industry that has to create something to counter the piracy and the losses of the industry. Mr Karlsson thinks that we are at the point that people do not want to pay a lot to have a limited access to something. We are in the process that people want to pay less for more content available. The consumers do not want to spend too many time in looking for things, even for the music, they do not want to have to make their own choice it has to be easy. Spoftify and the other platform understood that and created their service. Indeed, they create playlist with songs that lot people like and then it is easy for the users and it cost them only 10 euros per month. Then Mr. Karlsson thinks that this change came for both, the consumer and the industry.

Mr Karlsson thinks that from his daily job, the segment in the market that is the more Spotify oriented, is the 18-25 years old. This is one of the limitations of the streaming platform for some reasons. This will be covered more in the case study about the importance of the streaming platform in Sweden.



An article published on the Harvard Business Review by Maxwell Wessel called "Why Spotify will kill ITunes" says that Spotify is a disruptive technology (Wessel, 2011). Even if this article is a bit old what it is said inside has been showed as true today. Wessel says that ITunes was also a disruptive technology, indeed, the author used to hire Tower my Records to deliver music to him because he values their music collection and their localization (Wessel, 2011). But after ITunes was introduced, it beat Tower my Records in selection, convenience and price (Wessel, 2011). As the service was based online there were no limitation in inventory anymore and the prices were lower. A decade later Spotify was lunch in the US. "Based on the job of delivering music, Spotify completes the job of delivering music in much the same way as iTunes does" (Wessel, 2011). Spotify was well located and compatible with computer, smartphone and tablets. But even if it seems that Spotify was better than ITunes it was not the case yet. At this moment, Spotify had 12 million tracks available which was less then than ITunes. Even if Spotify was maybe easier to use, ITunes was still proliferating. According to Wessel: "this is the nature of what Professor Christensen calls low-end disruption" (Wessel, 2011). It is based on the theory that has been reviewed in the literature review. At the beginning, disruptive technologies fail to deliver a superior offering than the actual technology in one or more of the characteristics. But consumers at some point will switch to the new technology because the disruptor has a systematic advantage in one or more characteristics (Wessel, 2011). In Spotify case the advantage is the price, indeed, ITunes and Spotify both deliver music though the internet, but Spotify is based on the principal of a radio. It means that for \$10 a month it possible to access to as much music as it is available on the platform, and no matter how many times the songs are played the price will remain the same. While in ITunes you have to buy the music you want but you do not have access to all the music on the platform. Wessel says: "Though Spotify did not pioneer this disruptive innovation, it is the first-time mainstream media is exposing the American public to it. And we know it's disruption because it is a business model, fundamentally advantaged in one of the characteristics we value in completing the jobto-be-done. Over time this model will displace iTunes. We've seen the future, because that's what disruptive theory lets us do" (Wessel, 2011).

This has been proven today as Apple had to introduce the same model of delivering music: Apple Music in 2015 (Apple, 2015). Indeed, ITunes was not profitable anymore then they had to adapt to the competition and to the consumer needs and wants.



Now, that an overview of the industry has been given, it is possible to build a business model of the industry from the data collected until now and the interview with Mr. Karlsson. Then, this new business model will be tasted in a case of the Swedish music industry as they are the first ones that adapted to this new model.

3.3 Music Industry Business Model from a record company perspective

It is now possible to create a Business Model from the theory seen in the literature review. This Business Model will be created from a record company perspective, as it will be analyzed in Sweden from this perspective in order to know if it is viable for the record company or no. The Business Model will be created from the data collection that has been done previously, the interview with Mr. Karlsson and from the knowledge of the thesis writer as he had the opportunity to work 8 months in a record company in France. Each of the 9 groups that define the Business Model will be explained and then summarized under the form of a Business Model Canvas.

The first group is the consumer segment, in the case of the music industry it is the music market or mass market. Indeed, as it has been seen in the first part of the results, we all listen to music and it is important to mainly all the people. In the case study of Sweden some segments will be showed as more Spotify oriented. But at this point the consumer segment is the large music market for a major record company.

The value proposition of a major record company is hits or potential hits. In other words, what the record company tries to create and offer to the consumer, is music that the majority will like in order to make profit out of it. Some songs will become hits some others will not.

