Strategic Reactions to Disruptive Technology in the Music Industry

An EMI Case Study

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Summary

This thesis tries to find an answer as to whether the music industry is another case which proves that Christensen’s statements on the failure of incumbents when faced with disruptive technologies are true or whether the major record companies will still be able to survive. A thorough analysis of the strategic decisions of EMI over the past 15 years has shown that the company could not prevent turnover from declining drastically. It is clear that the incumbent did not react appropriately to the new technology, namely the possibility to download music online, certainly in the beginning. However, financial data of more recent years show that although the industry has shrunken in size, it is not likely to disappear. EMI’s case has shown that the music industry cannot be compared to other industries who are confronted with a disruptive technology. Thanks to their intellectual property rights, the majors will have a competitive advantage in comparison to newer, emerging companies like Spotify as long as they have artists signed to their label.
Preface

Being a student in business economics with a great interest in playing and listening to music, a thesis concerning the strategic decisions of record companies in the digital era seemed like a perfect fit. Therefore, writing this thesis has been an interesting and rewarding experience, even though it had proven to be more challenging than initially expected. I also gained a lot of insights in the music industry, which I hope will be of use later on in my career.

This is why I want to thank Professor Doctor Bart Van Looy for excepting my proposal and giving me the necessary guidelines I needed to complete this project. Through the entire period I have worked on this thesis, he has shown a genuine interest in my work and provided me with essential information on both the industry itself and the literature on disruptive technology.

In addition, I want to thank Adrián Kovács for taking the time to give constructive feedback on my work and for providing me with additional literature or information that might help me complete this project.

I also want to thank Olivier Van Trimpont from EMI Belgium for trying to get me the annual reports I requested and for contacting the EMI headquarters in the UK.

Finally, I want to thank my friends for providing me with the sometimes much needed stress release and my dad for giving me the chance to write this thesis and for his eternal support.
1 Introduction

When thinking about disruptive technologies, one example that comes to mind is the music industry. For centuries, record labels have been able to make huge profits thanks to music sales, concerts and merchandising. However, their biggest source of income, physical sales, started to see a steady decline when the possibility of online downloading came along. But this decline did not occur due to lack of trying to grasp this new technology by the majors- Warner, Universal, EMI, Sony/Phonogram- and use it to their own advantage. Continuous strategic efforts have been made by all of these record labels in order to get their physical sales back to an acceptable level. Nevertheless, every major record label still seems to be struggling in keeping its head above the water.

The answer to questions as why incumbents fail has been the subject of a lot of important scientific literature and in the end, three important approaches can be separated. Christensen(1995) started out by saying that it was impossible for an incumbent to capture this new technology in time because they look only at existing needs. Tushman(2004) believed it was possible for an incumbent to stay successful but only when it established ambidexterity in its organization. Tripsas,(1997) finally, concluded that it depended on whether certain characteristics and complementary assets of the firm became obsolete and not just the old technology.

The second chapter will therefore be concerned with the theory written about disruptive technology and innovation. This will be analyzed and possible responses for incumbents will be explained. The next chapter contains the methodology used to conduct this case study. The fourth chapter is concerned with an analysis of EMI’s strategic decisions over the past fifteen years. Finally, the last chapter will try to analyze whether this downturn was unavoidable, as Christensen predicted or whether it was or still is possible for this incumbent to survive disruptiveness, something that has caused many firms to fail in the past. The outcome of this analysis will also be used to make a careful prediction about the future of the entire music industry.
2 Revising theory: Disruptive Innovation versus the Incumbent Firm

A couple of centuries ago, Darwin came up with the term ‘survival of the fittest’ when he observed that only the species that were perfectly adapted to their environment would eventually survive. The same can be said about firms in a business environment. Those that continuously look at their surroundings and the changes that occur within, will have more chances in surviving fierce competition. In regards to this matter, it is important for firms to be innovative, preferably incremental and radical. However, this process is not inherently present in organizations, but needs to be managed actively. Over the years, certain patterns of innovation have been proven to be more effective than others, providing companies with a sustainable competitive advantage. In order to achieve this, it is important to have an internal system of innovation, which evolves and develops along the way, just as nature has done for centuries. (Bessant et al., 2005)

2.1 Defining Disruptive Technology

Schumpeter was one of the first to notice that in the long run, a competition for technology will define the survival of firms in a great manner. This competition will alter the foundations of their being and not just their profit margins. He called this phenomenon ‘creative destruction’, meaning that a successful radical technological innovation creates a discontinuity which makes incumbents’ demand decline due to customers changing their purchase behavior to new technology based products. (Hill, Rothaermel, 2003)

Most companies tend to listen to the needs of their customers, but sometimes when new technologies present themselves, a need for these technologies seems to be absent. It is then up to the company to determine whether or not this technology is worth pursuing and whether it might create a new need. One of the most famous examples is probably the personal computer case. The power of these computers kept improving during the eighties and although they did not meet the requirements of minicomputer users at the time, they eventually even exceeded them. The minicomputer business ignored these technology advances, which eventually led to their decline. Established firms always tend to put a lot of research into defining their customers’ needs. They might even pursue radical innovation as long as it represents an existing need. These processes, specified to keep customers happy, usually work pretty well, causing no need for the incumbent to look at new technologies in emerging markets. (Bower, Christensen, 1995)

Alles (2002) confirmed this hypothesis, stating that the development of innovation is mostly resource-dependent for incumbents. They get their incentive from their existing customers, who are the most likely buyers of new products. This need for customer-determined innovation is sped up by competition for market share and the desire to have a first-mover advantage.

What exactly defines a disruptive technology is not really the technology itself, which Bower and Christensen already defined in ’95. It has much more to do with how the package of attributes is presented. These attributes do not relate to current needs of the customer but they usually improve so rapidly that it is just a matter of time before they can wash away established markets.

However, it needs to be taken into consideration that a technology might not be inherently disruptive, but that companies itself speak about ‘disruptive technology’ when faced with failure. The internet for example has been a great advantage to some firms, but has led
to the failure of others. So is this just a perspective from each firm’s -the winners and the losers- point of view or is a technology fundamentally disruptive?

Danneels(2004) has analyzed Christensen’s work and was able to put together a fairly straightforward definition

“A disruptive technology is a technology that changes the bases of competition by changing the performance metrics along which firms compete”

What this short definition actually means is that every technology used by established firms has some limitations. A disruptive technology on the other hand will have another set of attributes with a different set of limitations. Additionally, most of those limitations are even the attributes the old technology excelled at. Nevertheless, this technology will improve so rapidly over time that at a certain point, it will exceed the performance of the old technology and will be valued just as much as the old product by the mainstream customer base.(Alles, 2002) In the end, it changes the bases of competition by introducing a novel side of performance, using products that were not part of the competition before, as demonstrated by Christensen using the disk drive business.

Anderson and Tushman(1990) conducted research on the difference between incumbents and emerging entrants regarding this matter. According to them, a distinction can be made between competence-enhancing and competence-destroying innovation. The former builds on existing knowledge, while the latter focusses on new technology, making the old one obsolete. Research confirmed their hypothesis that incumbents would pioneer dominant designs based on competence-enhancing innovations. However, it was not conclusive concerning the hypothesis that emerging entrants would pioneer dominant designs based on competence-destroying technology. Which is another indication that it is in fact possible for incumbents to succeed when confronted with disruptive technology.

Research by Soods and Tellis(2011) also defined that potentially disruptive technologies are equally introduced by incumbents and new entrants. Their research even suggested that these technologies are far more disruptive when used by incumbents. However, even though technologies can be potentially disruptive, the disruption itself rarely happens. According to Soods and Tellis, this is thanks to the fact that the ‘old’ technology often lives on by finding a niche. In addition, a technology might be disruptive in one sector, but not in another. It is therefore not always the introducing firm that causes the disruption.

2.2 Why Do Incumbent Firms Struggle with Innovation?

As companies become established and dominant players on the market, they sometimes have little incentive to radically change their views on the product. As committed as they are to their current value networks, they often suffer when facing radical innovation. There have been plenty of examples where new entrants on the market eventually perform better than the incumbents, like the digital camera case where Kodak wasn’t able to keep its market leadership position. However, in the past there have been some successes for the incumbents. This shows that is not impossible for the dominant players to keep their core position even when faced with competitive entrants on the market.(Ansari, Krop, 2012)

IBM for example, an established firm in mechanical business equipment, was able to pioneer in electronic business equipment.(Hill, Rothaermel, 2003)

But, understanding how exactly these (technological) innovations can be obtained is not that easy. Over the years, different theories have been developed as to what makes incumbents struggle and which strategy should be pursued when dealing with disruptive innovation. In the next paragraphs, some of these studies will be discussed.
2.2.1 Crucial Factors for Success

Before we can determine why a firm has difficulties when dealing with change in its environment and therefore the need for itself to change, we need to take a look at the factors that are inherently present in a company, namely resources, processes and values.

Firstly, it seems clear that most incumbents have the necessary resources to deal with innovation and change, but those resources are often not put to use or are even used for the wrong investments.

Secondly, the processes -the way everything in the company is organized- will play a greater role for incumbents in dealing with change, since these processes determine whether or not a company is flexible enough to radically change its ways of conducting business. (Christensen, Overdorf, 2000)

Moreover, in order to sustain their manufacturing and distribution processes, incumbents invest in innovation which is in line with their core business. This way, the new technology/innovation will fit their R&D capabilities and benefits will be in line with the core brand. (Sood, Tellis, 2011)

Furthermore, when a company is confronted with rapid change, the structures that ought to keep the business alive are often the ones that contribute to the decline. However, when a company wants to change its structures when confronted with changes, it increases the risk of organizational failure since it disturbs those systems that used to ensure reliability. (Hill, Rothaermel, 2003)

Thirdly, the values employees hold in a company will partially determine a firm's business model because those values will shape the rules staff must obey in order for the company to flourish. For example, if companies value large profits with high certainty, they will prevent investing in risky, radical innovations. Most of the time, smaller, emerging companies will take this task upon them, even though they don't have the resources required. Their values on the other hand are still set on these kind of investments, since they are not reluctant to invest in small markets and do not require a certain and high-level margin. Their processes rely more on intuition than on pre-determined sets and structures and this will give them the flexibility to invest in radical innovation, something incumbents on the other hand are reluctant to do. (Christensen, Overdorf, 2000)

2.2.2 The Three Main Reasons for Failure According to Birkinshaw, et al.

Birkinshaw, Bessant and Delbridge(2007) have examined different kinds of research and have come to the conclusion that there are three main reasons that explain why firms struggle when dealing with radical and possibly disruptive innovation.

First of all, incremental innovations give a lot more incentive, since they provide more certainty regarding a future profit. Furthermore, it is more likely that this profit will be realized much sooner. Radical innovation is often fragmented and the longitude of the wait makes firms frequently give up along the way and stick with their more assuring, foreseeable projects. Moreover, when faced with uncertainty, established firms will invest less in radical innovation since they fear to cannibalize their own products. (Hill, Rothaermel, 2003)

Second, an incumbent often has established some long-term relationships with other companies and has created a great value network. These other partners give a company little incentive to change because it might change their partnership in a way that doesn’t benefit all the players.

Creating new networks will make sure that the company gains new insights and competences needed for disruptive innovation.

Third, established firms often have certain customs in regards to their processes and business structures, as mentioned above, which are hard to break with. Staff is often rewarded for bringing slight improvements to the table and thinking out of the box isn’t part of the reward system.
Although radical innovations do not necessarily equal disruptive innovation, they are important to conduct in order to prevent newer entrants to be the first to come up with these innovations and thereby making it harder for the incumbent to keep their market share. Radical innovation is therefore a necessity in order to prevent an innovation from being disruptive.

2.2.3 Important Barriers Hindering Innovation

Figure 1 gives a clear view of how the innovation process works and by which elements it is influenced. The innovation patterns are often small decision cycles, embedded in larger ones. The bigger cycles are guided by basic steps: identify, develop, plant and implement. Disruptive innovation is not much of a stage-to-stage process, like incremental innovation, but is a continuous process of learning, feedback and feed forward. This entire process is influenced by numerous exogenous factors, like the economy, politics, social structures and competition, but also endogenous elements as discussed above. (Assink M, 2006)

![Figure 1: source: Assink M., 2006](image)

All these factors can limit a company’s capabilities to develop disruptive innovation. Assink M. has identified the key inhibitors to this development. The most important ones will be discussed below.

- **Adoption barrier**: The existence of successful products, designs, technologies prevents incumbents from taking risky initiatives concerning disruptive innovation, especially when this success has been path-dependent.
  - **Organizational dualism**: The hierarchical structure often applied by established firms is less appropriate when dealing with disruptive innovation. They lack a two-fold structure, they lack ambidexterity, which will be discussed later on.

- **Mindset barrier**: For established firms it is often hard to put their traditional way of thinking aside. Their core assumptions need to be examined from time to time to make sure they will be able to ‘unlearn’ their conventional attitudes. In addition, old competences will hinder efforts to learn new capabilities. When a company
has to deal with radical innovation, it often lacks the right knowledge and determining which knowledge this is exactly is not easy.
A company’s mental and business models are hard to unlearn and will often stand in the way of disruptive innovations. This is one of the reasons why emerging companies/outsiders frequently do succeed in new business models or innovations and incumbents do not.
This is confirmed by Ahuja and Lampert (2001) who stated that firms need to develop a competitive advantage, which can be done by developing a unique competence to differentiate them from competitors. In order to do so, successful routines will often be replicated by incumbents and unsuccessful ones rejected. In the end, this will lead to the constant use of routines with very specific outcomes and an aversion to learning new competences or experimentation.

- **Risk barrier:** Revenue expectations will prevent managers from taking risks and investing in emerging markets. When faced with high uncertainty, they will often ignore new possibilities, especially when dealing with technological research. Managers will first question whether or not the new technology will catch on. However, when they do invest in radical innovation, its success depends on the environment in which it is developed. The firm must be supportive of uncertainty and risk-taking and the management should not support a climate of control, but one of trust in its employees. Moreover, a lot of established firms are reluctant to cannibalize their previous investments. They look at their revenue from a short-term perspective and try to protect their traditional business.
  - Sometimes when incumbents do invest in technological innovations, this same technology changes the market platform completely, leading to the demise of the incumbent. The new entrants on the other hand, exploit this change of structure in the industry by undertaking investments in this new technology and thereby avoiding the entry barriers. This way, they gain shares and change the status quo. This gives an incumbent a disincentive to invest because of the risk of a disequilibrium on the market, which will eat away at the incumbent’s market power. (Hill, Rotaermel, 2003)

- **Nascent barrier:** Firms often have the incentive to keep investing in their mature technology because of its reliability. Additionally, their high-developed value networks are specialized in these technologies and are fiercely embedded in the company. Moreover, incumbents find it hard to convince customers of the superiority of a new innovation. (Ahuja, Lampert, 2001)
In addition, because incumbents work with established routines they often lack the creativity necessary to develop radical innovation. Furthermore, whether or not an innovation will be pursued often depends on market research with existing customers. This often results in rejection, because the market they should be looking at doesn’t exist yet. Customers’ needs change over time and established firms should listen to more technical insights instead. They possess the expertise to predict future customer needs, which can arise when a new technology presents itself. Additionally, it is important for innovation teams to be given the freedom to pursue their own ideas in a stimulating business setting, which is necessary in the rapidly changing environment of today.

- **Infrastructural barrier:** Disruptive innovation needs to have a clear infrastructure, but is sometimes too underdeveloped to fit within the company’s processes. Often, these innovations are not properly followed through and lack the competitive advantage necessary for the final adoption and market release.
### 2.3 Dealing with Disruptive Innovation as an Established Firm

The definition of disruptive technology explains us that even if a firm spends a percentage of its R&D on radical innovation, it still might not be able to survive. Seeing that established firms often aim at pleasing their existing customers, they stick to research that focuses on satisfying the needs of these customers. Disruptive technology on the other hand, is starting out as a technology that does not meet the existing needs of customers but evolves over time in a technology that satisfies the customers equally or in most cases even better than the old technology. In the next paragraphs I will address some ways for companies to deal with disruptive change.

#### 2.3.1 Different Responses to Disruptive Innovation

There comes a moment when an established firm has to decide how to react to the emergence of disruptive innovation. Charitou and Markides (2003) put 98 companies to the test and looked at the different decisions these companies have made in the face of radical and possible disruptive innovation.

First, when dealing with strategic innovation, it is not a bad decision to keep your focus on the traditional business. In the end, in contrast to disruptive technology, the new way of doing business often fails to take over the market completely. Instead, the incumbent can focus on innovating in its traditional business.

Second, a company can choose to just ignore what is happening. Sometimes this novelty is viewed as a completely different market with a different customer base and many established firms therefore feel that it does not oppose a threat to their traditional business. But whether or not a disruptive innovation can be seen as a threat is often hard to define. Research has shown that rather than looking at the industry level, a company should look at their own competences and assets and the ones needed for the exploitation of the novel innovation. They should pay extra attention to those skills that are hard to imitate. When their skills are related to those of the new business, a company should consider entering the new market. Established firms often consider these new markets easy to enter, but when they do not possess the appropriate skills, this is often not the case.

However, it needs to be taken into consideration that neglecting disruptive innovation gives other companies a first-mover advantage and they will therefore be able to set product standards. This can create a natural monopoly in order to constrain future competition. (Alles, 2002)

Third, the incumbent can strike back, using product attributes to attract customers. These attributes can be different from the attributes of their old business as well as the ones of the disruptive innovation.

Fourth, the firm can always choose to adopt the disruptive innovation. Most of the companies enter this new business by starting up a new unit, but some keep their original structures. This separation of the traditional and old business can be seen as ambidextrous, which will be discussed below.

Lastly, a company can adopt the innovation completely and leave the traditional business behind. In this case, it is important that the company scales up the innovation to a new level in order to stay profitable. The established firms even have an advantage in creating a market for the innovation since they have the skills and competences to do so.

The two most important factors to take into consideration when choosing the right strategy are ‘the ability to respond’ and ‘the motivation’ of the company, as figure two summarizes.
2.3.2 Preventing a Slow Death

An established firm needs to be sure that it builds enough absorptive capacity in order to avoid technological lockout. When a firm knows that a technology is emerging, it is important that it collects the necessary information related to this technology. This might speed up the process of identifying a disruptive innovation. Even better would be for the company to conduct some research itself. A company often does not invest in real inventions, which do not have the certainty of commercialization later on, but just increases know-how of technology and products. Therefore, it is important to invest in basic and applied research and both of them need to be integrated in order to, if possible, be able to commercialize basic research later on. (Priem, Li, Carr, 2011)

In addition, this exploration of knowledge makes sure that the firm can offer an arsenal of solutions to problems. After all, new technologies might demand different approaches and this gives the firm new perspectives to old and new problems.

Moreover, by studying new technologies, the existing structures -which often prevent the development of radical innovation- will be challenged as the firm gains new insights of old and new knowledge.

However, extensive research can eventually create an information overload. When companies solely focus on experimentation and research, resources for general enhancement are limited, which may cause decline of performance. (Ahuja, Lampert, 2001)

2.3.3 The Ambidextrous Firm

When we look at the past, we see that some firms have managed to combine both incremental and radical innovation successfully and have therefore managed to keep their positions on the market. But what distinguishes these firms from the others? Bower and Christensen already defined that when dealing with radical innovation which does not reflect the customers’ needs, it is impossible for established firms to create completely new platforms in-house. But other scholars have quite a different opinion. O’Reilly and Tushman (2004) claim to have found a solution to the disruptive technology issues that incumbents face and they labeled it ‘the ambidextrous firm’.

The key to developing radical innovations and protecting the core business at the same time lies in a clear distinction between exploiting and exploring. On the one hand, a
A company needs to innovate its existing business using small steps. It needs to 'exploit' its existing capabilities by innovating incrementally. On the other hand, the firm needs to explore its options: look at different customer bases that it might be able to address or even look at completely different markets. Online music platforms, for example, were not properly defined at the time, but in the end turned out to be a market that altered the way of doing business in the music industry completely.

In short, an ambidextrous firm separates its exploratory units from the exploitative ones in order to create different structures and processes, but at higher levels, these units are tightly linked in order to keep a united strategic vision.

O'Reilly and Tushman (2004) looked at 35 initiatives made by established firms and compared their ways of doing business. They found that 90% of the ambidextrous firms were able to reach their goal. This means that the design and management practices used, had a significant impact on their final performance.