The channels in the music industry represent one of the biggest change that happened. Indeed, there are lot channels than before. The social media are the biggest changes for Mr. Karlsson. Indeed, anyone can communicate about the music he likes or follow the life of an artist we like. It changed a lot their way of doing marketing and created lot of noise that they have to go through in order to make an artist famous. This will be covered in the case study. The radios and TV are still a very important channel - without them playing the songs of record company it is very hard to make them famous. Mr. Karlsson also believes that the streaming platforms now work as radio - with their playlist



and their top hits. This gives the streaming platform a huge power as the radio have. The brick and mortars shops still have a certain influence in the world but in Sweden there are just a few, it is the same for the show case it is important to still do show case at the beginning of the process, but they are not very important anymore.

The consumer relationship has then changed a lot too. Indeed, thanks to social media, people want to know everything about the artists, they consider them as friend. The role of the record company then is to fill those social media with information about the artists. There is so much information nowadays, that if the artists are inactive for a few days, then they are forgotten. Mr. Karlsson said, that nowadays it is not possible just to do some promotion before the release of a new album like in the old times, the artists have to be active even between two albums and they have to give content (new songs for example) to their fans, in order not to be forgotten.

The revenues streams have changed a lot as well. As it has been seen, worldwide in 2015 the streams represented 45% of the global revenues while the physical revenues were 39%. The revenues stream has been already discussed previously and they are: digital revenues, physical revenues, performance rights and synchronization. The point of this thesis is to know if the digital revenues, as they are growing, are viable or not in the future and this will be determined by the case study in Sweden.

The key resources did not change a lot since the apparition of the streaming platform. The artists are the resource needed, but also the back catalogue of the record company, because if the artists they have are famous the more they will make profit.

The purpose of a record company is to sell music and in order to achieve this, they need to have a good artist and repertoire development, in order to find the new stars. They also have to do a lot of marketing to create the imagine they want to create towards the artist and then promote it. This has changed the apparition of internet and will be covered in the next part.

The key partners have changed a lot with the appearance of internet. Indeed, some very important partners emerged. As it has been said, Mr. Karlsson states that now bloggers and YouTubers are very important, in order to make an artist famous. It is not only about



the press officers that will deal for an article in a new paper anymore. And the problem is that anyone can talk about your artist nowadays. The streaming platform are a channel, but then also a very important partner as the brick and mortars used to be. Indeed, they can choose which artist will be available or not on their platform, and as people cannot switch easily from one to another it can be a problem. It can also be the opposite and then some artist can refuse to appear on those platforms, such as Taylor Swift in 2014. She refused that her songs would be available on Spotify, because she does not think that "music streaming services appropriately value her art" (Engel, 2014). Radios are an important partner for the same reasons than Spotify. Mr. Karlsson also thinks that, as partner brands are still very important and that it is very good for an artist to be attached to a brand, as it help gives visibility.

The last block is the cost structure - the record companies have huge costs such as: marketing and promotion, subsidizing unsuccessful artist, the royalty payments that they have to give to the writers of the songs and also all the investment that has to be made around an artist.

The aim of this thesis is to know if this last block, the costs, can be covered by the streaming platform, which are the digital revenues in the block revenues. To do that an analysis of the Swedish market will be done. Below is the Business Model Canvas of a record company nowadays from the development made above.

The Business Model Canvas Value Key Partners Key Activities N. Customer Segments Customer Relationships sition Marketing (Promotion) Streaming Consumer Music market Artiste and Hits want to be part Mass market Potential hits of the life of Development YouTube Bloggers Brands Channels Key Social Media Artists Tv – Radio Brick and mortars store Catalogue Show cases Concerts Structure Streams Subsidizing unsuccessful artist Physical revenues Royalty payments
Investments around artist

Figure 16 - Business Model Canvas of a Record Company Nowadays

3.4 Case Study of the Business Model in Sweden

3.4.1 Key situational factors of the Swedish market

In Sweden, the streaming platform has been a partner and very important for several years now. In 2015, the market share of the digital market in Sweden was 85%, while in France for example it was only 38% (SNEP, 2016). Sweden had the biggest market share for the digital in the world. In those digital revenues, the streaming represented 97% of the revenues, while the downloading represented only 3% (SNEP, 2016). Mr. Karlsson believes that this year in 2017 the market share of the digital revenues will represent more than 90%. In 2015, each habitant of Sweden created \in 12,4 from the streaming platform for the industry, while in Germany it was only \in 4.1 \in per habitant (SNEP, 2016). The turnover of the industry in Sweden in 2014 was \$169 million and in 2015 \$182 million, which represents a growth of 7,7% in one year (SNEP, 2016).

Mr. Karlsson thinks that Spotify saw Sweden as a test market for their technology and that is the way they now represent the biggest revenue for the music industry. He thinks that it has been possible first of all, because Spotify is a Swedish company but mainly because in Sweden the development of the high-speed internet has been very quick compared to the other countries.

From all those situational factors, it is clearly obvious that in order to know if the streaming platforms are the solution for the music industry, it might be obvious that "yes, it is the solution" when we see all these positive numbers. But first the changes due to the apparition of Spotify in Sweden will be discussed and analyzed from the interview conducted. In other words, how the marketers in the industry had to adapt their Marketing Mix (see literature review).

3.4.2 Changes due to Spotify

All this area will be covered by the interview done with Mr. Karlsson. From his point of view, the digital revolution has affected everything: the way they do marketing, before signing artist they have to think carefully, having a good voice is not enough anymore, but it changed also the decision with which partners they should work with. Let's take the example of signing a new artist, when it comes to that, the artist has to be driven,



to have an idea of what he wants to do and he has to be proactive, Mr. Karlsson said. Indeed, thanks to the digital platform basically everyone can create music and upload it to show it to the world, so the artist they sign has to be different. In other words it had an effect on the **P**roduct of the Marketing Mix, as the artist is the product in this industry. The record companies cannot take the risk to sign an artist, because they like his voice anymore. There must be a strategy behind the artist.

That lead us to the second point: The **P**romotion. In order to make an artist famous now the record companies have to go through a lot of noise, as it has been said everyone can upload music nowadays. The bloggers and YouTubers have a very important place in the promotion. Indeed, as there is so many artists available, the people would tend to listen to those influencers. Also, the streaming platforms are as well a channel but also gatekeepers, people tend to listen to the songs that are on the playlist or on the top, as it means that they will like those songs. Working without those new partners in Sweden is not possible. Also, the digitalization change also in an other way how to do promotion, Mr. Karlsson said that he does not see the point to put poster on the Tube in Stockholm anymore for example, as there is already too much information for people.

What the new streaming technologies and the digitalization offer, is that you can track people and look at what they listen to or where they go on you can add etc. In his opinion, first those tools should be used in priority and in case of a very famous artist it is possible to put posters in the streets and so on, as the people are already aware of him. By tracking the people, thanks to the digitalization Mr. Karlsson discovered for example, that in Sweden there is a pick a listening on Friday night as people are partying for the weekend. Then, they can use it as an advantage to release new songs on those hours.

That leads us to the segment that is more Spotify oriented in Sweden. Mr. Karlsson said that from the information above and his daily job the 18-25-year-olds are the most Spotify oriented. And that leads to some problems, that will be covered in the next part.

3.4.3 Problems in the Swedish market

In Sweden for the young people it is absolutely normal to use streaming platform to listen to music, according to Mr. Karlsson they would not think to buy a CD because they are "borne" with those platforms. The problem is that there is almost no bricks and



mortars CD store in Sweden and then the older people do not know and cannot even buy CDs if they would like to. This situation is problematic as some people cannot fulfill their wants and needs.

That lead to another problem which is that Spotify is too big in Sweden they are almost in a situation of a monopoly. Mr. Karlsson says that 85% of the streaming platform users use Spotify as their platform. As in 2015 85% of the revenues came from the digital revenues and 97% from the streaming and then 85% from Spotify, an approximation can be done and around 70% of the revenues in the industry come directly from Spotify (0.85*0.97*0.85=0.70). And that lead to another problem according to Mr. Karlsson is that Spotify as so much power in Sweden that being on their playlist or available or not on the platform can make or not the future of an artist. He said that for the major companies as they work every day with Spotify it is not a problem because usually their songs appear in the top and in the right playlists. However, for the independent record companies it is harder to negotiate as their power is very low and for this reason it hard for them to make their artist famous due to this reason. Because has it has been say previously people tend to follow the trends there is too much content available to go through all of it.