He and Wong (2004) put this hypothesis of the superior ambidextrous firm to the test by using a sample of 206 manufacturing firms. Being ambidextrous means finding the right balance between exploitation and exploration, which is often a difficult process since both structures need very different strategies. He and Wong looked specifically at technological innovation and defined when exactly a firm can call itself ambidextrous:

"First, we can regard a firm as ambidextrous if it scores high on both explorative and exploitative innovation strategies, in which case the product of the two scores would be a good proxy measure of ambidexterity. Second, we can examine the absolute difference between the two scores: A firm is regarded as ambidextrous if it has relatively equal emphasis on both dimensions."

The results are in favor of the hypothesis of the ambidextrous firm. Figure 3 shows that if there is no balance between exploration and exploitation, this will have a negative effect on sales growth. The figure 4 shows that an interaction between the two will affect the sales growth rate positively.

![Diagram](image)

**Figure 3: He, Wong(2004)**
Studies by Christensen and Overdorf (2012) confirm that this concept of a distinction between exploration and exploitation is necessary. They even emphasize the importance of teams in this entire process. Depending on whether or not an innovation is fit with the organization’s processes and/or values, a different sort of team is required. In figure 5, the different kinds of teams are displayed with on the right side the team structures that are able to deal with disruptive innovation. Both situation C and D require some sort of a spinout operation, meaning that, indeed, for exploitative innovation, it is necessary to separate it from the existing values and, if necessary, the existing processes of the company.

2.3.4 Impact of Organizational and Managerial Change

Mary Tripsas has conducted many research studies on the subject of incumbents confronted with disruptive change. Her most important work 'Unraveling the process of creative destruction: Complementary assets and incumbent survival in the typesetter industry' (1997) is a great example of how established firms still fail, even after investing
thoroughly in the new technology. The typesetter industry proved that even with timely investments, the incumbents still failed due to their prior experience, which shaped their approach to the new product. In many cases, adopting the technology or investing in it is not enough and it needs to be encompassed with organizational change. This can be linked back to the mindset barrier identified by Assink M. (see 2.2.3) It is often up to the company to determine whether or not to pursue this identity-challenging opportunity and thereby needing to change its organizational identity or to let the opportunity slip in order to maintain it. Pursuing the technology would mean either adopting the new identity completely or shift from one identity to another. (Tripsas 2009)

Tripsas also conducted some research on the impact of management in this entire process. In the Polaroid case, she established the influence of managerial beliefs in pursuing new technology. In the specific case, managers were only ready to change their way of thinking if it was still in line with their old beliefs. This is why managerial change can be of crucial importance when a radical innovation presents itself. Changes in CEO and top management can create discontinuous organizational change. However, these changes are costly and often create a lot of headcount reductions. It is therefore important to make sure that these different strategic beliefs are an absolute necessity when competing in a new landscape. (Tripsas, 2000)

### 3 Methodology

For both the disk drive and the photography industry it was not hard to determine whether or not they were examples of the destructing effects of disruptive technologies. The new technology has taken over the old one almost completely and old incumbents have (almost) no market share. It is a lot harder to determine this for the music industry, as many of the majors get revenues out of more than just physical sales. Since they own the rights to many artists’ repertoire, they can still get a partial revenue through digital downloading, even if it is not via one of their own services. This does not mean, however, that the market does not show signs that digital downloading can be seen as a disruptive technology which is changing the future of this industry forever.

The music industry was thriving in the nineties. With highly expanding sales of CD’s, which were just taking over the cassettes. It seems as if the record companies had no trouble in converting their vinyl to cassettes and then onwards to CD’s. But when computers became a standardized item in most family homes and online websites for digital downloads made their entrance, it seemed as if the music industry was not capable of grasping these opportunities early on.

In the graph below, it is clearly shown that the digital revenues made by the record companies are not able to compensate for the decline in CD sales. In return, new-entrant companies like Apple and Spotify prove themselves to be very successful in exploiting this new technology. These first looks at the music industry make it seem as if Christensen was right in his belief that incumbents would fail when confronted with disruptive technology.

But how much effort have these record companies put in trying to prevent this from happening? In order to see if Christensen is actually right or if Tushman’s predictions come closer to the truth, this thesis will analyze the strategic decisions of one of the smaller majors, EMI. This record company seemed the best fit for an analysis, since it was one of the few majors that had no other industry branches, like film to take under its wing and that experienced a tremendous downturn of revenue in comparison to the others.
For the purpose of attaining those strategic decisions, the annual reports since 1996 were analyzed. 1996 seemed like an ideal starting year, since this was the time digital downloads were starting to get popular and it was also the year that EMI had its best financial results ever. Both financial data and information concerning their decision-making, like the CEO’s statement, were gathered and put into a schematic sequence. However, the annual reports of 2005, 2006, 2009, 2011 and 2012 were nowhere to be found and are therefore missing from the analysis. To compensate for these missing reports and to add some additional information to the scheme, articles on the websites of the Economist and Wired were collected and added to the scheme containing the strategic decisions. This additional data collection provides a stronger validation of constructs as Eisenhardt(1989) established. For the consistency of the research, ‘EMI’ was typed into the search bar of each website and all the articles with relevant information, starting from 1996, were collected. When the annual report was a little vague, some additional information about the subject was collected, using only high-standard websites or newspapers. These adjustments can give more insights into the case itself and improve the theory that results from it. This combination of both quantitative data and qualitative information is useful for understanding the underlying relationships in the quantitative information, namely the financial data.(Eisenhardt, 1989)

While the information was already divided by source -annual reports and articles- , it was again divided according to categories, which will be compared in order to spot the differences in impact. This way, it was easier to determine which kind had an impact and which kind did not. This kind of cross-case analysis makes sure that it is less likely to draw wrong conclusions out of the information (Eisenhardt, 1989) The different classifications used were determined by looking at the nature of the strategic decisions and the following categories were established:

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1 Even after several calls to EMI Belgium, who contacted the EMI headquarters but never got the annual reports requested.
• Mergers and acquisitions.
• Digital rights management and piracy: Concerned with the prevention of illegal downloads.
• Marketing and synchronization: Concerned with promoting artists through advertising but also through movies, as background for advertisements of other products, etc.
• Restructuring: Concerned with the reorganizing done to reduce costs or to change the way the company operates.
• Digital services offered alone.
• Digital services offered in partnerships.
• CD/DVD development: Concerned with the decisions made to improve quality, make changes in manufacturing and distribution, etc.
• Artist roster: Concerned with the artists signed to the label.

To establish the impact of each category, it was important to look at the financial deterioration or amelioration from one year to another. Strategic decisions that went hand in hand with an improvement of certain fiscal numbers would be marked as effective and those that accompany numbers that worsen or stay the same could be categorized as being ineffective. Since it was impossible to link specific numbers to each decision, this is a nuanced image, but the right numbers were linked to the matching decisions as accurate as possible. Marketing components for example, were mostly linked to the decrease or increase of market share, while for restructuring, it was mostly the EBITA that was important. Whenever the information was available, the digital revenues were compared to the total turnover in order to see whether the digital services had a big impact on the company’s revenues. For example, if in 2002, a lot of cost restructuring decisions were made and the annual report of 2003 reports an increase in EBITA, it can be concluded that this increase was mostly likely thanks to the restructuring done in 2002, meaning that those strategic decisions were effective.

The final construct will emerge from this analysis process since a deeper look into the financial status and the strategic past of EMI might give an indication as to what the future of the music industry is going to look like.

4 Analysis

As mentioned earlier, EMI’s strategic decisions were divided into eight different categories. In the next chapters, each of them will be compared with financial data and final conclusions will be drawn on whether or not the category had a positive impact on EMI’s revenue.

4.1 Digital Rights Management (DRM) and Piracy

The battle against piracy has always been of great concern to the majors. EMI was no exception and over the past few years, the company has taken a lot of action, often in cooperation with other majors and companies, to prevent illegal downloading.

Starting in 1998, EMI began supporting all the actions that were taken by governments and organizations concerning the prevention of illegal digital downloads. The annual reports in the 90’s and early 2000’s clearly dedicated much attention to the protection of digital content.

2 A year is always EMI’s financial year, which starts for 1998 in April 1997 and ends March 31 1998.
their publishing copyrights. From 1998 onwards, the annual reports started having a separate title for the discussion of these digital technologies. At that moment they still believed that the opportunities these new technologies offered would outweigh the treats by piracy and new entrants. (AR EMI Group 1998) The fact that in 1999 EBITA(26%) and turnover(1.6%) were both down, showed that at that point they weren’t able to keep piracy to a minimum. However, economic slowdowns in South East Asia and South America had an influence on these results as well. (AR EMI Group 1999)

In 1999, the Secure Digital Music Initiative (SDMI) came to life, which is an alliance between the music, computer and consumer electronics industries in order to develop a single security standard for digital music. The big five - EMI, Warner, Sony Music, Universal and BMG- were in on it from the start and with this initiative, they brought together 150 content, hardware and software companies as well. About 250 people of these companies came together every two weeks for a couple of months in order to establish the industry’s standards, organized by the supervisor of the MP3 creation. (The Big five hit the web, 1999)

In the year that followed, EBITA increased 7.7%, despite the decline in Recorded Music. The market for Recorded Music however increased by 3%, by which we can conclude that EMI performed worse than the market in the year 1999. In 2000 and 2001, EMI continued to support SDMI and by 2002 the turnover made by recorded music has declined only a little, namely from 2032.5 to 2029.4 million pounds. (AR EMI Group 2000, 2001) By that year, EMI realized that piracy had become a real problem since most people started believing that music should be free.

Starting from 2002, EMI had taken a more proactive position when it comes to piracy. The company used copy-protection on local repertoire in regions where piracy is of real concern and was also testing a new technology that would prevent unauthorized copying, but still permitted limited personal copies. (AR EMI Group 2002)

However they could not prevent that sales in Recorded Music still fell 12.6%, mostly due to the increase in digital and physical piracy. (AR EMI Group 2003) Again, EMI performed worse than the market, which declined about 9% on average. This is confirmed by several articles stating that pirated music sales kept increasing and were estimated at 4.3 billion dollars in 2001. Culprits are especially East-Asia and central Europe. (Fighting Back, The Economist) Even file-sharing on Kazaa went up with almost 1.5% in 2002. (In a Spin, 2003)

The Economist even stated that over one third of all CD’s and cassettes were illegal copies and in 2001, about 1.3 million pirated CD’s were taken by the Recording Industry Association of America’s anti-piracy unit. This is an increase of 133% since 2000. (In a spin, 2001)

In 2003, EMI started performing better than the market. Although mechanical revenues (CD&DVD sales) still declined by 4.4% and were providing less than 50% of the total turnover for the first time, it still outperformed the market, in which mechanical revenues declined by 5.6%. (AR EMI Group 2003) This performance might be thanks to the global anti-piracy team EMI Recorded Music had created. The goal was to lobby governments in order to enact and enforce stronger legal penalties and procedures to protect their music. (AR EMI Group 2004) However, the number of file-sharers in America which used Kazaa, Morpheus or another file-sharing service, reached 14.4 million. Despite the fact that EMI performed better than the market, its CD sales were still declining, in contrast to the number of illegal downloads. (Fighting Back, 2002)

In order to resolve this problem, a lot of record companies, including EMI, started a series of lawsuits to raise awareness in 2004. This way they wanted to lower illegal file-sharing. (AR EMI Group 2004)

It is not until 2007 that EMI decided to leave digital rights management behind. iTunes sold these higher quality and less protected tracks at a higher price in return. (EMI’s Last-Ditch Effort: DRM-Free Music, Wired) This kind of downloads had become established all over the world by 2008, mostly led by EMI, who was the first major to leave DRM behind. (AR Terra Firma 2008)

What we can conclude from its overall strategy against piracy, is that EMI mostly focused on protecting their copyrights in the first couple of years. But after 2004, this focus
weakened as the results were not what it had hoped for. Perhaps the collaboration of the SDMI should have been a collaboration in offering a music service instead. In that case, it would have been on the market before iTunes seized most of the opportunities in 2001.

4.2 Marketing and Synchronization

Promoting songs and albums, not just for buying purposes but also for synchronization purposes, is a necessity for every record company. Synchronization can even be used as a marketing tool as well since people can hear songs through movies or advertisements and decide to buy it later on.

After a disappointing year of sales of the U.S. catalogue on an international level, EMI created EMI-Capitol Entertainment Properties in 1997. This focuses on the marketing and the development of the company’s catalogue. (AR EMI Group 1997) Album sales increased 3% in 1998, which might be thanks to their previous investments in marketing, but is also due to a switch from cassettes to CD’s, since the cassette sales declined. In 1998 EMI’s new management team decided to put more focus on the market, especially on music selection and marketing. (AR EMI Group 1998) This has done some good to Music Publishing, whose sales increased by 6%, but market share fell by 0.7%. In 1999, some new staff was hired for promotion and marketing of pop and R&B. The existing catalogue was heavily promoted and EMI was successful in increasing the number of songs used in advertisements, television and films. (AR EMI Group 1999) Even though the market share in Europe, Asia and Latin-America increased, a big loss of the U.S market share made sure that the global market share decreased from 13.2 to 12.5%. (AR EMI Group 2000)

Starting from 2001, synchronization became more important and represented 13% of total revenue. (AR EMI Group 2001) This made Music Publishing revenues increase by 6.5%. In 2002, a global marketing unit was created to exploit the international potential of albums. Even though EMI expected a 10% increase in album sales (AR EMI Group 2002), sales declined by 12.6% in Recorded Music. Synchronization however, grew by 7.9% and can be seen as a bit of a compensation for the decline in sales. This means that EMI is still capable of exploiting its catalogue, although it is less and less in terms of physical sales. (AR EMI Group 2003)

Starting from 2008, EMI used the internet as an extensive source for marketing purposes. It also made a platform in order to segment consumers according to music tastes and purchasing habits. This is a good indication of where an artist should tour and how promotional budget should be spent. (AR Terra Firma 2008)

It is difficult to say which influence marketing really had in the entire process, but what can be concluded is that EMI was partially capable of compensating its decline in physical sales by focusing on synchronization, which revenues increased each year.

4.3 Restructuring

Restructuring has been an extremely important task for EMI in the past fifteen years. Several takeovers have led to mostly cost restructuring activities in order to increase the EBITA.

In 1997, cost restructuring was not yet necessary and EMI was mostly occupied with streamlining the North-American management with the international division. In addition, EMI Recorded Music reorganized sales and distribution. This way service levels for
customers were improved, but costs were lowered. (AR EMI Group 1997) However, EBITA still declined despite the lowering of costs, but this was mostly due to a deep fall of the exchange rate. (AR EMI Group 1998)

Starting from 1999, EMI has started to appoint some senior executives in order to oversee the digital activities on a global basis. (AR EMI Group 1999) This is followed by an increase in the EBITA by 7.8%.

It is not until 2000 that EMI started its cost restructuring initiatives, which were necessary in order to deal with the almost constant decline of revenue since 1996. In 2000 they established a shared services project and restructured the European distribution and manufacturing operations. (AR EMI Group 2000) As a result, return on sales increased by 0.2% and EBITA increased by 2.4% more than turnover did that year. (AR EMI Group 2001)

2002 was a year in which a lot of restructuring took place. A new management team for Recorded Music was put into place and the business was repositioned for future growth, which would imply cost savings of almost 100 million pounds, of which the majority should arise in the financial year of 2002. Nevertheless, financial data indicate that both EBITA and return on sales declined significantly, respectively by 26% and 4.6%. However, the restructuring came at a price, which was 242.4 million pounds and partially explains the bad results of the EBITA. The costs include a reduction in headcount and the number of artists under contract. But the low performance is not all due to the restructuring but also due to a poor performance in Latin-America and the closure of some loss-making labels. This was the first phase of EMI's approach.

The second phase was more long term and needed to bring the company into a more modern perspective. It included redesigning IT systems, pursuing new channels and formats, exploiting the internet fully and becoming a more broadly based music business in the process, instead of just a record company. In order to do this, EMI had appointed new creative label heads, who should be able to shape new trends. The creative processes were supported by strong business processes, like a chief operating officer for keeping financial discipline.

The first part of this long-term phase was already done in 2002, when the resources of EMI and Virgin were combined, creating an overall head, two streamlined labels and merged accounting, IT, HR and sales services. This way, the cost base is reduced and ideas could be shared more effectively. (AR EMI Group 2002)

In the next year, EBITA increased by 33.1% but sales in recorded music fell, not only thanks to piracy but also due to the disruptive impact of the restructuring activities, by especially in continental Europe and at Virgin America. The global market sales only fell 8.7% which means EMI performed much worse. (AR EMI Group 2003)

Then in 2004, mainly because of the continued decrease in physical sales, EMI decided to outsource its manufacturing. This went hand in hand with another headcount reduction and a new management team in continental Europe. Some of the sub record labels also underwent some restructuring. These decisions made sure that there were annualized savings of 50 million pounds. (AR EMI Group 2004) EMI seemed to have accomplished a lot of cost savings with this restructuring because by 2005 operating profit increased by more than 300% while turnover decreased a little. (AR Terra Firma 2008)

When EMI was taken over by Terra Firma in 2007, the main goal of the company was to restructure EMI completely in order to gain cost savings that were needed to keep the company healthy. They wanted EMI to be the most innovative, artist-friendly and consumer-focused music company in the world, with a sustainable financial performance.
Terra Firma decided to bring the key support activities, like marketing, under unified global leadership and found it important that EMI's labels would work more closely with their artists. Thanks to the new support functions, the artists and EMI should have been able to extract more value from their work and EMI should also be able to speed up decision-making. Headcount was reduced again by about 1500 people and in total these changes should have gotten cost savings of about 200 million pounds. (AR Terra Firma 2007)

When it comes to the digital music aspect of EMI, a vice-president was appointed for their UK division and they also increased the responsibility of their digital teams in order to grasp more commercial opportunities. They took on some new partners (like iTunes and Vodafone) and would continue to build up partnerships with mobile operators and internet companies. They have also expended their staff on Web design and development. This way, EMI hopes to be able to fully exploit digital opportunities for its labels. (EMI restructures digital teams to exploit growth in new media, 2006)

In 2008 they brought in some new people - including a new Digital President and new CEO- to reduce the salary bill and to bring in a new perspective from outside the company. This transformation of senior management added people with experience in as well digital as the consumer market, experience EMI lacked before. In addition, they changed their structure and created three business units, namely New Music, Catalogue and Music Services. Performance targets and the general strategy were set globally but the delivery was still regional. With a more international approach EMI hoped to share resources and reduce competition between regions, which had been the case when the structure was still territorial. (AR Terra Firma 2008) This international approach goes hand in hand with a new matrix organization. This will cut duplication and promote knowledge-sharing and best practices. (AR Maltby Capital 2008)

In conclusion, EMI has done a lot of restructuring over the years, but only later on, it seemed to be paying off. These cost reductions were however a necessity as EMI was facing huge debts and needed to find a way to repay them.
4.4 Digital Services Offered by EMI Alone

Because EMI mostly believed that partnerships were the way to go, the number of services they offer without help or support from other companies is very limited. However, this subtitle is still important as it shows the evolution in EMI’s thinking concerning the use of digital websites.

Already in 1996, EMI started offering internet sites for some of its labels. These websites however, were merely informational and there were no possibilities for downloads or streaming. The impact on its revenues was therefore purely minimal if not non-existent. (AR EMI Group 1996)

However, by 1999 these 45 websites had already 3 million visitors from all over the world. One of these websites included a lyric search engine. In the meantime EMI was trying to digitize its audio and video by developing several business models and they predicted that digital downloading should have been possible within the same year. The company was able to do this by using several partnerships and had put an extensive archive of their musical catalogue online. (see 4.5) (AR EMI Group 1999)

However, Recorded Music still faced a decline of 1.2% in 2000, even though the market increased by 3.1%. New media only contributed 23.6 million to the 2032.5 million pounds turnover they made in 2000, which indicates that digital downloading had not yet taken off properly for the company.

As a consequence, EMI started to put significant investments in IT to increase its internet presence. In the annual report of 2000, New media finally got a separate title, indicating that EMI was starting to see the importance of this new distribution channel. However, it is surprising how EMI states in the annual report of 2000 that they had no plans to capitalize on the e-commerce boom in a direct way.

"Why would [consumers] want to deal with a single record company?"

This indicated that EMI’s focus in the future years would be merely on partnerships. EMI wanted to wait with exploring the Net until music was made highly accessible and usable. (AR EMI Group 2000)

Even though the world music market for Recorded Music decreased by 3.9%, EMI was able to establish a 12.2% growth of its Recorded Music turnover. They were able to get a bit more revenue out of new media, which stood at 30.7 million in turnover of a total of 2282 million pounds.

In 2001, they continued their investments in websites. They established a Beatles’ website with web based chats for example and expanded their website in order to serve licensing customers more effectively. So in 2001, there was still a big focus on partnerships. (AR EMI Group 2001) However, this time the recorded music turnover declined from 2282 million pound to 2029 million by 2002. In that year, they expanded their websites’ permits, making customers able to search in their catalogue in different ways. (AR EMI Group 2002) However, they were not able to get their revenue back up and their Recorded Music turnover declined more than the market did.

Music Publishing’s websites were key to the revenues made in 2003 concerning digital content. Music Spa is one of them and advertisers and their agencies can use this website to work with EMI’s Resources Group and sample and identify the music which they can use for their commercial campaign. In addition, ring tones and video games are also an increasing source of income. (AR EMI Group 2003)

The annual report of 2004 was relatively positive about the digital products EMI had offered in the previous year. Asia and Europe were very acceptant of the music products offered and in North-America, downloads became more popular. But revenues on digital downloads remained just a fraction of the total revenue Recorded Music made between 2003 and 2004, which declined by 2% in comparison to the financial year before.

In 2004 EMI finally started investing in a technology change program to make the company increasingly digital. This happened after stating that they were not going to pursue the internet business in a direct way just four years earlier. (AR EMI Group 2004)
The company was trying to make their tracks available to consumers but this probably had little effect because total turnover in 2005 stayed about the same. (AR Terra Firma 2008)

Five years later, in 2009, EMI had dropped their idea of approaching New Media indirectly completely and was planning to set up its own digital music store. It should include audio and video and a combination of paying per download and free listening. EMI also hoped to gain some customers by offering EMI specific content which cannot be found anywhere else. (EMI Planning Own Music Service, 2008)

In addition, EMI.com was launched, where visitors from the UK and the U.S. could stream songs on demand, create playlists and discover new music. EMI hoped that this way, they could gain more knowledge about their customers preferences. Since the website only extended to the EMI catalogue, it is only fair to ask the question whether many people were interested in this, assuming that there are other, more extensive options available. (EMI Launches Its Own Music Website, 2008)

On another note, EMI Australia had also launched a music blog, with EMI content, links and more importantly an A&R dropbox, where bands or fans could recommend bands the label might be interested in. (First' Major Label Blog Launches… in 2009, 2009)

EMI’s continuous efforts seemed to be taking off since its Recorded Music turnover increased by 6.5% by 2010 and it continued its efforts in that year by launching the Your SoundCheck project (www. yoursoundcheck.com). Consumers get free access to pre-releases and exclusive content and in return they give their opinions on EMI releases and strategy. (EMI launches consumer insight portal, 2009)

What we can conclude from this analysis is that EMI had different ideas concerning what to do with the opportunity. At first, they were very eager on pursuing it, but only through partnerships as no one would want to deal with a record company by itself. This is a very understandable assumption since EMI has only a limited music library available. Over the years, this plan gradually changed and now they have a website with the possibility to buy special sets of CD’s from a certain artist, but for digital content you are still linked to iTunes. This indeed confirms the fact that EMI cannot offer a digital service on its own or that it was too late in capitalizing on the opportunity.

4.5 Digital Services Offered in Partnerships

In the earlier years of the digital revolution, EMI was not very eager to go in head first and as a consequence, they had quite a few partnerships. The most important one being MusicNet, which, together with PressPlay, was the only attempt the majors made at establishing an online music service without the middle man they need today.

But even in 1999, EMI had several partnerships with companies like Microsoft, Amazon, Broadcast.com and AOL. EMI was thereby the first to license its music online. However, early digital turnovers were minimal compared to total turnover and the Recorded Music section even declined slightly, even though the general market showed an increase of more than 3%.

In 2000, EMI extended its partnerships by creating an online sheet music library, together with the digital rights management company Net4Music. In total about 100 000 songs were supposed to be posted. (Digital Music Will Cost You, 1999)

The annual report of 2000 describes a great deal of other new media companies with whom EMI had formed a strategic alliance. Fifteen in total, divided over internet websites, encryption and secure technology and other media. These are the most important ones:

- Microsoft - A nonexclusive agreement whereby Microsoft had given EMI credits to encode up to 5,000 music videos in Windows Media format. These videos will be available on EMI’S primary websites and are also available to EMI’s licensees.
Musicmaker.com - An exclusive agreement whereby customers can select tracks on the website and create their own compilations, which are then manufactured in CD format and send to the customer.

Listen.com - Which helps customers find music on the net that is downloadable and digitized through various technology formats.

Liquid Audio - Non-exclusive agreement for the creation of digitally encoded copies for secure digital delivery (Supertracks and Preview systems have agreements of the same kind)

Launch Media - Non-exclusive agreement for the streaming of music videos for free.

RadioWave.com - Non-exclusive agreement which provides internet-only radio channels and a link to where CD’s can be purchased

BT Cellnet- Exclusive agreement to deliver the latest pop news to UK applicants on their phones.

Digital-on-Demand - A non-exclusive agreement to manufacture and sell albums through DOD’s in-store interactive kiosks. Customers can select albums and the content is burnt onsite on a CD.

EMI owns equity stakes in several of these companies in return for access to EMI’s content. (AR EMI Group 2000)

It seems as if the many partnerships EMI has founded in 2000 paid off, since the turnover for Recorded Music increased by 12.3% by 2001, whilst the world marker declined by 3.9%. The part of the turnover that was made by New Media had increased as well, although it was still a small part of total revenue. Then finally in 2001, the majors worked together to form the MusicNet and PressPlay Partnerships. EMI, Warner, BMG and Real Networks came together and founded MusicNet, which supposedly had to be world’s largest online subscription music service. In addition, EMI was the first to make its content available to PressPlay as well. However, the fact that it wasn’t possible to burn files in the first months of their launch, was a flaw that probably had to do with the unsuccessful outcome of the story. Another factor that played a big role was the fact that America’s Justice Department and the European Commission had opened an antitrust investigation into the online music business. Both MusicNet and Pressplay could give reason for anti-competitive problems. The majors had been accused of being to slow in the distribution of music online and for being unwilling to license to smaller distributors. (Big music’s digital nightmare + In a Spin, 2001)

In the meantime, EMI was still working with Liquid Audio and Windows Media and announced that 200 singles and 100 albums would go on sale in these formats, with even more albums and singles to follow if it was proven to be successful. The songs had been put online at 50 different retailers with the purpose of making buying music as easy as stealing. With the all-in-one player that provides audio, video and mp3, EMI hoped to have an application as easy as Napster and Gnutella. After six months, 4 000 albums where downloaded and for EMI, this was prove that the application was successful. (EMI Gets Down With Downloads, 2000)

Apart from these two major partnerships, EMI also cooperated in a few smaller partnerships. Here are the most important ones:

- GigaMedia - Broadband internet access service and content.
- IchooseTV - London based on-demand entertainment network.
- Imhotec - Musictabs, software application for music promotion.
- MusicBrigade - Online video streaming.
- Virtue Broadcasting - Streaming and internet broadcasting.
- Nokia & Yamaha - Custom downloadable ring tones.
  - The global mobile ringtone market raised 71 million dollars for artists in 2002, 58% up since 2001 (In a spin, Economist, 2003) and sales would gain another 40% by 2003 outperforming the sale of singles, even those produced by iTunes. (Ringing the changes, 2004)

- Peoplesound.com - EMI offers contracts to the most popular artists.
• MP3.com - My.MP3 lockers.
• ClickRadio - Customized streaming.
• Limewire - Limited selection of videos from the Priority Records label through the Gnutella Network. (AR EMI Group 2001)

However, the newly formed partnerships seemed to have no effect on revenue since Recorded Music turnover declined from 2282 million in 2001 to 2029.4 million in 2002, even though they had licensed their music to over 70 different companies in 2002. Some arrangements include one with Ecast for a digital jukebox and one with Listen.com for online music streaming subscriptions.

At this moment in time, MusicNet was still facing many obstacles, but a recent agreement with music publishers concerning royalty payments to songwriters removed at least one of them. AOL and RealNetworks would sell music through internet subscriptions, so MusicNet was not selling directly to its consumers, unlike Pressplay. Both music services were at that moment still waiting for the possibility to burn files securely. As long as that was not the case, they would not offer this option to their clients. Forecasts however predicted that revenues would start growing in 2003, when all of these flaws had vanished. (In a spin, 2001)

By 2003, EMI had teamed up with 9 distributors of digital music, MusicNet and Pressplay among others, whom made it also possible to download and buy singles. (Fighting back, 2002) However, EMI’s most successful digital applications at the time were still ring tones, which were even outperforming iTunes. This success story was then still performing under 100 million dollars a year worldwide. (Ringing the changes, 2004) Accordingly, digital music showed an increase of 130% of EMI’s music publishing department in 2004, where indeed, most of the revenue was derived from ringtones.

Starting in 2004, iTunes was emerging as a threat to the newly formed music services of the majors. With more than 2 million songs sold since its launch, it was well on the rise to become the world’s largest music distributor.

In addition, Grokster and Streamcast, two peer-to-peer online services were able to continue to operate, since they won their case in court. Already 60 million dollars was pumped into MusicNet since its launch, but it had only 100,000 customers to share with PressPlay. Even though MusicNet received new funding from RealNetworks, EMI, Warner and BMG, the number was not going to go up much, since there was hardly any recognition among music fans. In addition, RealNetworks planned to drop the commercial distribution of MusicNet in the future, since it had already partnered up with someone else at the time. (Let Someone Else Do It: Dig Tunes, 2003)

In the meantime, EMI kept focusing on ringtones as well, by partnering up with Verizon Wireless in America. (Ringing the changes, 2004) But then again this didn’t seem to change much about the future of the music business as global music sales still fell by 3% in 2005 and EMI’s total revenue went down by almost the double. (AR Terra Firma 2008) EMI tried to keep increasing the ring tones sales in 2005 by creating a new application which customers could use to create personalized mobile phone ringtones, called MyTone. The technology itself was developed outhouse. (EMI tests system for consumers to design their own ringtones, 2005)
Because digital revenues still only represented about 10% of Recorded Music revenue, (AR Terra Firma 2007) EMI was obviously trying to put more effort into music publishing. Ringtones had already been a major source of income but in 2006, EMI had also struck a deal with MCPS-PRS(UK) and Gema(Germany) in order to offer a shop for licensing its repertoire online or on mobile phones. This way, digital music services did not need several licensing agreements per market, but only one single license. (EMI inks Euro digital deal, 2006) Nevertheless, From 2004 onwards, Music Publishing turnover only increased slightly and represented only 22% of total turnover. EMI was however, still the biggest Music Publishing company in the world and digital sales grew by 68.3% in 2007.

In the meantime Apple was taking over the market for music downloads and represented 83% of the market. EMI had already licensed its songs to the company and the contract was up for renewal in 2007. All majors wanted to be able to charge variable pricing and this had indeed happened, together with DRM-free music. (Your fix or mine?, 2006) Other licensing agreements with Nokia, Sony Ericsson, Youtube, Google, Myspace and consumer brands were also increasingly important to EMI, especially since they wanted to get their revenue for Music Publishing up. It seemed to be working as well, since revenue was up by 16.7% between 2007 and 2009.

Other partnerships in 2009 include an agreement with InMotion, whereby air travelers can purchase DRM-free music for their audio devices at kiosks in U.S. airports (EMI To Sell Albums on Airport Kiosks, 2008), a deal with QTrax for allowing users to download free music in an ad-supported environment (QTrax ‘Free And Legal P2P’ Network Signs, 2008) and a deal with a British grocery store for lyric-printed t-shirts from the catalogue. (EMI Licenses Lyrics for Clothing, 2008)

By 2010 new deals were signed with Sky, Rhapsody, Napster, Deezer, MOG, RDIO, Grooveshark, Stingray Digital (Canada), Australian Telco AAPT, and Hungama Digital Media (South East Asia), Hulu, VEVO, etc.
What can be concluded from its increasing amount of partnerships is that EMI has definitely tried. MusicNet came around relatively soon, but the limited possibilities for consumers made it an unsuccessful story. In general, EMI has shifted from a focus on Recorded Music to a believe that Music Publishing had far more potential for the future. Ringtones became an important part of their revenue, but as the importance of the source declined, so did their turnover. However, this did not keep EMI from trying to license its music to every service possible and in the end it is paying off. They have gone up by 11% since 2008. This is mostly thanks to an increase in Music Publishing, but also Recorded Music has gone up since then. It is unfortunate that the financial results of the last two years were untraceable since it would give a better view as to whether they were able to keep up with their latest upward trend. (AR Maltby Capital - EMI 2010)

4.6 Mergers and Acquisitions

Over the past years, EMI has done several acquisitions and strategic investments. But most importantly, it was in constant talk with other majors concerning a merger. This, however, never actually happened and in 2012 EMI was acquired by Universal.

After several acquisitions in 1996 and a few new operating companies in the Middle East, Philippines and Colombia, EMI operated in 42 countries and through licensees in another 36 countries. (AR EMI Group 1996) They acquired the highest turnover ever in that year, but these revenues decreased quickly in 1997, by 8%.

Until that moment, EMI was still in a joint venture with Thorn, an electrical engineering business. However, shareholders voted for a demerger in 1997, which had probably to do with the little synergy there was between the businesses. (Thorn EMI’s fissile future, 1994) From that moment on, EMI was an independent label.

In addition, EMI expanded its presence in South-Korea by establishing a joint venture with one of the country’s leading music production houses, Revolution Number 9. It also purchased the remaining interests in its Venezuelan and Hungarian companies and expanded into Turkey by acquiring a majority interest in Kent Electronik. Moreover, EMI Music entered Lebanon and Uruguay, obtained government approval to establish companies in Indonesia, Peru, Ecuador and Paraguay, and opened offices in Shanghai and Beijing. In the US, EMI Music acquired a 50 per cent interest in Priority Records, a major independent label, Capitol Records acquired a 49 per cent interest in Matador Records, an alternative New York based label, and established a joint venture label, Java Records. The EMI Christian Music Group acquired Forefront Communications, the largest US independent Christian Music label, and EMI Belgium acquired the pop label Play that Beat. All of this was done to strengthen its long-term position on the market. (AR EMI Group 1997)

Despite the demerger, EMI got a sales growth of 5.8% in the year that followed and therefore outperformed the world market, which had only a 3.2% increase. However, despite the fact that they had a sales growth, general turnover still declined by 6%. It also seemed that the many acquisitions did nothing to sustain their long-term growth, as we see a systematic decline in turnover from 1996 till 2008.

The acquisitions continued in 1998, with several investments in publishing catalogues and the acquisition of labels like Priority records. Again, EMI also established new companies in the emerging music markets of Bolivia, Ecuador, Paraguay, Peru, and Uruguay. (AR EMI Group 1998)

The most important decision in 1998 was the sale of the HMV group. This was done in order to reduce EMI’s indebtedness and to release capital for continued investments in the global music business. It is important to note that EMI still owned 43% of the stakes, but made sure that it was not a majority stake. (EMI Group: chronology, Ketupa.net) 1998 was also the last year during which new foreign EMI offices were established.

That year, turnover declined again, mostly due to an economic crisis in Brazil and after several acquisitions and investments in 1999, revenues rose again by 0.5% in 2000.
Then in 2000, the first 50:50 merger talks with Time Warner started. However, both companies decided not to go through with it in the end because of the current state the market was in and because of opposition from European regulators. EMI stayed independent.

Several acquisitions were also made in that same year and the next one.

In 2001, EMI was already in talks with BMG, just one year after the deal with Warner did not go through. This time around, in order to prevent a long investigation, they decided to see at first if the regulators would be against this deal again. Regulators needed to investigate how dominant the joint venture would be in the market and the number of majors needed to be kept at 5, so one of the bigger independent labels should become a new major. (EMI, Bertelsmann Deal in Trouble, 2001)

EMI was hoping to generate very needed cost savings with a merger, but EU competition officials were still planning on subjecting the companies to a big investigation and the merger was called off. (Gone again, 2001)

Then in 2003, EMI was in talks with Warner again. This seemed a good deal at first sight since EMI is strong in Europe, while Warner has a stronger presence in America. A merger could create cost savings of almost 150 million pounds but both companies were in debt and could not provide each other with the desperately needed cash. (In a spin, 2003)

In the end, this was another deal that never got signed and instead, EMI decided to get rid of some unprofitable operations and joint ventures in order to save costs in another way. In addition, it decided to acquire another stake in the Jobete catalogue, bringing EMI’s total share to 80%. This way, EMI has greater control over the Motown catalogue. In 2004, it even bought the remaining 20% of the catalogue.

Even though EMI was not able to generate the cost savings needed by merging with Warner, the company was still able to perform about the same as the year before and this in a year in which the market declined by 6%.

For the third time in a decade, EMI was talking about a merger with Warner in 2006. EMI’s shares had gone up by about 100% since 2003 and the company felt ready to explore its options. Again, a merger would generate cost savings of about 150 million pounds every year. Since Sony and BMG already merged and Universal had a much broader range of artists, a joint venture would give EMI and Warner a better market position. However, EMI and Warner might have complemented each other when it came to repertoire, but when it came to management, they had different ideas. EMI is all about finding new talent and spends the double of Warner’s budget in search for it. (AR EMI Group 2004)

Again, this merger did not go through, which is unfortunate because EMI could really use the cost savings as sales declined by 15% between 2006 and 2007. EMI even placed an offer in 2007, but this was rejected by Warner. (Not singing the same tune, 2006) Instead, EMI was acquired by Terra Firma, which ended the independence of the label.(AR Terra Firma 2007) However, in the following year EMI’s revenues went down by 24% but EBITDA increased by 245%. Terra Firma was mainly focusing on cost restructuring, which they seemed to have done quite well, since the EBITDA increased a lot. However, this happened in spite of a large decline of general turnover. The increase in EBITDA is probably largely due to the incredible reduction of headcount and the changes in senior management, whose payments were also decreased.

In 2008, Music Publishing signed a number of important administration deals and acquired a Spanish production library business, with whom it previously had a joint venture. It is a way of extending the catalogue at low costs and according to EMI’s annual report, the result was encouraging.(AR Terra Firma 2008)

In 2010, EMI acquired loudclothing.com, the second largest distributor of entertainment merchandise to retailers in Europe. (AR Maltby Capital-EMI 2010)

By 2011, EMI was no longer part of Terra Firma, who was not able to pay off the increasing amount of debt. Because of this, Terra Firma handed the company over to Citigroup, the bank that financed the deal in the beginning. The bank reduced EMI’s debt
by 2.2 billion pounds and now the company has been taken over by Universal. (The magical misery tour, 2011) The combination of EMI’s and UMG’s recorded music under the same company should generate synergies of about 100 million pounds. (AR Vivendi 2012) However, artists were not pleased during the acquisition by Terra Firma and a lot of unsatisfied artists left the label as soon as they could, Paul McCartney and the Rolling stones among others. (Paul McCartney cuts ties with EMI, 2010)

What we can conclude from EMI’s many attempts to merge with other majors is that, even though it has been an independent label for a while, it is impossible to stay solo after the downturn the general market is facing. Being acquired by Terra Firma might have been an ideal way to cut costs, but in the process, it lost a lot of important clients who were against the acquisition in the first place. However, the enormous reduction of headcounts and the cleansing of the balance sheet by Citigroup reduced EMI’s cost base and its debt, making it just a little bit more capable of facing the future.

4.7 CD/DVD Development

As digital downloading became more and more important, changes in the industry led EMI to give less and less attention to the development of its CD’s and DVD’s. However, in the early days, when the importance of downloads was not that clear yet, some important investments were made.

In 1996, the famous Abby Road studio in London was updated with a multimedia recording facility, the first of its kind, built by Apple Computers Inc. (EMI Finally Advances Into Multimedia, 1995) In addition, EMI started further developing music CD ROMs and Enhanced CDs in order to provide consumers with both a full quality audio release and multimedia elements. (AR EMI Group 1996) EMI also teamed up with Virgin Interactive Entertainment for these enhanced CD’s. Virgin handled sales and distribution into the computer software pipeline and other non-music streams. EMI also partnered with Holtzbrinck in order to mine musical resources for the development of reference CD-rom titles. EMI will distribute to music retailers, while the Holtzbrinck group distributes part of the music library to book and software retailers. (EMI weaves intricate plan for multimedia future, 1995)

In 1997, a central distribution warehouse in Europe was installed, to make the distribution faster and easier. All these changes made sure that the distribution, together with the quality of CD’s improved, but a lower turnover in 1997 and 1998 could not be prevented.