This leads the development to the Long tail theory and the Pareto's principle. From what has been said and from what Mr Karlsson thinks that for now it is the Pareto's principle that applies indeed in the Swedish market, he said that a few amounts of artist give most of the benefit. He thinks that in Sweden Spotify is almost at its higher level in the diffusion of innovation but the market is too small to be analyzed and taken as an example on this area. Indeed, there is not a lot of Swedish artist that are famous worldwide and for what it is the most listened in Sweden is still driven by the international market. He thinks that to be able to know if the Long Tail theory can apply we have to wait a few years and see how it goes. This part will be covered later.

To conclude in Sweden Spotify helped the industry to regain revenues and according to Mr. Karlsson all the Major record companies in Sweden are very profitable and make profit out of the new business model. The issue is about the independent and little actors of the industry which is hard for them to survive. He believes that finally the music industry has found its new way of being profitable again and that the industry is not fighting against technology as it used to do in the past but try to use the technology has



an advantage. He thinks that the music industry is following the movie industry which had reacted in a better way and earlier than the music industry.

The streaming platform have totally changed the way of doing marketing has it has been seen and made more difficult for an artist to become famous but he thinks that now the industry is aware of what is coming and he hopes that they will all work knowing that to go back to the golden age of the music industry.

This case study will now be emphasized or challenged by articles but also as in Sweden it has been seen that the business model is profitable for the major companies the fact that Spotify is not profitable yet has not be covered. This part will be covered in the next section from the interview, articles and the literature review.

3.5 Viability

3.5.1 From the case study and articles

From the case study the new Business model seems to be viable. An article from the Financial Times says: "After more than a decade of falling album sales and revenues losses to digital piracy, the world's largest record companies are now heralding a rosier future through a newer form of technological disruption: music streaming" (Nicolaou, 2016). Another article says that: "Vivendi-owned Universal Music Group, the world largest record label, made nearly \in 1.5 billion from streaming and subscription last year, the latest sign that listening on platform such as Spotify is propelling music companies to a digital future" (Nicolaou, 2017). From a study done by Goldman Sachs, the

streaming revenues will nearly double between now and 2020 (Nicolaou, 2017). The diagram on the right shows their predictions. From the forecast, they predict that in 2030, the streaming revenues will be about \$104 billion. From all that information and the case study, it is possible to say that this business model seems to be viable in the future. However, they do not cover the fact that Spotify still does not make



Figure 17 - Global recorded music revenue forecasts (Nicolaou, 2017)



profit. The question that is worth asking is, when will Spotify be profitable? Indeed, if it never becomes profitable and then goes bankrupt it is the whole business model that the industry is creating that is going to fall apart. The next section will cover this problem.

3.5.2 When Spotify will be profitable?

This section will be covered from articles and the interview conducted. First of all, Mr. Karlsson does not think that it is a concern that Spotify is not profitable yet and he has some ideas about it. He thinks that since now Spotify has been focusing on expanding, they do not have a cash machine such as Apple or Google, so they knew that with the advantage they have at the beginning they should invest a lot in order to get big before bigger competitors enter the market. He said that streaming platforms are based on the model, that certain amount of people have to use it to be profitable. Remember, what has been seen in the literature review about the cost of acquiring new consumers. What Spotify did is that they offer a freemium service where you have to listen to adds between to songs. This model is not as profitable than the subscription model based but it make the users used to the platform and at some point it might pay for the profit and then the service becomes profitable.

This can be relied to the AARRR theory: Acquisition, Activation, Retention, Referral and Revenue. Acquisition would be to make the people aware of this platform and then active the user by making the platform available for free. By using it the users might think that it is very useful to have all those song on one platform and on the go which retention and then they refer to it and pay. In some countries to do that Spotify does partnership with phone operators, it means that when people pay for their phone subscription they've got an account for Spotify without ads. It is not the most profitable way for Spotify and the industry, but it creates awareness. Moreover Mr. Karlsson said, that Spotify worldwide is between the innovators and early adopters in the diffusion process. That is why also Spotify is not profitable yet, but the technology it offers will be unable to reach markets that have never been reached before, such as India or Africa. Indeed, in those country the mobility starts to be well implanted, so they can now be reached by the streaming platforms and create revenues for the industry. The streaming platform had started implementing the phone operator system in order to create awareness. Mr. Karlsson said that from what he read and heard, in the industry 450



million users of those streaming platform will take back the industry to the golden age the CD.