The next development in CD’s and DVD’s did not happen until 2002. In that year manufacturing operations were improved. The Swindon plant closed and was replaced by the plant in Uden, Netherlands. Hereby, EMI hoped to improve the capacity utilization in Europe. (AR EMI Group 2002) However, mechanical royalties were already declining fast at the time and comprised only 53% of the turnover in 2003, compared to 60% in 1998. In 2004, EMI decided to start outsourcing its manufacturing through MediaMotion for the Netherlands and Cinram International for the U.S.. This in turn would reduce the manufacturing costs and the variable costs consistent with changes in volume of sales. (AR EMI Group 2004) This had been a fairly good decision as sales of physical CD’s declined by 45% between 2005 and 2007 in contrast with the global market, which showed only a 19% decline. (AR Maltby Capital 2008) Then no developments happened until 2010, with the re-release of the Beatles albums. This was a good marketing step and sales that year were higher as those in 2009. (AR Maltby Capital-EMI 2010)

Overall, the development of CD’s and DVD’s did not have much impact on the decline of revenue over the past few years. Outsourcing manufacturing was probably the only
decision that actually made a difference, since it cut some costs, which EMI desperately needed to do since physical sales were contributing less and less to the core business.

4.8 Artist Roster

EMI always proclaimed to be a record company in the search for new talent. Their artist roster was therefore always of crucial importance in ensuring revenue. But later on, cuts had to be made in order to ensure the revenues of artists outweighed their costs.

In 1999, EMI was still increasing its share of local music repertoire and it even added resources to the regional management in order to enhance the ability to search and build regional repertoire. (AR EMI Group 1999) Revenues rose between 1999 and 2000, but this mostly thanks to Music Publishing. EMI claimed in its annual report of 2000 that these regional strategies were paying off since its European market share rose by 0.1%. (AR EMI Group 2000) The next year, it kept on strengthening its roster by signing new artists and writers. Nevertheless, revenues of Recorded Music declined and in the annual report of 2002, EMI faced the fact that no real ‘superstars’ were created. This is why the company started reducing its artist roster in 2002 by about one quarter. EMI realized that it needed to focus on the right artists. (AR EMI Group 2002)

25% of Music Publishing derived from public performance of catalogue songs and increased by 3.3% in 2003, which made it the fifth year in a row that performance revenue had increased. So despite the cutting down on artists, EMI was still able to generate a sustainable revenue out of live performances. (AR EMI Group 2003) The graph below shows the increase in performance revenue sources over the past six years.

![Figure 9: AR EMI Group 2003](image-url)
The streamlining of the artist roster continued in 2003 and 2004, in order to maximize sales, and efficiency and performance revenue increased again by 3.5% in 2004. (AR EMI Group 2004)

However, between 2004 and 2007, EMI’s share of new releases in the top 200 albums fell by 40% and 32% in the U.S. and the U.K. respectively. This actually indicated a decline of A&R performance over a longer period than just 3 years, since there is time needed between finding new talent and releasing an album. (AR Maltby Capital 2008)

Starting in 2008, EMI streamlined its labels and made sure that they were solely focused on artists and repertoire (A&R). The company also decided to adopt the “360°contract”. This offers artists a broader contract than just CD sales. It also offers live music, merchandise and endorsement deals. These contracts are especially important in countries with a lot of piracy. (The music industry: A change of tune, 2007)

These new contracts seemed to be paying off, since revenues between 2008 and 2010 increased. The graph below shows how important performance revenues can be for a major like EMI, as sales of concert tickets keep on increasing every year.

![Figure 10: What's working in music, Economist](image)

So EMI moved from a focus on constantly extending its artist roster to a streamlined roster which focuses on its core artists. In addition, EMI decided to pay more and more attention to revenue streams outside of CD sales. The cutting away from several artists to focus on the core could have been a good move, but it needs to be stated that record labels are also supposed to discover new talent, something EMI was less and less successful at in the last few years. The future of the company depends on exploiting new talent and with McCartney and the Rolling Stones gone, they has lost some of its highest live performance earners. The 360 degree contract can help sustain EMI’s revenues, if the company is capable of selling these contracts to its artists.
5 Discussion

After carefully assessing the different categories, it is time to draw final conclusions. The next chapters will discuss which strategies had the most impact and whether or not this impact was positive or negative. In addition, competitors will be subjected to a short evaluation as well in order to see whether EMI is an exception or whether the entire industry is reacting the same. It is also of importance to look at the more recent competitors, who only compete through the new technology. According to Christensen’s predictions, they should be doing better than the incumbents and the chapter ‘literature’ will therefore compare his findings and others to the results found. Finally a careful prediction of the future will be made, answering the question as to whether the majors will continue to survive.

5.1 Strategy

When looking at EMI’s strategic decisions over the past 15 years, three major strategic phases can be identified: piracy, digital collaborations and massive restructuring. First of all, until 2000, piracy prevention was its main purpose. The Secure Digital Music Initiative came to live, it worked on technology that should prevent unauthorized copying and they installed a global anti-piracy team. Of course, it cannot be denied that the market had proven to be very challenging for EMI when downloading and piracy became an option. The International Federation of the Phonographic Industry (IFPI) even stated that the number of illegal downloads were twenty times higher than legal sales online. But piracy is a complex matter and it is hard to establish the real impact as it often also raises artist awareness. After all, consumers are not very keen on buying an album from an artist they do not know very well. In contrast, digital piracy is free and lowers therefore the barriers to discovering new music. Despite the many attempts to get piracy under control, like the Secure Digital Music Initiative and the several lawsuits that followed, prevention proved to be more difficult than originally thought. It is therefore not surprising that EMI had lost 13.3% of its revenue by 2000.

During that period, EMI had been the first to work with new technologies that sustain their CD sales. In the late nineties, EMI was updating the quality of its CD’s and building the first of its kind multimedia studio. This indicates that EMI was investing in incremental innovations to sustain its market share for CD sales. However, the company never had any intention early on to invest in other technologies, like downloads, that were not in line with its sales. After all, at the time, the Recorded Music department got most of its revenues out of physical sales and had a business model that accompanied this. In fact, it spend more money on prevention than on investing. The difficulties EMI faced over the past years were at least in some part due to the lack of establishing severe changes in its organization during this period. MusicNet is one example, as it could have been successful if the majors working on it had not decided to put so many restrictions on their downloads and making other services more attractive in the process. In addition, EMI never looked at strategies or standards beyond their own industry. An innovation by a computer giant like Apple was therefore not foreseen. (Maltby Capital Annual Report 2008)

The second phase started in 2000, when EMI slowly started embracing the new technology and licensed its content at least partially to other services. However, EMI was still not very keen on investing in the technology itself, as the company stated in its annual report of 2000. Digital revenues came mostly from websites with streaming or download possibilities and ringtones.
After a peek in 2001, revenue declined by 45.4% in the next 7 years. The reason for this decline cannot be explained by market conditions only, since the other majors faced a decline of a much smaller caliber. Warner, EMI’s MusicNet partner, faced only an 11% decline and Universal declined about 30%, not a great result, but still better than EMI. Maltby Capital stated that 88% of EMI’s artists made losses by 2008 due to poor selection decisions and A&R processes, combined with a lack of commercial focus. In fact, the decision-making processes concerning new artists were informal and often too optimistic concerning the commercial potential of these artists. Since the decline in revenue is mostly due to poor performance of the Recorded Music department, it is very possible that the downturn was also due to a lack of ‘superstars’ in their repertoire. A closer look into other music industry cases might verify that indeed EMI’s case was one of poor A&R as well. During the period between 2002 and 2004, EMI also did some restructuring in order to make the company more equipped to deal with the digital era. The company even appointed a new management team in continental Europe. These changes however, even though they made sure there were a lot of cost reductions and EBITA increased by more than 300%, were not accompanied by an increase in revenue, indicating that the organizational changes were not sufficient. The third phase was the major restructuring done in 2007-2008 by Maltby Capital, a company acquired by Terra Firma. It made sure that EBITDA more than tripled between 2008 and 2009. A cost restructuring that was necessary after the huge debt EMI faced. In the period between 2008 and 2010 both Recorded Music and Music Publishing were on the rise and it seemed as if EMI had started focusing on other revenue streams than it used to. Synchronization, licensing of songs to movies, advertisements, etc., has become a very important part of Music Publishing’s revenue and compensated for declines in the revenues of CD’s with featured songwriters. Music Publishing supplied 29% of EMI’s revenues and 45% of its profits in the year towards March 2010, indicating that indeed, this has become a more viable source of revenue. In addition, performance revenues rose as well, compensating the record company and its artists partially for the decline in physical sales. The 360 degree contracts should help EMI to sustain those resources. Moreover, a huge reduction in headcount, together with a management team that is more equipped to deal with the new digital era, make EMI increasingly capable of handling the future, especially since scaling down on both artists and personnel gave way to various cost reductions. In 2011 Citigroup acquired EMI and reduced its debt even more to make it more attractive for other companies to acquire. Indeed, in 2012, EMI was acquired by Universal after selling part of its labels to Warner. In conclusion, EMI is smaller in size, but better equipped to handle the next generation of music consumers.

5.2 Competition

It is clear that EMI’s story is one of many losses. But in order to see if this was all due to the disruptive technology that emerged in the mid-nineties, it is important to compare EMI’s results to the competition. When looking at the other majors, EMI clearly performed the worst. Sony still has 80% of its music revenue (Financial Results Sony), followed by Warner with 75% (AR 1996&2010) and Universal with 67% (AR 2001&2010). Universal’s results might be worse than that since we have no available numbers before 2001. Nevertheless, EMI’s revenue declined to 60% of its 1996 peak, clearly worse than Warner and Sony. However, when looking at the global market, EMI performed slightly better, as it declined by 57.6% over the same period. (Global recorded music sales fall, 2011)
So what we can conclude is that the global music market clearly suffered from this new technology, all the majors included. However, as Sony and Warner were able to keep at least three quarters of their revenue, it seems clear that some majors were better at handling it than others. EMI even lost its place as the third largest major to Warner in 2006 and with a market share of 12.8%, it stranded at the last place. Maybe the acquisition of EMI by Universal will give them a stronger position to compete in the future.

Competition for EMI does not only consists out of music labels, but new ways of buying or listening to music are increasingly hard to compete with. Even though EMI licenses its music to iTunes, Spotify, Deezer and other services, they still take away part of the revenue EMI could have earned by offering its music directly.

![Will Music Streaming Ever Be Profitable?](image)

Figure 11: Spotify and Pandora still aren’t making a profit, 2012

However, statistics indicate that even though the revenues of music services like Pandora and Spotify increase every year, they are still unable to make profits due to the high music royalties. Both Pandora and Spotify have to pay more than half of their profits back to the industry. (Spotify and Pandora still aren’t making a profit, 2012) The graph above shows the continuous increase in revenues combined with losses that even get worse each year for Spotify in particular. If Spotify and other streaming websites can keep their cost structures under control, the sustainability of the companies might be saved as revenues are clearly rising at an incredibly fast rate.

The iTunes case is one of a different caliber. Although profits run just a bit over break-even, the real money comes from the sales of iPods and iPhones, whose sales are stimulated by the iTunes store. (Apple: Billions of Songs, Billions of Apps, Not Much Profit, 2010) However, in 2010, sales went down from 847 to 841 million in comparison to the year before and the many other possibilities, like apps, that the company is offering made music executives fear that the company is cannibalizing the musical part of its business. (What’s working in music, 2010)
What we can conclude from this is that the new music services have definitely drawn the attention of customers, as their revenues increase every year. They have, however, still not sufficed in turning these revenues into viable profits. Apple has the luck that it has many other products to offer, but for streaming sites like Spotify, creating sustainable profits is still something they have to work on.

It is hard to make a statement about the future of these companies. If the firms are not able to compensate for the royalty costs, the future of these companies can be put into question. Of course, the companies were established much more recently than the majors and the chances of getting their high costs under control are still realistic, but the profits they can extract out of this will always be limited due to their royalty payments.

What we can conclude as well is that from the artist’ perspective, revenues went down tremendously. They used to get quite a high profit margin out of CD sales, but now people are willing to pay much less for songs, so prices cannot be set higher as people will convert to illegal downloading. Apart from the higher concert prices, they also tend to spend more money on all the hardware and software that is needed to listen to it. Ipods, MP3 players, boxes and broadband access have a much higher cost in comparison to the single CD-player they needed in the past. In order to get artist’ revenue back up, part of this payment to broadband providers can be given back to the music industry as a royalty payment. This way, part of the profits that went to other sources during the digital revolution, can go back to the music business itself.

5.3 Literature

When comparing the literature written about disruptive technology, at first sight Christensen seemed to have had the right idea when he stated that incumbents would suffer when confronted with disruptive technology. The downturn the majors experienced after the appearance of this digital technology has been fierce and the majors lost a big part of their revenue. In addition, Christensen and Overdorf’s paper on ‘Meeting the challenge of disruptive change’ has some interesting points that have proven to be true in EMI’s case. They describe the reluctance of incumbents to invest in disruptive technologies as their processes and structures are set to invest incrementally in technologies which sustain their old ones. EMI invested in improving CD quality and its recording studios, but was even in 2000 still not interested in doing research on the new technology by itself. These findings are in line with comments made by Maltby Capital on EMI’s organization. EMI was described as a very traditional business, with strongly-rooted values and an industry culture where high costs at high uncertainty were acceptable since CD sales had a much higher margin. In addition, internal reporting had insufficient information about the changing markets. Such strongly rooted values are often a characteristic of established companies who never had any problem in keeping their market share intact. This again, proves Sood and Tellis (2011)’ point that incumbents invest to sustain their core business in order to keep using the same manufacturing and distribution processes. EMI suffered therefore of both an adoption and a mindset barrier according to Assink M.(2006). Its success in exploiting music revenue through CD sales at high prices made them not see the necessity in investing in disruptive innovation, especially since they lacked ambidexterity early on. The uncertainty of future profits and especially the fear of cannibalism prevented them from investing as well.(Hill, Rothaermel, 2003) In addition, they had problems in putting their traditional way of thinking aside, as discussed earlier.

However, when looking at the other majors, it is clear that EMI has been one of the worst performers in the industry. Sony was even able to keep 80% of its revenue intact by 2010 and even Warner, who collaborated with EMI on MusicNet kept three quarters of its revenue intact.
In addition, when looking at the new music services that have appeared in this digital era, it is clear that the loss of revenue by the majors is not equaling the income for those services. They still pay an enormous amount of royalties to the industry, making their companies hardly profitable. However, in comparison to the profits the record companies used to make, the fraction that they get back is a lot smaller, as prices have dropped significantly. The companies are compensating this by asking higher prices for concerts, merchandising and synchronization. (What’s working in music, 2010)

Still, these two facts indicate that Christensen’s predictions on disruptive technology might not be entirely applicable in this case. After 15 years, half of the majors still possess more than three quarters of their revenues and newer emerging companies have trouble surviving, even though they are exploiting the new technology in a fashion that ensures increasing revenues. Intellectual property rights make this industry different from others, as majors are still able to get revenues through the new organizations. As long as artists are signed with these big labels, the chances of survival for the incumbents are very real. These intellectual property rights can be seen as complementary assets that in a way still sustain their old business. Even though sales have shifted from physical to digital, the IP rights made sure they still possessed enough market power to survive this transition. (Tripsas, 1997)

Starting from 2008, EMI has undergone a complete restructuring, leaving its traditional way of working behind and establishing a more digital view of the market. EMI now has a team that works on this new technology disconnected from its main technology workforce, a description that comes close to what Tushman described as an ambidextrous firm. But as Tushman and O’Reilly described it, exploring should be done at all times and not just when the new technology has reached a mainstream audience. EMI was too late in establishing this ambidexterity in its firm and has seen revenue decline ever since. But after the fierce restructuring in 2008, revenue is back up and this ambidexterity might ensure a bright future. The company changed its senior management team as well, which can be an important driver of change according to Tripsas’ Capabilities, cognition and inertia (2000). A change in top management can change the belief system of the company and create discontinuous organizational change. Tripsas suggests that it is not just the technological capabilities but also different strategic beliefs that need to be adopted to ensure that an organization can face radical technological discontinuities. The digital revolution was an innovation that challenged the identity of the entire company. It is therefore that management needed to acquire the competences necessary to commercialize on digital downloads and undergo an identity-change process. (Tripsas, 2009) With a top management that has more experience in the digital field, EMI is more equipped to deal with future difficulties.

So in conclusion, the three main strategic periods can be linked to Charitou and Markides’ table on which decisions an incumbent might take in the face of disruptive innovation, depending on their ability and motivation to do so. (see 2.3.1) In the graph below, the different strategic periods are linked to this table. The first period can be linked to disrupting the disruptive technology. A strategy that should work according to Charitou and Markides, but piracy was so widespread by the time action was taken that most of the prevention measures hardly had any influence. During the second period, EMI tried the other option Markides and Charitou recommended, namely embracing the innovation and scaling it up. However, slow adoption in combination with the fact that they were still investing in piracy prevention led to a steep decline of revenue. Then in 2008, EMI finally got a higher ability to respond by changing its structure and is capable of adopting the innovation fully.
1998-2004

DRM & piracy prevention continue to be of importance

EMI shows a high motivation to respond but a low ability and decides to focus mostly on attacking the new technology by establishing DRM.

2000-2007

There is a slow adoption of the new technology, but it took 7 years before music became DRM-free

EMI still shows a high motivation to respond and a low ability to respond but the adoption of the innovation is very slow and there is no sign of scaling-up

2008-....

Strong restructuring processes have made the company more equipped for this digital era. New management has experience in the digital field and CD manufacturing has ceased to be of core importance.

EMI still shows a high motivation but now it is combined with a higher ability to respond. EMI has fully adopted the new technology and the traditional business is no longer their core business.

Figure 12: Overview of EMI's most important strategic timeframes

5.4 Future

It is hard to say whether or not EMI will keep up the increase in revenues they experienced after 2008. But global market results from the Recording Industry Association of America (RIAA) show stabilizing results over the last three years, an indication that the market has shrunken, but is less likely to disappear. (RIAA Releases 2012 Music Industry ..., 2013) EMI has done some scaling down in 2008 and although it did lose a lot of its revenue, it is possible that EMI will continue to exist, but on a smaller scale. Headcounts are down, manufacturing has been outsourced and revenue is 40% less than it was 15 years ago, but seems to have stabilized. The sources of music content may have diversified but the profits are not to be found in the new businesses. Even though revenues are high, large royalties still have to be paid to those who have established the business in the first place: the record labels. The majors will not be able to exploit the market as they used to, when prices were set high and music stores were only competing against each other. With lower prices of songs and albums online and the competition of illegal downloads, revenues are down, but seemed to have reached a stable point. In the future, it is likely that record companies will continue to exist more or less as an IP rights company, getting revenues out of royalty payments. They may not possess market power as they used to, but the majors, including EMI, will most likely continue to exist, albeit in a smaller form.
5.5 Limitations and Future Research

This case study provides insights into the music industry through an analysis of the strategic decisions of one of the majors, EMI. Even though the information provided is detailed, it is not complete. Annual reports of 2005, 2006, 2009, 2011 and 2012 could not be retrieved and this provides an inconsistency in the research conducted. In addition, annual reports can give a preferential image of the company and are therefore a subjective source. Articles found in respectable magazines will compensate this partially, but probably not entirely. Moreover, the articles are mostly limited to two sources and this might suggest that not all information on strategic action has been retrieved.

In addition, analyzing EMI gives a reasonable view on how the music industry in its entity is doing, but a single case study cannot provide a complete answer to this question. Concerning future research, I therefore suggest an analysis of the other majors and some independent labels in order to get a more thorough view on the industry. Inside information on how Research and Development is conducted can also give a more clear perception on whether or not the ambidextrous firm has a success story in the music business. Moreover, a deeper look into the financial status of the emerging companies, like Spotify, can clarify what the future of these companies will entail.
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### Appendix

**Overview Strategic Decisions EMI**

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<td>-Strategic acquisitions to enhance position in key markets</td>
<td>-Strategic investments to strengthen I-t position (see below)</td>
<td>-Acquisitions of record labels and investments in publishing catalogues (50% of Jobete catalogue, completion of acquisition of Priority records, Virgin acquired Narada Media(New age label), acquisition of Copacabana catalogue in Brazil, CMC records in Denmark and a 30% stake of Minos-EMI S.A(Greek Music) which brings it at a total of a 90% stake</td>
<td>-EMI Recorded Music established new companies in the emerging music markets of Bolivia, Ecuador, Paraguay, Peru, and Uruguay</td>
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<td>-developing products through partnership with Virgin Interactive Entertainment and the von Holtzbrinck group</td>
<td>split Thorn-EMI→Little synergy between the businesses³</td>
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<td></td>
<td></td>
<td>-strategic investments(see below)</td>
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| **Recording** | First fully integrated multimedia studio. At Abbey Road: Apple Computer Inc. has agreed to build and operate a multimedia recording facility -- the first of its kind -- at EMI's famous Abbey Road studios in London.⁵ | / | / |
| **Marketing** | Innovations in catalogue marketing in the US, EMI-Capitol Entertainment Properties was created to focus on the marketing and development of the company's prized back catalogue. | New mgmt team increased market orientation, with special attention to music selection and marketing |
| **CD** | Development of music CD ROMs and Enhanced CDs (provide consumers with both a full quality audio release and multimedia | Central distribution warehouse for Europe | / |

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⁴ [http://ketupa.net/emi2.htm](http://ketupa.net/emi2.htm)
<table>
<thead>
<tr>
<th>New media</th>
<th>Websites</th>
<th>Launch of internet sites including Capitol’s Hollywood and Vine (<a href="http://www.hollywoodandvine.com/">http://www.hollywoodandvine.com/</a>), (record label site, mostly informational)</th>
<th>/</th>
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<tr>
<td>Piracy</td>
<td>/</td>
<td>/</td>
<td>continue to support, through industry and government initiatives, any measures which help protect valuable recording and publishing copyrights.</td>
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<tr>
<td>Download</td>
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<td>- In France, a cable-television system owned by Lyonnaise des Eaux is also testing digital-music delivery. So far it is working only with independent labels, but is in talks with EMI, one of the big five. These, however, are still “audio-on-demand” schemes: the music stays on a central computer, and buyers need to be on-line to hear their purchase. (August 1997- Economist)</td>
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1996:

Best results ever. Operating profit increased 26.3%. Different section about ‘emerging technologies’: talking about internet sites and enhanced CD’s

- Acquisitions for music publishing: French publishing companies, Editions et Productions Sidonie and Editions Crecelles, which comprise the publishing interests of Bertrand de Labbey and Julien Clerc; the US catalogues of Dan Hartman, the Romantics and Marvin Gaye; the Scandinavian publishing company CM Music, which comprises approximately 1,500 local copyrights, including those of Lasse Holm and Torgny Soderberg; Music House International, a leader in background library music in the UK; and Back to Paris, a French catalogue which includes songs by Patricia Kaas.

- Strategic investments: a controlling interest in Disky Communications Europe BV, a pan-European budget sector record company based in the Netherlands; a controlling interest in Antler-Subway Records, a premier Belgian dance label; DLV Records, a premier Mexican record company; and Rap-A-Lot, a US rap music label, Continuing its global expansion strategy, EMI established operating companies in the Middle East, the Philippines and Colombia and acquired full ownership of its joint venture company in South Korea. EMI also established The Enclave, a start-up rock label in the US. EMI directly operates in a total of 12 countries and through licensees in a further 36 countries.

- Virgin partnership: CD-rom and enhanced CD arenas

- Holtzbrinck partnership: EMI will mine musical resources for the development of reference CD-rom titles together with Holtzbrinck

1997: slow growth in most of our major markets and the failure of much US-based repertoire to generate significant international volumes. However, EBITA grew 11.7%

- Strategic investments: It expanded its presence in South Korea by establishing a joint venture with one of the country’s leading music production

houses, Revolution Number 9. It also purchased the remaining interests in its Venezuelan and Hungarian companies and expanded into Turkey by acquiring a majority interest in Kent Electronik. In addition, EMI Music entered Lebanon and Uruguay, obtained government approval to establish companies in Indonesia, Peru, Ecuador and Paraguay, and opened offices in Shanghai and Beijing. In the US, EMI Music acquired a 50 per cent interest in Priority Records, a major independent label; Capitol Records acquired a 49 per cent interest in Matador Records, an alternative New York based label, and established a joint venture label, Java Records. The EMI Christian Music Group acquired Forefront Communications, the largest US independent Christian Music label, and EMI Belgium acquired the pop label Play that Beat.

(Restructuring: streamlining management in north America with international division +EMI Music successfully reorganized its sales and distribution company, EMD, improving service levels while lowering costs.)

1998:

Underlying sales growth at 5.8%, ahead of world market growth of 3.2%. Album sales were up nearly 3%, with growth in CD sales offsetting a decline in music cassette sales. Separate subtitle called ‘piracy and technology’: the long term growth opportunities afforded by technology and digital distribution will far outweigh any threats in the short term.
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<th>Strategic decisions</th>
<th>Traditional business</th>
<th>Acquisitions/ mergers partnerships</th>
<th>1999</th>
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<th>2001</th>
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<td>-Acquisitions(Assist, an Italian music publishing company, Higher Octave, a US recorded music company and Quattro Musikverlag, a German music publishing company.) -Investments(HMV Media Group (42.65% instead of 45.2%)</td>
<td>-EMI announced a proposal for a 50:50 venture with Time Warner -Windswept catalogue acquired in July -In November, a 51% stake in the Hit &amp; Run catalogue</td>
<td>-It is clear that in the current environment, a merger cannot be pursued → EMI stays independent -acquisitions of independent labels</td>
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<td>Recording</td>
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<td>-Increase share of local music repertoire -added resources to regional management to enhance further ability to build regional and local repertoire.</td>
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<td>-Strengthen artist roster by signing new artists -Expanding U.S repertoire globally -Sign writers/ producers with a versatile portfolio and access to important recording artists</td>
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<td>Marketing</td>
<td>-Recruited new A&amp;R, promotion and marketing people in the Pop and R&amp;B fields -Aggressively promoting and exploiting existing catalogue of hit music →very successful at increasing the use of songs in advertisements, television programs and films -Expansion into the emerging markets of Eastern Europe, South East Asia and Latin America</td>
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<td>-increasing representation on soundtracks and compilation (synchronization represents now 13% of revenue)</td>
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<td>CD</td>
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<td>/</td>
<td>Reviewing operations for manufacturing and distribution</td>
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<td>New media</td>
<td>Websites</td>
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<td>- EMI already attracts 3m visitors a month to its 45 sites around the world.</td>
<td>- Significant investments in IT to increase internet presence of EMI Music Publishing</td>
<td>- Secure Digital Music Initiative, an alliance between the music, computer and consumer electronics industries, to develop a single security standard for the digital delivery of music</td>
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<td>- The first major music publisher to establish a website and the only one to incorporate a lyric search engine capable of seeking a song based upon a 250,000 word thesaurus</td>
<td>- EMI Music Publishing's sheet music library online (digital rights management company Net4Music) access to one million of the label's songs in exchange for a minority equity stake. Net4Music will post 1,000 titles on its site by the end of April, and then will add 10,000 songs each month until 100,000 songs are posted.</td>
<td>- Beatles’ website helped increase sales + web-based chats a.o.</td>
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<td>- has signed a video distribution deal with Launch.com. (Economist-August)</td>
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</table>
| Download | ‘We are progressing with the digitization of our audio, video and graphic properties, as well as investing in people and resources for the new technologies; we expect to start digital downloading within the year’ | - embarked on a program of digitizing assets ➔ extensive archive of music catalogue available online  
- developing business models for digital downloading  
- Over the past few months, EMI has signed agreements to deliver videos and music in Liquid Audio and Microsoft’s Windows Media (Economist-august)  
- EMI announced that 200 singles and 100 full-length albums from its back catalogue would go on sale on the Web in Liquid Audio and Windows Media Audio formats. If all goes well, EMI will release more albums until its entire library is available. The tracks are now available at over 50 online retailers, including Virgin Jamcast. The online stores will use both the Liquid Audio and Supertracks secure delivery services. Samit said each retailer will set its own price, which he expects to be competitive with in-store purchasing prices. (Wired-July 2000) |
| Collaborations | - Has a wide range of commercial links with companies on the Internet, including Microsoft, Amazon.com, Broadcast.com and AOL.  
- First to license music online | - Forming strategic alliances with a number of new media companies (15: internet sites, live concert webcasting, internet radio channels...) which are developing new channels for music delivery and are supporting the infrastructure changes necessary to operate in a digital landscape. In addition, these transactions have  
- Participation in the MusicNet partnership will result in the world’s largest online subscription music service (joint venture with Time Warner, Bertelsman Music Groups and Real Networks)  
- New media deals: p14 and 21 AR (ringtones and licensing karaoke among others + MP3.com) |
created value for EMI shareholders, through the acquisition of new media equity stakes in return for access to content. - offer a limited selection of videos from the Priority Records label through the Gnutella network. (Lime Wire)

1999:

- (Latin America comprises 7 per cent of the world record market and is dominated by Brazil, which accounts for 45 per cent of the region. The reacted quickly to the economic crisis in Brazil in the early part of the year and applied a policy of strict credit control whilst making provisions for potential bad debts. These actions limited future exposure; however, the resulting loss in market share and bad debt provisions significantly impacted profitability. Brazil accounted for nearly a quarter of the profit decline in Recorded Music.)
- The changes in management and structure are nearly complete and EMI now has an experienced, stable group of senior executives with a strong track record of identifying and developing musical artists. They have appointed a senior executive to oversee all these [digital] activities on a global basis. ‘We have no doubt that the Internet represents one of the biggest marketing and sales growth opportunities for the music business.’
- While that market [Music Publishing] grew by just 1.2 per cent, EMI Music Publishing achieved a sales gain of over 6 per cent in the year just ended.
The problems of South East Asia and South America and economic slowdowns in other parts of the world, together with the strength of sterling, have had major effects on our results in the last three years. These, together with the threat of piracy in certain markets have, of course, been of concern, but EMI is convinced that the markets will recover. ‘As the US has shown, good music in a healthy economy results in a fast growing market. However, the West must make very sure that the theft of intellectual property, in all its forms, does not become acceptable in any part of the world.’

SDMI: Now the record companies are fighting back to establish their own, secure standard. In December last year the big five—Warner Music, Sony Music, Universal, BMG and EMI—launched the Secure Digital Music Initiative, which brings together 150 content, hardware and software companies. They have hired the man who supervised the creation of MP3, Leonardo Chiariglione, a former Italian civil servant, to run it. Doesn’t it feel odd, trying to kill his baby? Yes, he says, but his baby was being abused. “I don’t blame my baby. I blame the people who were using it.”

The SDMI is working night and day to get its formats ready and available before MP3 sweeps the market. Around 250 people from those companies, divided into a mass of subcommittees, have been meeting every two weeks in Los Angeles, New York, London and Tokyo since March, and will continue to do so until June 30th, when Mr Chiariglione says the industry’s standards must be ready. It is, he reckons, the shortest time in which anybody has tried to set so complex a standard. Four years, rather than four months, would be normal.

The record companies’ best card is their control over most of the world’s most popular music. That, and the threat of a standards war, is what has brought the hardware and software companies to the SDMI. Their other big advantage is that MP3 often does not work very well. Downloading tracks from MP3.com is fine; but most links to MP3 sites found by Lycos, a search engine, get nowhere. Still, whether or not MP3 survives, it will have changed the world’s music business irreversibly.

If the SDMI is a success, it certainly will mean brisk business for high-tech companies. That explains the flurry of announcements in recent weeks by companies touting strategic alliances or new technologies. Big names such as AT&T, IBM and Microsoft, and lesser-known ones such as Intertrust, Liquid Audio and Real Networks, all want a share in the billions of transactions that an online music delivery-system would eventually generate.

The SDMI has its own problems—not least, reconciling the interests of the different industries concerned. Consumer-electronics firms and big labels are already at loggerheads over whether new Rio-like devices should be able to play both secure format music files and MP3 files—which is what hardware producers want—or secure format only, which is what content producers want. But the disagreement is unlikely to sink the initiative. Record companies need the new standard too badly.
Once the theory of SDMI is established, the practice will follow swiftly. Universal evidently plans to be the pioneer, but in June all the big record companies are due to join forces with IBM to launch a first market trial. A thousand households in San Diego will be allowed to buy and download albums using a secure delivery system developed by IBM (Economist-august 1999)

2000:

During the past year EMI’s focus has been on strengthening our core recorded music and publishing businesses and preparing to participate the digital revolution while delivering steady profit growth.

- EBITA increased by 7.7%--> overall turnover increase was driven by significant growth (11.8%) in Music Publishing, more than offsetting a small decline (‘1.2%) in Recorded Music.( However, the market for recorded music increased by 3.1%) + Big market share loss in the U.S. New media contributed 8.8m in turnover and 23.6m in operating profit for EMI recorded Music.
- A number of initiatives aimed at reducing the cost base have been progressed. These include a shared services project and the restructuring of our European distribution and manufacturing operations.
- Entire separate chapter for New media (previously cited under ‘other business’)
- ‘We believe that it is essential to develop business models that provide protected access to our musical content in a manner that is convenient and acceptable to the consumer.’
- ‘We believe there are good growth opportunities for synchronization licensing, as expenditures on advertising and motion picture and television productions continue to increase.

For a summary of the new media deals: p 78 EMI annual report

August 1999(Economist): Vice president of new media EMI(Silver): Although EMI, the world's third largest music company, is adopting digital music, Silver projects that even by 2005, 80 percent of the company's revenues will come over the retail counter. The fear of piracy is just one reason that record companies have held back on releasing their libraries in downloadable, digital form. Silver said. "The reality is, consumer demand for major artists' material hasn't been there," he said. Current methods of obtaining music are too cumbersome for most consumers. Many digital music collectors enjoy the outlaw aspect of finding and downloading their favorite tunes -- they aren't as interested in obtaining music legally. Silver said scanning newsgroups, using search engines, and jumping in and out of chat sessions are part of the thrill of the hunt.

Silver shares one widespread criticism of SDMI -- that products meeting the group's requirements may not be compatible.
"If I were a consumer, and I didn't have interoperability promised at some time, then I'd be severely disappointed," he said. People can expect to travel the world and cope with distinct languages and currencies, but "when you're in your home, listening to music, incompatibility is less acceptable."

Silver said **EMI has no plans to directly capitalize on the e-commerce boom.** The company will not sell to consumers themselves but instead will let the existing retail channel and emerging online channel interact with consumers. "Why would [consumers] want to deal with a single record company?"

EMI also has no interest in developing its own security technology and will continue to focus on partnerships. "We don't want to become a technology company," Silver said.

He said industry observers who get caught up in the numbers (of downloads and digital sales) in the next few months will miss the point. Once music is made highly accessible, and highly usable, then labels will have the incentive to distribute content over the Net.

**Economist, January 2000:** ‘Everywhere, local artists’ share of the market is increasing. At the same time, within the big markets, a range of new genres are growing at the expense of the mainstream. According to figures from the Recording Industry Association of America, for instance, the share of the two biggest genres, rock and pop, fell from 62% in 1988 to 45% a decade later. The Internet, the marauders argue, will feed that tendency. “It will allow for a much greater variety of choice, and also allow small companies to find niche audiences,” says Mr Teller. Marketing a new, niche record in the world of high-street retailing is expensive and inefficient; marketing it to an audience whose e-mail addresses you have is cheap and efficient.

As for A&R, this has never been a barrier to entry—rather the reverse. Independent labels have been better at spotting and nurturing talent than have the big companies. That has set the pattern for the industry: small new label (Chris Blackwell's Island records) discovers new talent (Bob Marley, Roxy Music, U2), turns it into stardust, becomes big label, sells out to the suits (PolyGram). It was, to a large extent, the economies of scale in manufacturing and distribution that drove indies into the big firms' arms. That pressure on small firms is diminishing. As they carry fewer costs, so they can offer artists better deals’

**2001:**

- EBITA increased 5.7% and the world music market for recorded music decreased 3.9%<>16.6% growth in EBITA of EMI recorded music. New media contributed 30.7m in turnover and 5.7m in operating profit for recorded music
• Activities in new media have focused on enhancing technical and management capabilities. The increase in Recorded Music turnover is mostly thanks to increased sales in Latin America.
• Napster has been offline since July 2nd
• ‘MusicNet faces the scrutiny of regulators.' America’s Justice Department recently opened an antitrust investigation into the online music business and, in particular, the part that will be played in it by Pressplay and MusicNet. The European Commission is also carrying out an investigation. While the Justice Department does not comment on current investigations, according to some reports it is looking at possible anti-competitive problems which the two joint ventures might pose. The big music companies have been criticized for moving too slowly into the distribution of music online and for being unwilling to license music to smaller distributors and resellers. The establishment of Pressplay and MusicNet has already provoked the introduction of a bill in America's Congress which would prevent the five big music companies from licensing recordings to each other at favorable rates.
• EMI was the first one to sign agreements with both Pressplay and MusicNet. But initially: no possibility to ‘burn’ files in the beginning.

**Wired-July 2000:** EMI is trying to incorporate the easy use of applications such as Napster and Gnutella while also providing digital rights management. “One of our goals is to make buying music as easy as stealing music, and making stealing music as hard as possible," said Jay Samit, the senior vice president of new media at EMI. "Compare this to other labels and you'll see this is really a full-scale commitment.

Customers can preview entire albums prior to purchase. He also said EMI chose to use Windows Media as its primary format because of the security of distribution. Along with EMI's content, Microsoft also posted a new "version 7" of its Windows Media Player.

"The consumer cares about music they like that’s easily acceptable that sounds great," said Kevin Unangst, group product manager for Windows Media. "This is for people like my dad who doesn't really use the Internet. We've created an all in one player that plays audio, video, mp3s while also allowing you create play lists and sort your music. If you need to know which application to use to play a CD or an Internet radio station or a video, in the past, that has been confusing experience for the consumer.

When the six-month experiment ended this past February, the company declared it a success although only 4,000 albums were downloaded.
"One of the things that (the test) proved (is) that there is a lot of customer service and that's something the labels just don’t want to get involved in," said Jim Griffin, CEO of digital delivery company Onehouse, in an interview earlier this year. "It’s too expensive for labels to provide support for all of the CDs they sell."

**Musicnet:** There are risks. The trend towards restricting access could ultimately curtail some important existing rights, such as making copies for personal use. It is easy to see why content owners want to limit digital copying. In the early 1980s, the record industry decided not to encrypt CDs. That is why it is so easy to copy tracks from a CD, convert them into MP3 format and make them available via Napster. Unsurprisingly, content producers and the consumer-electronics industry did not repeat this mistake with Digital Video Discs (DVDs). Data on DVDs are encrypted using a technology called the Content Scrambling System, or CSS.

Software firms, meanwhile, see copy protection as an opportunity. Microsoft, which this week launched a website called MSN Music, wants its technology to become the standard for secure online music. The latest versions of its Windows operating system come with a technology called Secure Audio Path, which can keep an audio signal encrypted until the moment it is played by a PC’s sound card, so that users cannot capture the bits and make illegal copies. Windows now comes bundled with Microsoft’s Media Player, which includes a “digital rights management” system that allows content owners to specify such things as how often files can be opened and when they expire. IBM and Intertrust offer stand-alone versions of the same technology. Bruce Schneier, chief technology officer of Counterpane, an Internet security firm, argues that such ventures will fail because they contradict the “natural law” of the Internet, which states that bits are inherently easy to copy. With enough effort, he says, any copy protection scheme can be broken—even those embedded in hardware.

Might all this change with the MusicNet initiative announced this week? Although details are still sketchy, the new firm could become a platform for all kinds of new business models. It intends to become the leading wholesaler for online music, licensing its service to other firms seeking to sell subscriptions, and leaving the packaging and pricing to them. So far, AOL Time Warner and RealNetworks have signed up. Others are expected to follow soon, including Napster once it has gone legal in July. Although more than two-thirds of Napster’s 66m registered users say they will pay, experts doubt that they mean it. Instead, many will switch to free alternatives such as Gnutella and its variants, which are less easy to scale up than Napster but are also harder to shut down—and are getting easier to use. (April-economist)

**Bertelsmann deal:** April 2001: EMI has always been cautious about a deal, having had its fingers burned once already after pulling out of previous merger talks with Warner Music in the face of mounting opposition from European regulators. This time around, EMI was determined not to pull shareholders through a lengthy investigation and the two sides have unofficially been testing the regulatory waters before deciding whether to unveil a deal.
"The problems lie in the regulatory issues. There is certainly no conflict between the two companies," a source said.