Spotify, due to this cost of acquiring new consumers, may soon restrict the access of new releases for the free user (APF, 2017). Indeed, they are currently negotiating with Universal, Sony and Warner that they would have to pay a bit less royalties on those new releases and then they would be only available for the premium mode. If this happens, some users might start paying to have access to the last hits.

Moreover, some articles say that Spotify might profitable this year in 2017 (Shanley, 2017). "Par-Jorgen Parson, a general partner at venture capital firm Northzone, told Reuters on the sidelines of tech start-up conference Slush in Helsinki: "Up until now, I think it's been growth, growth growth,". "Maybe profitability will start to become a priority too." Asked if that profitability could come as early as next year, Parson said: "Absolutely, yes."" (Shanley, 2017).

It appears that Spotify will be profitable in the coming years and that the streaming platforms will give a huge benefit to the industry. However, there are some limitations to this new business model that must be covered. From them and all the development that has been done, it will then be possible to create hypotheses about the future of the industry.

3.6 Limitations and future hypothetic changes

3.6.1 The Value Gap

The case and all the data analyzed seems to show the coming back of the golden age of the music industry. However, there is a weakness behind those impressive data, this weakness is called the value gap. From the Global Music Report of 2016: "Music is being consumed at record levels across the world— in the US, for example, the volume of total music streams rose 93 per cent to more than 317 billion — yet this surging volume of consumption is not returning a fair remuneration to artists and producers" (IFPI, 2016). This is called the Value Gap. Below the diagram represent the number of stream needed to generate \$1, the variation between the service and the different offer is very big. This the reason of the Value Gap, indeed the stream of a song on different platform does not



give the same amount of money to the producer and artists. In the Global Music Report 2016, it says: "At the heart of the value gap is the misapplication of legislative "safe harbour" rules that allow some services, including user upload services such as YouTube, effectively to circumvent the normal rules of music licensing and use copyrighted music content to build their business

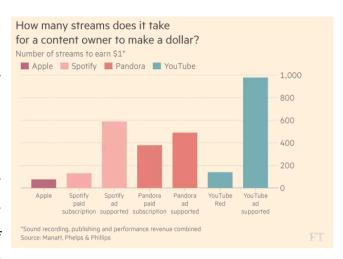


Figure 18 - Number of streams to earn \$1 (Nicolaou, 2017)

without fairly remunerating rights holders" (IFPI, 2016). This leads to the fact that it is harder for Spotify for example, to attract new consumers for their premium offer, as the same content is available for free on YouTube. For example, around 125 streams with the paid version of Spotify will generate \$1 while almost 1000 streams will generate the same amount on YouTube (Nicolaou, 2017). It is an absolutely huge difference.

The effect of the Value Gap is, that there is a huge mismatch between the volume of music consumed and the revenues that are generated (IFPI, 2016). If the industry wants to use this business model to go back to its Golden Age, this Value Gap must be solved (IFPI, 2016). The International Federation of the Phonographic Industry indicated in its last report that the states regulation on each country should now discuss and change their law about the copyright as they are now outdated.

3.6.2 The future

This part will be covered by the interview conducted and from articles.

Concerning the Value Gap, the IFPI recommended in 2016 that the state regulation should create laws, in order to protect the different actors that rely on the streaming platform and to make sure that they will get enough royalties from them. Stu Bergen, CEO, international and global commercial services of Warner Music Group said in 2016: "We need to be diligent in closing the value gap to ensure the revenue generated by music, which brings so much to people's lives, is appropriately weighted to artists and investors. It is a real step forward that the European Commission has acknowledged this." (IFPI, 2016). In September 2016 the Financial Times published an article: "EU



copyright review gets its first screen test". This article describes what the European commission wants to change, in order to make the Value Gap disappear. Indeed, the last time the EU overhauled its copyright was in 2001 and since then lot of things happened in the music industry. The proposal made by the European commission is that "video-sharing websites will have to reach licensing deals with rights holders if they plan an active role, for instance "optimizing the presentation" of the content, with the list of recommendations" (Robinson & Nicolaou, 2016). This proposal targets the video platforms, such as YouTube. It would make the negotiations between YouTube and the record companies fairer (Robinson & Nicolaou, 2016). The proposal also aimed to improve rights holders' terms. Nowadays, the video platforms, that host copyrighted content without permission, are no liable. If this proposal is applied, it would limit the liabilities that YouTube and the other platforms have from this system (Robinson & Nicolaou, 2016). When writing this thesis, those new laws are still proposal and being negotiating. It is not possible to know when they will apply or not.