One of regulators' prime concerns in the Warner case was market dominance and the fact that a merger would reduce the world's five major music groups to four. To get a deal done, an effective fifth major would need to be created by selling off some assets to one of the largest independent labels. (economist)

May 2001: Already, the big five record companies between them control over three-quarters of the world music market, and that figure has remained steady. So a tie-up within the industry has seemed to be the only logical way to grow. EMI was also hoping to reap cost savings from its planned merger with BMG, Bertelsmann's music arm, worth at least £200m ($287m). The project, however, was called off after indications from EU competition officials that it would be subject to a lengthy inquiry, with no guarantee of success and onerous disposal requirements. None of the big five is now likely to try a similar merger for some time. Another option for EMI might be to join one of the global media giants, such as Disney, News Corp or Viacom. The argument would be that these groups, whose tentacles reach from satellite broadcasting and the Internet to theme parks and shops, have many more ways of pumping out music to record buyers and turning bands into brands, with dolls, games and the like.

In the meantime, EMI is back where it started. And that is a place Mr Nicoli insists he is quite happy to be. EMI "is not a piddling business that somehow needs a home," he snorts. The group this week announced that unaudited pre-tax profits for the year to March 2001 grew by 6% from the previous year, to £260m. In the first quarter of this year, EMI's market share in America, its weakest point, shot up to 11.3%, from 7.3% in the same quarter of 2000—although quarterly figures in an industry where one or two mega-hits can hugely inflate revenues may be suspect. EMI's sales boom in America so far this year has owed a lot to the release of The Beatles' "1", yet another compilation of old songs. (economist)
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<th>Strategic decisions</th>
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<td>Traditional business</td>
<td>-Merge the non-creative resources of EMI and Virgin labels. Within each country there is now one overall head, two streamlined labels and merged services – accounting, IT, human resources and sales. This has significantly reduced the cost base, but has also ensured that information, best practice and ideas are shared more effectively.</td>
<td>-Exited unprofitable operations and costly joint ventures -In April 2003, EMI acquired a further 30% of the Jobete catalogue from Berry Gordy for US$109.3m, bringing EMI’s total share in Jobete to 80%. This gives EMI greater control over its superb array of Motown songs, together with the financial benefit of being able to consolidate it for tax purposes.</td>
<td>-Required remaining stake of Jobete catalogue (Motown classics)</td>
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<td>Acquisitions/mergers partnerships</td>
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do a deal with Warner. The two firms complement each other: EMI is strong in Europe and weak in America, Warner the opposite. Alain Levy, EMI's boss, has streamlined his firm, but savings from a merger could still reach about £150m ($240m), says Brett Hucker of Merrill Lynch. There remain obstacles to a deal, however. AOL Time Warner, under pressure to pay off debt, needs cash, but this could be hard for EMI to provide given its own large debts. There would also be awkward negotiations about who would run the combined firm. Mr Levy, who has cut the flab and curbed the extravagance at EMI, would resist ceding any control. Regulators might quibble over combining their music-publishing operations. (feb 2003-economist)

<p>| Recording | -EMI's normal process of trimming and renewing its artist roster did not receive sufficient priority, and radical action was necessary → reduced the roster by around one quarter. This is an essential action to refocus the people at the labels on the right artists – the ones. | -Streamlined the artist roster → concentrating on profitable, sustainable sales from artists with long-term potential | -Restructuring some record labels and artist roster (emphasis on continental Europe) → maximize flexibility, efficiency and effectiveness |</p>
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<td>who are or can be successful.</td>
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<td>Marketing</td>
<td>-Created a common worldwide marketing unit to exploit the international potential of albums → better coordination of catalogue campaigns → potential to generate a 10% increase in sales from albums we market internationally</td>
<td>/</td>
<td>-In a number of smaller European countries: consolidate marketing through one department in each country which will support the releases of bot capital and virgin</td>
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<td>-We renamed the EMI label as Capitol, creating two worldwide brands, Capitol and Virgin. This reinforces our overall global approach to marketing, and will reinforce links between our US business and the rest of the world</td>
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<td>CD/DVD</td>
<td>-Improving the efficiency of manufacturing operations. The recent closure of Swindon plant was completed ahead of schedule and the consolidation of our European manufacturing operations into Uden, in Holland, will significantly improve our capacity utilisation in Europe</td>
<td>/</td>
<td>-Outsourcing of manufacturing to Europe and U.S. → long-term supply agreements with MediaMotion (Netherlands) and Cinram International Inc(U.S) → reduction of manufacturing costs + variable costs (insulate business from effects of changing volumes)</td>
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<td>-We have appointed Alan McElroy to lead our manufacturing and sourcing,</td>
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overseeing all of our CD and DVD manufacturing on a worldwide basis. He will develop a global strategy for the manufacture of all physical formats of EMI’s music, increasing utilisation and efficiency, and instilling best practices.

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<th>New media</th>
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<td>-Expanded website permits users to search the extensive catalogue in a variety of ways, including not only song title or writer, but also music genre, chart position, age, mood and key words. It has already proved very successful in driving additional revenue from a variety of sources.</td>
<td>-Key elements in driving its synchronisation revenues are Music Publishing’s business-to-business website and Music Spa. The site has over 6,000 regular users worldwide who can search our catalogues to suit a variety of music needs. Since its relaunch in February, daily traffic has increased by over 70%. The Spa, housed in the company’s New York office, is a creative atmosphere with the technical capabilities that allow advertisers and their agencies to work with EMI’s Music Resources Group to sample and identify the music that best fits the product and message of a commercial campaign.</td>
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<tr>
<td>-Key elements in driving its synchronisation revenues are Music Publishing’s business-to-business website and Music Spa. The site has over 6,000 regular users worldwide who can search our catalogues to suit a variety of music needs. Since its relaunch in February, daily traffic has increased by over 70%. The Spa, housed in the company’s New York office, is a creative atmosphere with the technical capabilities that allow advertisers and their agencies to work with EMI’s Music Resources Group to sample and identify the music that best fits the product and message of a commercial campaign.</td>
<td>-New uses of Publishing’s music contributed additional revenue streams to income this year including ring tones and video games, as mentioned above. The ring tone market has</td>
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<td>-Investing in a technology change program that upgrades information systems + makes operations more digital -MusicSpa and business-to-business internet sites enabled better marketing to creators of audiovisual works. -the early success of Apple Computer’s new iTunes service nor a response to a recent court decision allowing the Grokster and Streamcast peer-to-peer services to continue operating influence the future MusicNet. (May-2003-Wired)</td>
<td>-New uses of Publishing’s music contributed additional revenue streams to income this year including ring tones and video games, as mentioned above. The ring tone market has</td>
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<td><strong>Piracy</strong></td>
<td>-Continuing to co-operate with governments around the world to enact and enforce anti-piracy legislation. However, EMI has taken an extremely proactive position and are directly protecting their, and their artists’, content. From July, EMI will use copy-protection on local repertoire in Asia and Latin America, regions where piracy is particularly rife. They are testing technology, for use in Western European and North American markets, that prevents unauthorised copying, while permitting limited legitimate personal copies. We expect to employ this technology before the end of 2002.</td>
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<td><strong>Download</strong></td>
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<tr>
<td><strong>Collaborations</strong></td>
<td>- EMI has continued to license its music widely, and have now entered into arrangements with over 70 different companies. Recent agreements include internet-enabled digital jukeboxes through Ecast and online music streaming subscriptions through Listen.com's Rhapsody service.</td>
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2002:

- **Recorded Music:** New management team now in place under Alain Levy and David Munns + Restructuring plan on track to generate £98.5m annualized cost savings and reposition the business for future growth (designed to establish a solid platform for future growth and to improve profits substantially and rapidly, there is an exceptional charge in the year of £242.4m relating principally to the restructuring. This restructuring is expected to deliver annualized cost savings of almost £100m, the great majority of which will arise in the current financial year)

The principal causes of this setback were a poor performance in the United States, release schedule slippage and market weakness in Japan, and the regional economic downturn in Latin America. Although falls in these areas far outweighed gains in others, we did have commendable performances in the UK, France and, within North America, Christian Music, Capitol Nashville and the Canadian business.

- **Move of Virgin to NY to have an East Coast label presence**
- **Cost reductions are essential, but the longer-term priority is to improve the creative side of the business, to become more effective as well as more efficient. In order to achieve this, EMI has adopted a two-phase approach. The first phase, which involves restructuring EMI Recorded Music to compete effectively in the current music market, is moving very quickly, and will be almost fully executed by the end of September 2002. The second phase of our work is more long term. Their aim is to change the way in which they operate, to bring the company into a modern age. This involves redesigning IT systems, exploiting the full capabilities of the internet, pursuing new formats and channels, and, in the longer term, moving from being purely a record company to a more broadly based music business. EMI has made a number of senior level appointments to drive this process.**

- **EMI has installed outstanding creative label heads in all territories to re-energize the labels. These are people who live and breathe music, and who are not only in touch with today’s trends but capable of shaping them. They will be supported by strong business processes, including in many cases the appointment of a chief operating officer, to ensure that appropriate financial disciplines are observed.**

- **‘There are serious piracy problems in Asia, Latin America and Southern Europe. We have collectively failed to get hold of digital distribution and so bypassed revenue opportunities, allowed a whole generation to believe that music should be free, and let the hardware manufacturers absolve themselves of responsibility for protecting intellectual property. And we have not generated real superstars.’**

- **Music publishing:** Operating profit was slightly below last year’s levels, which included a settlement from MP3.com for copyright infringements.

- **Group:** Balance sheet now significantly strengthened through a refinancing for longer-term facilities and the use of the proceeds from the HMV flotation to repay debt
The fall in group operating profit was partially offset by a drop in interest charges resulting from lower average interest rates and by an improved contribution from HMV Group.

The £242.4m operating exceptional charge relates to restructuring and reorganization costs, mainly within EMI Recorded Music. These costs include a significant reduction in both headcount and the number of artists under contract. In addition, there are costs resulting from the substantial economic decline in the Latin American region. Also included are costs related to the closure of a number of loss-making satellite labels and the write-down of certain assets, in particular goodwill.

**August 2001 - the economist:** Napster has been offline since July 2nd while, in order to comply with a judge’s order, it works on technical glitches to filters which are supposed to prevent users downloading copyrighted music. Now the Recording Industry Association of America (RIAA), has asked a federal court for a summary judgment, a procedure which avoids a trial, and to order Napster to pay damages. These could be huge. In February, Napster offered the recording industry $1 billion over five years for the right to use copyrighted music, but that was rejected as inadequate.

Both Musicnet and Pressplay will have to face the scrutiny of regulators. America’s Justice Department recently opened an antitrust investigation into the online music business and, in particular, the part that will be played in it by Pressplay and MusicNet. The European Commission is also carrying out an investigation. While the Justice Department does not comment on current investigations, according to some reports it is looking at possible anti-competitive problems which the two joint ventures might pose.

The big music companies have been criticized for moving too slowly into the distribution of music online and for being unwilling to license music to smaller distributors and resellers. The establishment of Pressplay and MusicNet has already provoked the introduction of a bill in America’s Congress which would prevent the five big music companies from licensing recordings to each other at favorable rates. They have protested that such legislation is not required and that the evolution of online music sales should be left to the market. They have also firmly rejected a proposal once made by Napster for a so-called “compulsory license” that would allow retailers of online music to pay royalties for each recording they sold without having to seek the permission of individual record companies.

The big nightmare for the record companies, however, is just how irrelevant all this may turn out to be—especially for the millions of music fans who have already redirected their Internet browsers to a host of other file-sharing services. Unlike Napster, which relies on a central computer to index music files that are available for swapping, the newer sites use more distributed forms of networking, or “peer-to-peer”. Many rely on a software system called Gnutella, which can rummage through thousands of computers which are connected to the Internet, looking for files that their users have made available for swapping. Shutting such systems down, even by court order, would be difficult because they are so decentralized, and do not belong to any particular company.
October 2001—economist: Last month, the number of users swapping files at any given moment on three new file-sharing networks—MusicCity, KaZaA and Grokster, which all use a technology developed by a Dutch company called Fast Track—had reached 1m (see chart), and the figure is growing. Last week, 1.7m users downloaded the software to connect to MusicCity alone, and from only one of the websites that offer this service. Have the record companies lost their grasp once more? On the face of it, yes. Not only have they failed to clean up illicit file-sharing, but they face an explosion in the illegal “burning” of music on to CDs, much of it from digital computer files. Over a third of all CDs and cassettes around the world are pirate copies, according to the IFPI, an organization that represents the record industry worldwide, with recordable CDs the fastest-growing pirating format. This was battering the industry even before the economic downturn. In the first half of 2001, music sales worldwide fell by 5% over the same period of 2000, after five already-flat years. Profits at Warner Music, part of AOL Time Warner, were down by 21% compared with the first half of 2000, making music the media giant’s worst-performing division. Bertelsmann, a German media group, recently revealed that BMG, its music subsidiary, had lost money in the year to June.

Yet, dire as all this is, the record industry may now be better positioned to reinforce its grip on the Internet. Its online subscription services are soon to open for business. On October 9th the industry reached an agreement with music publishers over the payment of royalties to songwriters whose work is distributed online. This removes a big obstacle to launching both MusicNet—backed by EMI, AOL Time Warner and Bertelsmann—and pressplay—backed by Sony Music and Vivendi, which owns Universal Music.

MusicNet, which is a wholesaler, has now delivered its technology to the online retailers, AOL and RealNetworks, which will each sell music through Internet subscriptions. For its part, Pressplay will sell music direct to consumers, and dictate pricing across its affiliated outlets, such as Yahoo!, MSN and MP3.com.

The trouble is that, at least initially, the underground versions will still be better. Crucially, users of the new subscription services will be able neither to burn digital files on to CDs, nor to transfer them to portable devices. The industry recognizes this drawback. Both pressplay and MusicNet say they will offer some of these functions once they can do so securely. MusicNet, for instance, says that within five months it will allow subscribers to share files, each of which will be encrypted. So far, EMI is the only record major to have licensed its music to both MusicNet and Pressplay.

Because of these flaws, analysts expect early take-up to be limited. The services “clearly won’t be profitable initially,” says Brett Hucker, an analyst at Merrill Lynch. He forecasts that overall music revenues will not start growing again until 2003, with the recovery driven by online sales.

Even as the industry fights back with technology in one hand, it continues to wield the law in the other. In the first half of this year, the Recording Industry Association of America’s anti-piracy unit seized 1.3m illegally recorded CDs, a 133% increase on the same period in 2000. On October 2nd the
RIAA filed a lawsuit against MusicCity, Grokster and FastTrack. Its case against Napster continues—though, ominously for the majors, the judge this week raised antitrust concerns about their new subscription services. Such worries might make it harder for the industry to defeat underground operations using its weapon of last resort: buying them out.

2003:

Global recorded music market declining by almost 9%. This market movement was markedly worse than EMI, and others in the industry, anticipated at the start of the year and demanded a swift and robust response from all parts of EMI’s business.

- **EMI group**: operating profit (EBITA) in the year improved by 33.1%
- **Recorded music**: Sales in Recorded Music fell 12.6% →result of a combination of factors including macroeconomic effects in some regions, a growing impact of music piracy in all its forms and the disruptive impact of our restructuring activities, some of which took longer than originally planned. Their focus on generating profitable sales – rather than market share at any cost – together with full delivery of the projected cost savings and efficiency improvements from restructuring, resulted in an increase in operating profit (EBITA) of 81%
- **EMI Recorded Music** entered the financial year with a commitment to changing fundamentally the way it operates. This initially involved reducing overheads, including 1,900 jobs, to generate nearly £100m in annualized fixed cost savings. This was a necessary process in order to create a structure that is both scaled to the new size of the market and flexible enough to take advantage of new opportunities that arise or are developed.
- In a year where the market fell 8.7%, EMI Recorded Music’s turnover decreased 12.6% (10.2% in constant currency terms) to £1,774.2m. This decrease is partly the result of general market forces, most notably a significant increase in both digital and physical piracy. It was also driven by the disruption to day-to-day operations caused by the extensive restructuring process, particularly in Continental Europe and at Virgin America, as well as by the lower than expected performance of some local repertoire releases in Japan.
- **Music publishing**: Mechanical royalties, primarily derived from the sale of music in CD format, now comprise only 53% of our total turnover, down from 55% in the previous year, and 60% in 1998. Performance income, derived from the public performance of songs in EMI’s catalogue, comprises 25% of EMI Music Publishing’s turnover and grew 3.3% at constant currency, representing the fifth consecutive year that this revenue stream has increased. Synchronization royalties generate 14% of Music Publishing turnover, and also grew strongly, up 7.9% at constant currency. This substantial increase at a time when the global advertising market has been under pressure is a considerable
success. It demonstrates the value in EMI’s successful exploitation of its catalogue not only in commercials but also in films, TV programming and, increasingly, the video game market which uses music to enhance game play.

**November-economist(2002):** ‘The trouble is, Aimster is only one of a number of sites that have sprouted in Napster’s wake. In June, the number of users in America of KaZaA, Morpheus and Audiogalaxy, all file-sharing services, between them reached 14.4m, a million or so more than Napster achieved at its peak. So worried are the record labels that some, including EMI and Warner, have even talked about suing individual file-sharers for illegally downloading songs. This would be a last resort, for it would alienate potential customers of legitimate services. Another tactic being employed is to plant decoys on file-sharing sites. The decoys prevent sharers downloading songs and enable record companies to track down the users. Interscope, a record label, is thought to have planted a decoy when it launched Eminem’s recent album, “The Eminem Show”.

Counterfeiting is also growing in size and sophistication. Another report published this week by Informa Media reckons pirated music sales rose in value by 2.4% in 2001 to a worldwide total of $4.3 billion. Taiwan remains the biggest culprit: it has the capacity to press 8 billion CDs a year but has a legitimate demand for only 200m, says the report. Around 90% of CDs sold in China each year are pirated. But the problem is growing in western countries too. The heads of European record companies, meeting recently in Rome, estimated that 27% of music sold in Italy is now pirated; in southern Italy, the proportion is nearer half.’

**February 2003-economist:** File-sharing on KaZaA was 1,491% higher in June 2002 than in June 2001, according to ComScore Media Metrix, a research group. The industry is suing this and other file-sharing services, but new ones emerge as fast as old ones are shut down. Little wonder that sales of recorded music dropped in 2002 by an estimated 9%.

Consolidation is but one of three strategies that the industry hopes will help it survive as it works out how to beat the pirates. A second is a renewed effort to rely less on instant stars and more on long-term talent. Overnight stars can fade as fast as they are born. A third idea is to transform narrowly defined record firms into broader music companies. Revenues from touring, concerts, sponsorship and so on added about 40% to global sales of recorded music in 2001, making the global music industry worth $47.6 billion, according to a recent report by Music Week, a trade title. Some new sorts of music revenues are emerging: sales of snatches of songs to use as mobile-phone ring-tones raised $71m last year for artists, according to Informa Media, a research group—small, but 58% up on 2001.

**2004:**

Global market declined 6%, EBITA of group stayed close the last year

- Reorganization: headcount reduction + decommission of systems + new mgmt. team in continental Europe.
- **Recorded music**: Decline of 2%
  - Outsourcing manufacturing + restructuring record labels → annualized savings of £50m
  - ‘I believe we will look back at 2003 as the year that saw legitimate digital music take off’ → EMI generate 15m£ in digital sales in recorded music

- There are now more legitimate online services to meet consumers’ digital demands. This year saw a dramatic increase in the digital products offered to which consumers responded very positively. In Asia and Europe, mobile music products such as ring tones met with great acceptance, while in North America, music downloads became popular as several compelling services were launched during the year. Online subscription services appealed to consumers in both the United States and Europe. Sales from digital music have been growing impressively over the last 18 months, with revenues of £700k in the six months ended March 2003, together with £2.1m and £5.6m in the first and second halves, respectively, of the financial year just ended. We continue to organise our business to take the best advantage of these trends and drive the development of digital music.

- **Music publishing**: Mechanical revenue was less than 50%, declines 4.4% every year (but still lower than market decline of 5.6%). Performance revenue grew 3.5%. Synchronization royalties grew 19%
  - Digital music was £7m of total sales (increase of 130%) → most of it derived from ringtones

**May 2003-Wired**: Sony and UMG have pumped an estimated $60 million into developing Pressplay since its 2001 launch. A similar amount has been spent on MusicNet. But the services have only an estimated 100,000 customers between them and almost no name recognition among music fans. In making a deal with Roxio, owner of the Napster brand, UMG and Sony are hoping to solve the problem of Pressplay’s lack of brand recognition. Roxio plans to relaunch the digital music service by early next year under the Napster name, which is still the most recognized among consumers for digital downloading. Roxio, as well as UMG and Sony, is betting that consumers will be drawn to the Napster brand, even if its application is different from what it was in the past.

The strategy of holding an equity stake and leaving management concerns to someone else is playing out in a similar fashion with the backers of MusicNet. MusicNet recently received $10 million in new funding from Real Networks, WMG, EMI and BMG parent Bertelsmann, according to industry sources.

MusicNet declined to comment on the figure but acknowledged the funding round. MusicNet CEO Alan McGlade says the deal proves that the founding companies “continue to be committed and supportive” with regard to the venture. Real Networks, the venture’s lead financial backer, just acquired a rival subscription service -- the Rhapsody-owned Listen.com -- and is expected to drop commercial distribution of MusicNet in the near future.
Meanwhile, Apple has reported that more than 2 million songs have been sold since its store launched early this month, and the majors are pushing other digital services to pursue models similar to iTunes.

Roxio, which plans to retool Pressplay to make it easier to use before re-releasing it as Napster by March 2004, is expected to make a la carte downloads a feature in its service. Plans to incorporate into the MusicNet service a greater focus on a la carte downloads are also in the works.

A new for-pay digital music service being distributed through the Grokster P2P network in the United States is running afoul of the recording industry by selling unlimited access to major-label music without authorization. Madrid-based Puretunes enables consumers to download all the MP3 files they want, in subscription packages ranging from $4 for eight hours of access to $168 for one year. The company does not have licensing deals with the major labels; however, it claims that because it has deals with the Spanish Association of Authors and Editors and the country’s Association of Artists, Performers and Players, the service is legal under Spain’s copyright law.

**April 2004-Economist:** Ringtone sales were $3.5 billion worldwide last year, up by 40% from 2002, according to ARC Group, a consultancy. Europe and Asia lead the way, but in America the Yankee Group, another consultancy, recently raised its estimate of last year’s ringtone sales from $50m to $80m. Sales of ringtones, costing up to $4 each, have now overtaken those of CD singles. Many artists now make more money from the former than the latter. Ringtone sales also outstrip legal internet download services, such as Apple’s iTunes, which generate under $100m a year worldwide.

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<td>Traditional business</td>
<td>Acquisitions/mergers partnerships</td>
<td>-acquired by Terra Firma(Maltby capital Limited)</td>
<td>-possible merger for EMI and Warner (but an offer by EMI was rejected)</td>
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APPENDIX| 76
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<th>Category</th>
<th>Description</th>
<th>Notes</th>
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<tr>
<td>Recording</td>
<td>- More selective concerning artists and develop broader relationship</td>
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<tr>
<td>Marketing</td>
<td>- Brought under unified global leadership</td>
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<td>CD/DVD</td>
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<td>New media</td>
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<td>Download</td>
<td>testing a new application that allows consumers to create personalised mobile phone ringtones from any part of a music track. If it proves to be a success, consumers using MyTone would be able to choose any part of a huge range of songs to use as their phone's ringtone. The move will add to the growing trend in mobile commerce away from polyphonic ringtones to reaitones. The firm's initial efforts will focus on dance music tracks from the Positiva Records imprint of the EMI record label. MyTones will be DRM FREE: it will make its digital catalogue available through iTunes and other online music stores without DRM and at a higher audio quality than existing downloads. The new tracks will be sold at a higher price—$1.29 per track rather than iTunes' usual $0.99 (and £0.99 rather than £0.79 in Britain)—justified by</td>
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promoted on CD packaging and will be available online from Positiva’s site. The music clips will typically be 12 to 15 seconds long and cost £4 each. To download them, users are given a unique code that can be sent via text to a number provided. The technology was developed by Boimce Technology (new media age-January 2005)

Collaborations

EMI Music Publishing has struck a deal with the UK’s MCPS-PRS and Germany’s Gema which threatens to overturn the licensing of songs in the digital world. EMI, which is recognized as the world’s highest music publishing company, will confirm today (Monday) that it has entered into a "heads of agreement" with the two collection societies to offer a onestop shop for licensing its repertoire for online or mobile use. The deal, once it is formalized, will allow any digital music service to clear rights for EMI-published copyrights centrally, by obtaining one single license, rather than striking deals on a

the improved quality and greater convenience, say Apple and EMI. Protected tracks will continue to be sold at the lower price. (Wired-March 2007)
market-by-market basis with up to 24 collection societies across Europe. (musicweek-january 2006)

2006:

**November 2005-Economist:** Merger EMI Warner? - EMI's shares have more than doubled since a low in 2003, and it recently issued a strong trading statement. Some people in the music industry reckon that the British firm is ready to seize the moment and that it will bid for Warner Music before the end of the year. This month, Warner Music's post-IPO lock-up period for insiders comes to an end, meaning that its private-equity investors can sell the rest of their shares. Its biggest private-equity shareholder, Thomas H. Lee Partners, has lost hundreds of millions of dollars on Refco, a futures and commodities broker that went bankrupt last month, and may therefore be more interested in selling its stake in Warner Music.

The two companies certainly have complementary businesses: EMI has a particularly good international repertoire, whereas Warner Music is strong in the huge American market. A merger could bring about £100m-150m of savings a year, according to Morgan Stanley, even though the companies have already cut deeply in the last few years. A merged EMI/Warner Music would be better placed to compete with Universal Music and Sony/BMG, whose broader range of artists gives them far greater leverage with radio stations and big retailers.
There is little love between two management teams that have different philosophies. EMI prides itself on its strong record in finding and developing new talent. Warner Music, on the other hand, has pared back its spending on finding new talent to nearly half of EMI's, according to a report from Ms Cohen. Whereas EMI has a broad roster of international artists, Warner Music concentrates on American and British musicians.

Warner Music's big advantage is its shareholder structure: its private-equity owners may be able to move more quickly and aggressively than EMI's diverse institutional shareholder base. EMI's weak presence in America, where it had an 11% market share at the end of October, compared with 17% for Warner Music, is also a serious drawback. The fight, when it comes, will be a close one.

**Musicweek-January 2006:** One condition of the deal is the creation of a new, joint-venture operation, run by both MCPS-PRS and Gema, which will be responsible for granting the online license. It is also understood that EMI has not applied any restrictions on Gema and the Alliance to use the new entity to offer a similar service to other publishing operations.

April 1 is being targeted as a start date for the service, although EMI will also have to allow for existing agreements around Europe to expire. The deal will initially only apply to Anglo-American repertoire - songs composed and written in the US, Canada, UK, Ireland, South Africa, New Zealand and Australia - although other repertoire is may follow in the future.

2007:

Since acquiring EMI in August 2007, Terra Firma has embarked on a major restructuring of the business which will transform not only EMI but potentially the entire music industry. The goal is for EMI to become the most innovative, artist-friendly and consumer-focused music company in the world, while delivering the financial performance needed to build a sustainable business.

The key label support activities, such as marketing, will be brought together under a unified, global leadership. EMI labels in the future will work closely with its artists on the creative process and on developing their long-term music careers. The support functions will assist the labels, ensuring that both EMI and its artists extract the full value from their work. The resulting re-shaped organization will simplify what EMI does and help creative development while also speeding up decision-making. By avoiding duplication, these changes and other restructuring efforts will enable Terra Firma to reduce headcount by 1,500-2,000 people, rationalize existing artist rosters and streamline the international markets ‘footprint’. Costs savings are predicted to be in the region of over £200 million per annum. —> labels focus solely on A&R
Sales declined by 15.0% on a constant currency basis. This was partly a function of the significant decline within the total music industry as well as the disappointing performance of EMI Recorded Music’s portfolio compared to the prior year. The 13.6% global market decline in physical sales was only partly offset by strong digital sales growth of 68.3%. Total digital revenues represented 10.4% of total EMI Recorded Music’s revenue in the year.

(*It seems as if Terra Firma was mostly concerned with cost-reducing activities)

May 2006-The economist:

- Warner-EMI: Despite this history of failure many observers are convinced that the two cannot stay apart for much longer. First, the music industry is going through a tough period. Global music sales fell by 3% in 2005 compared with the year before. And that counts as something of a recovery—sales plunged by 22% in the five years to 2003. As a duo the firms could wring out savings of perhaps $250m according to some estimates.

  EMI has pounced now because it is in a position of relative strength. It has recovered from a profits warning that sent its share price plunging just over a year ago after it announced the delay of albums from two star acts, Gorillaz and Coldplay. Since the beginning of the year its shares have risen by 16%. On the other hand, Warner Music has also bounced back from a disappointing initial public offering last year so is not inclined to fall uncomplainingly into EMI's embrace.

- Apple, a computer-maker which has 83% of the market for music downloads through its iPod music players and iTunes download service. The music majors want Apple to stop charging a fixed price of 99 cents per track and $9.99 for an album. They want variable pricing, so that new releases can be priced higher than older stuff. The music companies will soon have a chance to get their way. Their contracts with Apple are up for renewal from April onwards. They will presumably tell Steve Jobs, Apple’s chief executive, that he cannot have their music unless he pays them more than the 65-75 cents they get now. That could force Apple to raise its retail price. The music firms' strongest position, of course, would be to present a united front. That three of the big four—Sony BMG, Warner Music and EMI—are all saying roughly the same thing about Apple's pricing has aroused the suspicion that they may be colluding, says a Washington lobbyist. The music labels reckon that the Digital Media Association, which represents Apple, among others, has complained to the Department of Justice.

New media age- May 2006: Music giant EMI is restructuring its UK digital division, creating its first vice-president role for the sector and dramatically boosting both numbers and responsibility of its digital teams to focus on the raft of commercial opportunities in the sector. Matt Crosswhite. EMFs
former physical and digital sales manager, has been promoted to VP of commercial and digital media. He will take on a number of new partners and channels including 3, Vodafone and iTunes, as well as developing existing client business including HMV, Tesco and Asda in the digital sector. Crosswhite will be charged with building up commercial partnerships with mobile operators and leading Internet companies.

In addition, three new staff have been appointed to editorial, Web designer and Web developer teams, taking the staff total to eight. EMI, which runs various artists' Web sites including queenonline.com (pictured), plans to extend its service to new and existing hands and artists to fully exploit digital. In addition, the digital marketing managers for each EMI label - EMI Music, Virgin, Parlophone and Angel Records - have been given increased responsibility and will work closely with Crosswhite to exploit new media opportunities for its roster of bands.

March 2007-Wired: DRM FREE: It is a clever move on EMI's part, but it is even cleverer from Apple's point of view. It should reduce the pressure on the company from some European regulators, who worry that FairPlay is quite the opposite, and “locks in” customers by tightly linking iTunes with Apple's iPod music-players. Furthermore, the majors have long been keen to raise their prices on iTunes. Mr Jobs has always said no. But he has now, in effect, stated his terms: if they abandon DRM, they can charge more. EMI clearly thinks this is a good deal. But will consumers and the other majors?

EMI certainly needs to do something. Its sales of CDs are plummeting and it issued two profit warnings in the first two months of this year. Mr Jobs grumbled that he had been forced to introduce FairPlay (DRM standards) by the majors, which would not otherwise have sold their music through Apple's iTunes, the leading online music store. As well as limiting piracy, DRM makes it hard to move music from one device to another. This annoys people and hurts sales, Mr Jobs argued. Most music is still sold unprotected, on CDs. By ditching DRM, the majors would gain more in sales than they would lose in piracy, he implied.

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<th>Strategic decisions</th>
<th>2008</th>
<th>2009?</th>
<th>2010</th>
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<tr>
<td>Traditional business</td>
<td>-Music Publishing signed a number of important administration deals, notably with Televisa, the largest media company in the Spanish speaking world. Music Publishing manages and administers music assets for Televisa, marketing</td>
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<tr>
<td>Acquisitions/mergers partnerships</td>
<td></td>
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<td>-EMI music acquired loudclothing.com, the second largest distributor of entertainment merchandise to retailers in Europe</td>
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these to third parties.

- In July this year, MP completed the acquisition of Music Contact, Spain’s leading production library business, previously a joint venture between Music Contact and EMI Music Publishing. This reflects a strategy of focusing on this high margin business which makes it possible to extend the catalogue at low cost. Overall, the result was encouraging and promises well for the full year.

- EMI Music signed a distribution agreement with S Curve, the label set up by Steve Greenberg who discovered and broke artists such as Joss Stone and Fountains of Wayne. This allows EMI Music to release S Curve records, providing an important new source of A&R.

| Recording | - Moving from standalone labels to a streamlined structure where the labels are solely focused on A&R
- Record labels have come up with a remedy: the “360° contract”. Instead of settling for a cut of | / |
<table>
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<tr>
<th>CD sales, they increasingly offer artists broader contracts that encompass live music, merchandise and endorsement deals. Such deals, also known as multiple-rights or all-rights contracts, are particularly important in regions with rampant CD piracy, such as Africa, Asia and Latin America. (July 2007 - Economist)</th>
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<tr>
<td><strong>Marketing</strong></td>
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<td>- Marketing with extensive use of the internet (done for f.e. Katy Perry)</td>
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<td>- A major project to segment consumers has been a key platform of the new marketing approach and allows the business to target people according to their music tastes and purchasing habits. This knowledge is also feeding into decisions such as where an artist should tour and how their promotional budget should be spent</td>
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<tr>
<td><strong>CD/DVD</strong></td>
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<tr>
<td>- Launched Abbey Road Live which produced on-location live recordings, sold direct to fans</td>
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<td>- Re-release Beatles albums: record-breaking project ➔ one of the first to</td>
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</tbody>
</table>
benefit from EMI Music’s new consumer insight and marketing capability that inform the way the company develops and promotes music products in order to drive sales and which EMI continued to invest in during the year. The overall product range included individual albums, boxed sets in both stereo and mono, an apple-shaped USB stick, clothing and other merchandise.

<table>
<thead>
<tr>
<th>New media</th>
<th>Websites</th>
<th>The company is also working with its artists to maximize the potential of their websites, the shop window to so many of today’s music consumers.</th>
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<td></td>
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<td>- EMI has big plans for launching its own digital music store by the end of the year. Not much is known about the project, other than that it will include audio and video and a combination of pay-per-download and free options for consuming music. In addition, EMI hopes to lure music fans to the site by offering content that isn’t available anywhere else. (wired-oct 2008)</td>
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<td></td>
<td></td>
<td>- Your SoundCheck project (<a href="http://www.yoursoundcheck.com">www.yoursoundcheck.com</a>) Consumers are apparently being offered free access to pre-release and exclusive content in exchange for giving their opinions on EMI releases and strategy. (Music week-April 2009)</td>
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<tr>
<td></td>
<td></td>
<td>- EMI.com: Visitors will be able to</td>
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stream songs on-demand, create an unlimited number of playlists from songs and videos and discover music that’s similar to their currently-playing track, for free.

The service extends to Great Britain, where users will be able to stream complete songs, and to the United States, where playback will be limited to 30 seconds per track. "It will help us gain even more knowledge about consumers’ preferences and choices. (Wired-dec 2008)

-EMI Australia launches music blog with write-ups, audio and video streams, and links to sites where MP3s can be downloaded. Although EMI Australia is (obviously) an antipodean concern, the site features music from EMI artists all over the world, as well as other stuff the blog’s staff likes + an A&R Dropbox where bands or fans can recommend acts that the label might want to sign.
<table>
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<th>Piracy</th>
<th>Download</th>
<th>Mobile phone apps from artists for social networking and mobile applications</th>
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<td></td>
<td>EMI Music become the first major music company to release higher quality downloads without digital rights management software (DRM). This allows consumers to play tracks they buy on almost any device, whereas previously they were restricted. DRM free music was initially offered through Apple, and then Amazon. EMI Music DRM-free music is now available to all retailers that request it. This move is expected to support EMI Music’s digital sales but is primarily significant in signalling commitment to meeting consumer needs through available and flexible digital downloads. In little over a year DRM-free downloads have become established all over the world, in many countries led by EMI Music.</td>
<td>-mobile phone apps from artists for social networking and mobile applications</td>
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<td></td>
<td>Air travelers will soon be able to stock up on DRM-free music for their iPods or other portable audio devices device at touchscreen PlayPoint kiosks run by InMotion, the company that currently rents films and viewing equipment. Music from EMI’s catalog starts appearing on the kiosks, which are already installed, this month. Consumers will apparently be able to connect iPods and other devices directly to PlayPoint Media Hotspots located at over 20 US airports to purchase 256 Kbps MP3 albums for $12 a pop. The kiosks will not contain the entire EMI catalog, but rather a rotating subset of new and classic bands. (Wired-Oct 2008)</td>
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</table>
**Collaborations**

- Brand partnerships, licensing agreements and other new income streams are becoming increasingly important. Agreements with Nokia and Sony Ericsson to supply music to their customers and with consumer brands to feature EMI Music and artists in their advertising or to sponsor their tours are increasingly typical of this new direction. → Has helped digital sales, but might partially be cannibalism (wired-july 2007)

- EMI Music has been proactively involved in negotiating partnerships with digital distributors, leading to a series of high profile distribution deals. In May 2007 EMI Music struck a milestone partnership with Google and YouTube which enabled EMI Music to acquire revenues from videos played on YouTube. In addition, deals with Nokia and MySpace (eventually finalised and announced in summer 2008) will enable EMI Music and its artists to make content commercially available in a legal and user-friendly manner to users of mobile phones and social networking sites. This is a very significant development in terms of the

- Qtrax has signed a deal with EMI, meaning that it now has standing agreements with the smallest major label, as well as the largest (Universal), to allow users to download free music in an ad-supported environment. This particular deal encompasses all of EMI’s digital music that has been cleared for subscription services, according to an EMI spokeswoman. Qtrax’s deal with EMI publishing wing is still valid, so EMI’s entire digital music catalog is officially cleared for the site. Once it’s processed, the songs will be free for Windows users to download and transfer to Microsoft subscription DRM-compatible mobile devices, and for other users to stream (Wired-June 2008)

- deal with the British grocery store Sainsbury’s "Tu Clothing" line that will involve printing lyrics from the

- During the past year, the company signed new digital agreements with iTunes, Microsoft, Sky, Rhapsody, Napster, Deezer, MOG, RDIO, Grooveshark, Stingray Digital (Canada), Australian telco AAPT, and Hungama Digital Media (South East Asia), among others

- EMI Music also expanded the reach and revenue streams for its artists’ videos with a revamped YouTube Channel and a deal with popular France-based video site Dailymotion. → became the only major music company to enter into deals for premium video content with both Hulu (US) and VEVO (worldwide). → The company struck an agreement with video technology Brightcove for syndicating artist videos to websites, blogs and other sites and monetising them.

- Depeche Mode’s ‘Sounds Of The
positioning of EMI Music and its content in the digital space.

- Smallest major label EMI and Imeem announced a deal today that allows Imeem users to upload any song from EMI’s catalog to their profile pages or groups without having it pulled down for copyright reasons. Imeem, “the first ad-supported and interactive music streaming service,” is “the only social network offering both full music and video streaming in partnership with major and independent record labels.” (Wired-October 2007)

publishing house’s 1.3 million-song catalog on designs for men, women and children. (Wired-Oct 2008)

Universe’ album was the first iTunes Pass launched on Apple’s iTunes Store.

- EMI’s brand partnership team also entered into digital music deals with brands ranging from Nikon (featuring Robbie Williams in its ‘I Am Alive’ TV ad campaign), Fairmont Hotels and teen debit card company MYPLASH to global lottery marketing company Pollard Banknote.

2008:

Annual report Terra Firma:

- Replacing some senior executives has not only reduced the salary bill, but also brought in a fresh perspective from outside the music business. New hires have included a CEO, Chairman, Digital President and Catalogue President
- The structure of EMI Music has also been changed to allow greater control and accountability. It now has three distinct business units – New Music, Catalogue and Music Services. In each unit, strategy and performance targets are being set globally, with offices in the regions
providing local intelligence and delivery. This international approach is a move away from the inefficient territorial structure of EMI Music before the acquisition, with scores of labels around the world failing to share resources and even competing with each other.

- Areas such as merchandising, ticketing and touring are substantial revenue generators and EMI Music is extending its involvement with artists into all of these areas
- Instead of regions acting independently, there will be a more coherent approach that will help to bring music to fans wherever they are in the world.

Annual report 2: Maltby’s analysis of EMI’s bad performance:

The main factor behind the very large loss was continued operational poor performance, but more particularly accounting factors, in particular the revaluation of the balance sheet and the requirement to mark assets and liabilities to fair values.

While interest charges will recur annually and we anticipate a restructuring charge in the next financial year, we do not expect to see other costs and charges recur at the same level. Operating performance for the full year continued to be poor and this reflected long-term weaknesses in EMI Music which we discuss in this report.

EMI’s operational performance has improved significantly during the first seven and a half months of Maltby ownership and we expect the six months results ended 30 September 2008 to show year on year improvement.