Mr. Karlsson thinks, that this year, 2017, will a be a turn for the music industry. He said that in Sweden the share of the digital revenues should reach 90% and worldwide it should be at the point that it is 50%. He believes, that it would be a huge step for the industry. He also believes, that Spotify will become an even bigger partner and might be the biggest one. And if not, he thinks that at some point Spotify and Apple will merge to one platform or that a record company will buy Spotify. Then he thinks that there will be one or two level players as streaming platform, followed by little players fighting to survive, such as Deezer or Napster. In Sweden, the Business Model is already profitable, but he thinks that it will become profitable all over the world. Indeed, as it has been said earlier, the streaming platforms are only at the early stages of the diffusion of innovation process (between innovators and early adopter) and by the fact the number of users is going to grow, the business model will become profitable. He strongly believes, that the industry will reach back its golden age and even more. Mr. Karlsson thinks, that the virtual reality might have a huge impact on the music industry as it will be possible to associate music with it and it will a totally new way of discovering and feel music.

The last point is concerning the Long Tail theory and the Pareto's principle. The problem of this new business model is, that it leads even more to the fact that only the biggest record companies can survive, the others will not make enough profit with their little



artist. That leads to the Long Tail theory. Even if for now this theory cannot be applied as we can say that 20% of the artists create 80% of the profit which the Pareto's principle, it is possible that in the coming years the Long Tail theory will apply. Indeed, as it has been said the streaming platforms are at the beginning of the diffusion process, there are lot of more users that will come at some point to those platforms. Mr. Karlsson thinks that it is possible that the Long Tail will apply and that the hits will create as much money as the little artist. Indeed, the content will be so large, that even if all of them are played only a few times, it is possible that it will create as much money as the hits. But for that a lot of users are needed. The problem will be still there, even if those little artists will create revenues, will it be enough for the record companies they work with to sustain? We cannot have an answer now as we will have to see in the future how it will go.



4. Conclusion and Discussion

From the results of this research it is now possible to better understand the new business model of the music industry and it is possible to have an idea on if it is viable or not. The answer is hypothetic as there are several points that cannot be controlled and known for now.

From the research is now possible to define the competitive advantage or value proposition of the streaming platform compared to the other formats which is to offer an unlimited access to their data base for free or for around €10 per month. The competitive advantage of Spotify compared to the other platform is its App and how it is easy to use it but also that they were the first one to offer this service and then the users are used to it. As it is hard to move from a platform to another people tend to keep using Spotify.

This new model of delivering music to the consumer has totally change the way the music industry makes money. It also changed the way the marketers sell the music and it enabled the emergence of new actors in the industry such as bloggers, YouTubers etc. This has been showed in the new Business Model of a record company. The streaming platform has now a huge place in this business model and their importance might even go bigger.

This new business model has been tested in the case of the Swedish market, indeed, in 2015, 85% of the industry's revenue came from the streaming platform (SNEP, 2016). Then, the business model of the new music industry has been in place for a very long time in Sweden. What has been found from the secondary data and the interview conducted is that this new business seems to be profitable for the large record company and that it will be viable in the future. Indeed, the major problem with this new Business Model is that Spotify the biggest actor of the streaming platform is still not profitable. An analysis of this situation has been done as well and what has been discovered is that if Spotify has not been profitable yet is because they have been focusing on exploding and investing. The other reason is that the streaming platform are built on the model to be profitable that a certain amount of paying users is needed. This amount has not been reached yet by Spotify. From some sources, Spotify might finally be profitable at the end



of the year 2017. From the interview, Mr. Karlsson said that 450 million users worldwide would permit the music industry to meet back its golden age.

However, this thesis could have spoken about the Block Chain Technology and the affect it could have it the 20 coming years in the music industry. Indeed, some authors such as Marcus O'Dair that published a report in July 2016 "*Music on the Block Chain*" for Middlesex University of London. He thinks that the music industry will know a new crisis because of the block chain technology because thanks to it, it will be possible to make disappear the middle men of the industry (publishers, record companies). Unfortunately, due to size and time limitation this point of has not been covered in this thesis and this is a further research that needs to be done.