EMI now has a stronger balance sheet and team with which to start a new era. It is not easy or palatable for any organization, particularly a listed company, to critically and openly evaluate itself. The pressure on management teams to unveil strategic solutions at short notice – without really facing up to internal problems that may be the root cause of failing profitability - is intense. For outsiders with access to only published reports & accounts, many of which are opaque, the information necessary to get to the root causes of problems is often simply unavailable. By acquiring EMI and taking it private, we have had the time to understand those root causes; and the insight obtained has enabled us to establish a sound foundation for the Group’s new strategy.

The market was, of course, a major factor in EMI’s recent decline. But close involvement with the company over the past year has exposed how internal factors within EMI Music had significantly eroded the Group’s profitability.

- Firstly, EMI Music had a culture where high expenditure at odds with the challenges it faced was widely accepted. This meant the company accepted as normal costs that should have been substantially cut back.
Secondly, EMI Music’s traditional way of working with artists – highly successful in the days of booming CD sales and a significantly simpler and less fragmented market – had become less fit for purpose. As a result, EMI Music’s creative performance, as well as its financial performance, had begun to slide.

Thirdly, the company’s internal reporting, while data-rich, focused on traditional measures which could tell the company little about the major changes in its market place as they evolved. It provided insufficient information for fundamental metrics – such as artist profitability.

However,

- ‘We have got costs under control, and introduced compensation policies in line with general business norms. We are on track to achieve Year 1 target run-rate headcount cuts of 1,500 and headcount and other savings of between £85 million and £100 million. Further cost savings will be achieved, keeping us on track for our target of £200 million savings overall.’
- ‘We have put a new organizational structure in place, addressing the problems of geographical silos and promoting best practices and global cost saving and standardization. We have introduced business discipline, ensuring that decisions are economically rational and that profitability and return on investment are front of mind.’
- ‘We have appointed a strong and talented new senior team in EMI Music. Individuals with experience in digital and consumer markets that EMI particularly lacked – and strong creative A&R track records – are already reshaping the company’s culture, introducing new dynamism and commercial rigour.’

EMI Music operated in a close-knit industry with strong shared traditions and values and ways of doing business. EMI itself had a strongly-rooted, traditional music industry culture and judged itself largely against the rest of the industry as well as accepting certain long-established practices that were no longer acceptable in a modern business outside of the music industry.

In recent years, EMI Music found itself operating in a much harsher business environment than in the past, but its culture and behavior had not changed substantially. EMI Music had, of course, made serious efforts to introduce change and improve the business, for instance by successfully implementing a series of cost-cutting initiatives. However, there remained a business culture with insufficient supervision and control where responsibility was delegated quite far down the organization and it was not normal to benchmark rigorously against best practices and standards beyond the music industry.

Similarly, new roles and policies did not achieve the level of radical change needed. The new management strongly believed that it was time for EMI to achieve that change and start to assess itself against wider best practices and standards. Introducing a different and more critical culture has been a significant challenge given the deep-rooted practices which prevailed in the business. In addition, EMI is a large and complex business, working in
over 40 countries worldwide, with a strongly regional structure which made it harder to implement accepted global best practices of sharing and standardization.

At acquisition, Terra Firma forecast a 15.1% decline in physical sales and a 51.0% growth in digital for the financial year 2008 giving an overall decline of 7.4%. In reality, the physical decline for the calendar year 2008 was 13.4% and digital growth was 29.0% giving an overall decline of 7.9%, very close to original estimates.

P17: changing market conditions

However, EMI Music’s poor performance was not just due to what was happening in the market. The division - and essentially New Music – began to under-perform the market a few years ago. During the years 2005-7, EMI Music’s revenue from New Music fell by 36% when the market fell by an average of 23%. In 2006, its market share dropped down to 12.8% from 13.6% in 2005 and Warner overtook EMI Music with global market share of 13.8% as the third largest music company behind Universal and Sony BMG.

By March 2007, EMI Music’s market share of physical recorded music sales had dropped to 11.9% and at the time of the acquisition, the Group reported a 19.8% fall in CD-based sales for the three months to June 2007 alone. Again, EMI Music was underperforming the market: its sales of physical CDs between 2005 and 2007 fell 45% versus a 19% average market decline. However, over-shipping of CDs meant that this relative decline was not initially apparent.

Digital: EMI Music reported only limited focus on the growing digital market before 2004, when its annual report noted that 2003 was the year that legitimate digital music took off, with the launch of the iTunes music store. During the year, the Group generated only around £15 million of digital sales, against a total turnover for the year of over £2 billion. By 2007, Group digital revenue was reported to have grown to reach £164 million, 9.4% of total revenue. Research conducted post-acquisition, however, showed that despite this improvement EMI Music’s digital sales had grown more slowly than the digital market: only 115% between 2005 and 2007 against market growth in the same period of 148%.

At the time of acquisition its digital organization was limited: a strategic group disconnected from the main technology workforce across the company. While EMI Music concluded an important deal with iTunes and Google in 2007, it still lacked any relationship with the social networking sites that were becoming an important route to market. EMI Music has not yet fully digitized more than moderate percentage of its catalogue. Indeed, even today, only around 30-35% of the part of the catalogue in CD format is available for downloading—and much is not even in CD form.
**CD/DVD:** At the same time, EMI Music was not maintaining its share of physical sales. One of the reasons EMI Music was losing customers was that it had limited information on the changing tastes and buying behavior of customers, particularly those buying through new digital channels. The division did gather data on individual releases but research was unsystematic and was not used to inform future repertoire or marketing decisions. EMI Music consequently lost touch with a customer base that had undergone significant change as the digital revolution gathered pace and the market fragmented. Research conducted since the acquisition of EMI shows that a number of clear customer segments have emerged in recent years, each of which has a distinctive buying behavior. This research indicates that persuading these groups of customers, many of whom are at least partly disaffected, requires marketing individually to each segment, something EMI Music was not set up to do.

Meanwhile, recent years have seen the emergence of new wholesale music customers, such as Tesco, and global customers like Nokia or Apple, who are best served by global marketing. However, EMI Music had a primarily regional structure. This could lead to duplication of research and marketing efforts across regions and did not provide motivation to individual geographies to put global EMI marketing priorities ahead of local objectives.

**A&R:** Between 2004 and 2007, EMI Music’s share of new releases within the top 200 albums by volume fell 40% in the US and 32% in the UK. The origins of this decline go back further, as the pipeline of new music is long and takes time to feed through from signing to release. This suggests worsening A&R performance over a five-year period. Postacquisition research has linked this to a lack of commercial focus, the failure of cross-business collaboration in EMI Music and generally poor selection decisions and A&R processes.

An underlying factor is likely to have been the process used to assess business decisions such as signing a new artist. Creative concerns were frequently given more weight than the underlying economic rationale. While a formal business case was officially required, in practice decisions were made more informally and this led to mistakes being made about artists’ commercial potential. While creativity can and should be profitable – as the success of the recent Coldplay album shows - by the time of the acquisition EMI Music had signed and was supporting many artists who showed no sign of delivering a return to EMI

**Artist profitability:** Unsurprisingly therefore, the overall profitability of signed EMI Music artists was poor and compared unfavorably to the far more consistently successful Publishing division.

Recent analysis revealed that a small number of EMI Music artists were producing half of the division’s (positive) profit and of all the currently performing artists on its roster, 88% made a loss for EMI Music. This poor profitability was at least partly due to its high production and marketing costs, set at a generous estimate of likely sales. A typical marketing and promotion spend on a developing artist in the UK was £98,000 which represented, on average, 81% of sales. In addition, much of the marketing and promotional spend associated with a release was focused on
traditional mainstream or mass-market channels, which yielded diminishing returns in a fragmenting market. And, at the same time, the business was spending excessively on top-end production that in many cases had no measurable impact on customer perception of quality.

One reason for the widespread underperformance of artists was that EMI Music generally measured success in terms of physical units sold rather than profits and when it did look at profitability by artist, did not have sufficiently good quality or comprehensive data to do this effectively. For this reason, the division was slow to recognize the substantial business risk that its roster of artists had come to represent.

Artist contract and catalogue advance: p21

The declining CD market has sharply reduced available revenues from this source. Across the music publishing industry, these revenues have fallen; in EMI Music Publishing’s case from nearly 60% of its total income in the year to March 1998 to under 40% in the year to March 2008. This trend is set to continue.

However, better performance in synchronization, licensing and performance made sure that music publishing had a steady growth

Mgmt flaws: p23-26(salary, advances, delegation, etc)

Important changes not mentioned before: Over the last year, a matrix organization has been put in place, so that key functions like marketing work globally and professionally. This global rather than regional focus is already bringing benefits, for instance by making it possible to market albums globally. More widely it will help to cut duplication and promote knowledge-sharing and best practice.

In addition, over the last 6 months EMI Music has invested in digital staff, right-sized IT, reestablished central procurement (appointing a Global Head of Procurement) and is outsourcing much of the Finance function.

refocusing EMI to gather and interpret functional and strategic information, rather than just market data. For instance, going forward, EMI needs to collect comprehensive information on digital sales, something it did not do before. It also needs regular information on artist profitability and on the pipeline of artists being signed. By doing this, we will ensure EMI is monitoring key trends in its business and the market.

EMI music publishing: Structural changes in the world music industry have seen the market fragment, traditional revenue streams decline and new ways of earning income become more important. Revenue from CD sales fell from nearly 60% of EMI Music Publishing’s revenues in 1999 to under 40% in 2008 – and this trend is continuing.
At the same time, other revenue streams have grown, and EMI Music Publishing has successfully tapped into this. Synchronization revenues were only 10.7% in FY 1999, whereas by 2008 they were 19.9% and are forecast to rise substantially. Compound annual growth since 1999 was 11.5%. Performance revenues rose from 22.5% to 29.7% over the same period and are expected to rise further.

Music Publishing actively protects the rights it has to songs and as a result will often achieve legal gains when it settles with organizations that have been using its music illegally. In recent years, there have been more significant settlements as Music Publishing has more actively pursued online services using music content and asked them to legitimize their use. In addition, as online services mature and become established, they themselves will often take action to ensure their music content is legal and this too can result in settlements that benefit Music Publishing. Royalty costs increased 3% during the year, while overhead costs were down by 10% due to cost reduction programs. The majority of overheads are personnel costs.

EMI music: The overall music market in the year ended 31 March 2008 was estimated to show a decline of approximately 13% for physical, and a growth of approximately 28% for the digital market, giving an overall decline of 7%. This resulted in EMI’s market share of the physical market decreasing from over 12% in the prior year to 9% in the year ended March 2008, offset by a slight increase in EMI’s digital market share to 10%.

**Wired-Sept 2007:** EMI, has sent two intimidating letters this month to MP3tunes, which owns MP3tunes.com and Sideload.com. The notes threaten to sue if MP3tunes doesn’t quit hosting links to EMI’s copyrighted material. EMI also wants compensation. While EMI "correctly supplied a representative list of multiple copyrighted works," Sacks added that EMI "must specifically identify the material that is to be removed or access to which is to (be) removed."

That might be hard for both parties. Many of the hyperlinks clicked on turned out to be advertisements, not actual downloads.

MP3tunes says it gives users an unlimited amount of storage for their music for free, and provides a premium service for $40 a year. Sideload directs users to hundreds of thousands of downloads, which can be stored automatically on MP3tunes’ servers.
2010:

- June 2010: EMI announced that it will reposition itself as a comprehensive rights management company that can take full advantage of global opportunities in all markets for music to the maximum benefit of its artists and songwriters. This will capitalize on the experience and skills which exist within both the Recorded Music business and the Music Publishing business.
- In June a new structure for the EMI Group was announced with the appointment of Roger Faxon as Group Chief Executive; he will lead both divisions as a comprehensive global music rights company. We believe this is the next step in bringing the Group closer to its key audiences and keeping it at the forefront of the dynamic changes occurring within the industry.
- EMI still faces considerable financial challenges. The Group has £3,038 million of debt outstanding that falls due for repayment between 2014 and 2017.
- **EMI music:** Revenue up 6.5% to £1,173 million and EBITDA up 15% to £184 million
- **EMI music publishing:** Revenue up 2.1% to £478 million and EBITDA up 12.8% to £150 million
- It has also undertaken a repositioning of its sales approach and procedures to create a more proactive licensing and sales operation that is building privileged relationships with high end commercial users of music across the world. A multi-year transformation project has modernized every one of EMI Music Publishing’s systems and technologies, allowing the business to achieve greater efficiency and effectiveness in its work for the writers it represents.
- Initiatives have included the restructuring of our supply chains, the renegotiation of major supply and service contracts as well as the outsourcing and licensing of non-core activities. In EMI Music a structured approach to consumer insight and product development, coupled with a strong cost control process, has improved the efficiency of marketing and promotional (M&P) spend, the costs involved in the creative process, as well as the absolute cash amounts. Indirect costs have been significantly tightened through ongoing restructuring initiatives across the organization.
- Restructuring costs: 71m→ Costs recognized in restructuring included repositioning EMI Music’s labels to ensure Artists and Repertoire are a primary focus, developing new partnerships with artists that are based on transparency and trust moving to a global functional structure for each of the Group’s key activities including marketing, manufacturing, sales and distribution, rationalizing the property portfolio, outsourcing non-core business areas, capital reorganization and eliminating significant duplications to simplify processes
- **Future risks:** p25
- Sharp increases in licensing (or ‘synchronization’) revenue from many different forms of media over recent years: The continued diversification of Music Publishing’s synch revenue streams enabled growth to be maintained during the period, countering the effects of the current economic downturn on advertising spending.
**Wired-July 2009**: VEVO deal: straight-up content-licensing agreement. Rather than a snub, according to one insider, this represents part of EMI’s distributor-agnostic strategy when it comes to licensing its music and videos (for instance, it became the first major label to license content to Hulu last month). Vevo will function as a destination site where consumers can access official music videos, interviews, backstage clips, user-generated content that uses major label audio and other “premium” content. Unlike YouTube, it will not also contain user-generated stuff that potentially scares off advertisers, which Vevo hopes will allow it to charge more for ads. In addition, Vevo will syndicate its videos to YouTube (which created the backend for the service) and other video services.

**Wired-Oct 2009**: EMI has dropped its copyright infringement lawsuit against the music streaming service Grooveshark, opting instead to license its sound recording and publishing catalogs to Grooveshark in the United States under undisclosed terms. Like Spotify in Europe, Escape Media’s Grooveshark is a freemium music service, meaning that you can hear any song in the catalog on-demand and save any of them into playlists without paying a cent. The service generates revenue from visual ads embedded in the free version of the service and $3 monthly payments from premium users who pay to remove ads from the service. But there’s no question that Spotify has a big advantage of its own – a massive war chest it can use to sign label and publisher deals, a peer-to-peer architecture that saves on bandwidth costs, a critically-praised downloadable app feels more like iTunes than Grooveshark’s web-based service does and can save files locally in the premium version, and an iPhone app that’s already winning over fans in Europe.

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<th>Year</th>
<th>Strategic decisions</th>
<th>Acquisitions/mergers partnerships</th>
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<td>2011</td>
<td>the recession and declining music sales made it impossible for Terra Firma to pay off EMI’s massive debts. Last year Terra Firma sued Citigroup, the bank that financed the deal, claiming it defrauded it into paying too much. The jury ruled in favor of Citi, leaving Mr Hands to renegotiate debt payments or lose the label. In the event the end came sooner than expected: on February 1st Terra Firma handed EMI over to Citi. Citi immediately cleansed EMI’s balance-sheet, reducing</td>
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<td>2012</td>
<td>Citigroup, the bank which financed Terra Firma’s acquisition and took control of EMI in February, has sold its recorded-music division to Universal Music, a French-owned label. It paid around 90% of the purchase price of EMI up front, agreeing to take the risk if the deal could not go through. Had it not been approved, Universal would have been hung out to dry. Universal will also still achieve cost-savings and synergies by buying EMI, even</td>
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its debt from £3.4 billion to £1.2 billion. (Feb 2011-economist) with the divestments, giving them more money to chase new talent and profits. (Economist- Nov 2011, sept 2012)

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Earlier this year, Google launched Music Beta, a service limited to the American market that lets consumers upload songs to a digital “locker” on its servers and then listen to them on any PC with a web connection or any mobile device using the search firm’s Android operating system. This service, which lets people store up to 20,000 songs free in Google's computing “cloud”, will form part of the company's broader Google Music offering, initially limited to America too. Another element of this is a new online music store that will be embedded in the Android marketplace. This virtual emporium will eventually offer over 13m digital songs that people can buy and add to their personal collections held on Google’s servers—EMI signs deal (Nov 2011—economist).

2011:

**Wired-June 2010:** EMI no longer considers itself a “label” per se, but a “comprehensive rights management company” under the new leadership of Roger Faxon, formerly the head of its robust publishing division.

EMI’s new strategy was undertaken after months of soul searching by its relatively new owner, private equity firm Terra Firma. And it just might work, if the new version of the company — with its emphasis on uniting publishing and sound recording rights to facilitate a wider range of deals in a faster, simpler way — succeeds in reflecting the ways in which the music business itself has so fundamentally changed.
Increases in digital revenues have failed to offset declining physical sales, and making matters worse, older catalog titles recorded during the music industry’s heyday often bring in a disproportionate percentage of revenue, leading to speculation that the major labels would eventually become catalog-licensing businesses rather than continuing to invest in new bands. That appears not to be the case, entirely, as far as EMI goes.

The focus, for new and old artists alike, will be more on inking deals for sound recordings, publishing, and merchandise whenever possible, to allow the company to make money for itself and its artists on a variety of fronts even if nobody pays for a single disc or download. Licensing music for these new uses, rather than funding an entire department dedicated to selling music to a shrinking number of consumers alone, could be just what the doctor ordered for the beleaguered company, which has required cash infusions from investors to stay afloat despite reporting a few signs of life lately (numerous publishing awards, increased market share).

**Economist-Oct 2010:** For the past ten years sales of recorded music have declined so steeply as to become a cautionary tale about the disruptive power of the internet. The rise of illegal file-sharing and the end of the digital “replacement cycle”, in which people bought CDs to replace tapes and records, caused spending to collapse. Sales of CDs, tapes and records have slid by 40% in Britain since 2001, according to the BPI, which represents record labels. In Japan, the world’s biggest CD sales market, the number of discs sold fell by 6% in 2008 and 24% in 2009. Price cuts meant that revenues dropped even more steeply. And even digital sales are now stalling. In Japan, mobile and online single-track sales rose only a shade during 2009. So far this year Americans have bought 841m digital tracks, mostly from Apple's iTunes, according to Nielsen Soundscan—down from 847m at this point last year. Apple now offers plenty of other opportunities to spend money, from iPads to more than 250,000 apps. Music executives believe the company is cannibalising the musical part of its own business.

Yet the music business is surprisingly healthy, and becoming more so. Will Page of PRS for Music, which collects royalties on behalf of writers and publishers, has added up the entire British music business. He reckons it turned over £3.9 billion ($6.1 billion) in 2009, 5% more than in 2008. It was the second consecutive year of growth. Much of the money bypassed the record companies. But even they managed to pull in £1.1 billion last year, up 2% from 2008. A surprising number of things are making money for artists and music firms, and others show great promise. The music business is not dying. But it is changing profoundly. The longest, loudest boom is in live music. Between 1999 and 2009 concert-ticket sales in America tripled in value, from $1.5 billion to $4.6 billion (see chart 1). Ticket sales wobbled in America during the summer of 2010, but that was partly because some big-selling acts took a break.

Record companies’ publishing departments, which once seemed rather dowdy next to sexy, talent-spotting A&R, have become vital cash machines. Publishing supplied 29% of EMI's revenues and 45% of its profits in the year to March 2010.
Rising income from live performance, merchandising, sponsorship, publishing, online streaming and emerging markets has come to counterbalance losses from declining CD sales.

In a sense, the recorded-music market is not so much dying as greying. In 2002 people aged 12 to 19 accounted for 16.4% of all spending on albums in Britain, according to TNS Worldpanel. That was almost double the share of people aged 60 or over (8.8%). The two groups have now switched positions. By 2008 teenagers accounted for just 12% of spending on albums, whether digital or physical. By contrast, the older fans' share had gone up to 13.8%. The over-60s do not just spend more on music albums than teenagers. They spend more on pop-music albums.

Britain's four big supermarkets—Tesco, Asda, Sainsbury's and Morrisons—accounted for 24% of all music sales in the country last year. By comparison, Amazon.com had 13% of the market and iTunes only 11%. People aged 40 and over account for 62% of spending on music in Tesco, according to Kantar, a research firm. Partly because of their clientele, partly because supermarkets are mass-market enterprises, they tend to stock mainstream fare.