Some other limitations have been found such has the Value Gap which means that the amount of stream does not give the expected amount of revenue to the industry. This is the biggest limitation of the new business model indeed if this value gap is not fixed the business model will not be sustainable. The different government regulations around the world are aware of the problem and are trying to fix it. This is a future challenge for the industry.

The virtual reality could have also a very big impact on the industry in the future as it will offer a new way the listen to music. This part is also a limitation of this thesis as it is just hypothetic. A further research would be needed to better understand the impact that the virtual reality might have in the coming years.

Another limitation of this thesis is that it has been focused on the streaming platform and only talked about the video platform only at some point. Those video platforms are also a big part of the new business model and maybe even more problematic than the streaming platform. Another study could be done on their impact on the industry.



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Appendix

Survey interview Mr. Sebastian Karlsson

<u>Survey interview: Are music streaming services a viable and sustainable business</u> model for the music industry?

Respondent: Sebastian Karlsson Job title: Product manager

Company: BMG Rights Management Scandinavia

<u>Date:</u> 06.04.2017 <u>Duration:</u> 1 hour

- 1. Music industries changes
- -What do you think of the recent changes in the industry? What changes have you seen? (Have the recent changes been a good thing for the industry? Why?)
- -In your opinion why have the changes in the music industry come about?
- -What have been the drivers for change in the music industry? The development of new businesses such as Apple music and Spotify or the changes being sought for by consumers?
- -What positives and negatives do you see from the changes that have taken place?
- -What do you see as the key changes that will affect the industry in the next 5,10 and 10+years?
 - 2. Marketing and consumer behavior
- -Why do people listen to music in your opinion? (Maslows?, wants-beliefs-goals?)
- -In your opinion what do you think is Spotify's competitive advantage or value proposition?
- -What are the music consumer segments you see in the market?
- -Which is the most important for your business? (how do you segment consumers? For me I want to know which of those segments are likely to be more Spotify orientated.)
- -Do you see music consumers changing in the years ahead and how? (specifically tastes, trends etc in the market)
- -How have streaming technologies affected your business?
- -How did the streaming technologies change your way of doing marketing?



- -Why in your opinion has the Swedish consumer adapted to music streaming quickly?
- -As here (in Sweden) you don't sell CDs anymore, do you think this trend will be the same in the other countries in the coming years and the consumer will want this technology?

3. Business Model and viability

- -What is a basic business model for the music industry? What other models/strategies can you see coming or consider viable for this industry?
- -When do you see the business being viable and how would you define it?
- -Is a certain amount of consumers, revenue, both etc. needed? (Spotify)
- -Does the streaming platform give enough revenues to the record company, publisher and artist compared to the CDs?

Explain that Spotify is still not profitable (source: article Financial Time and others). As in Sweden the streaming platforms give the most revenues (from the International Federation of Phonographic Industry (IFPI)), give some data:

- -Is it a concern that the main source of profit for the industry doesn't make profit yet? Why?
- -Is it viable? Yes why? / No why and at what point do you think it will be viable?

4. Diffusion of innovation

- -Have you heard about the diffusion of innovation process? If not explain
- -In your opinion, what stage of the innovation process is Spotify in in Sweden, Europe, World?
- -In your opinion, when do you think the CDs will disappear from the market in Sweden, Europe, World?

5. Long Tail / Pareto's Principle

- -The streaming platforms offer a large amount of available music what do you think about it?
- -Do you think it will prevent the chances of smaller artists to become famous / more recognized?



- -Have you heard about the Long Tail and the Pareto's Principle? If not explain.
- -Which of those theories would best described what is going on in the music industry?
- -In your daily work can you see those principles? And how do they apply?
- -From the innovation process, which of those two theories will be correct as the streaming technologies will move through the stages?
 - 6. Limitation and Disruptive technology
- -Have you heard about the Block Chain Technology? Applied in the music industry? (if not explain it)
- -Do you think the block chain can change again the business model of the industry? Why?
- -Have you heard about disruptive technology? (if not explain it)
- -Do you think then the block chain can be a disruptive technology in the coming years (+10)?

