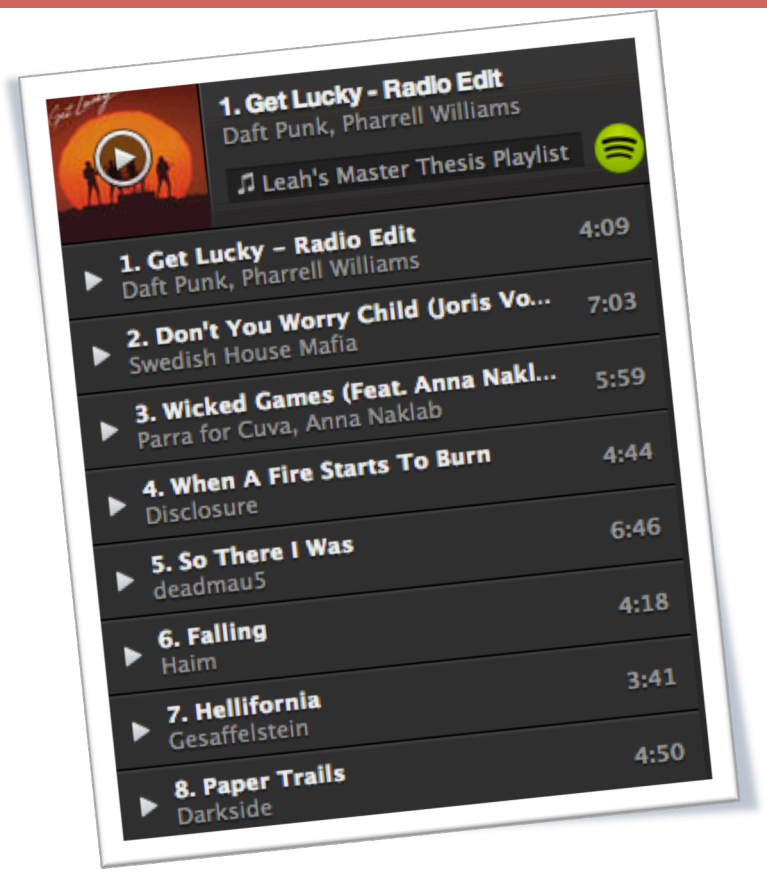
Stockholm School of Economics
Master Thesis - Department of Marketing & Strategy

Fall | 13



Embracing Disruptive Innovation within the Swedish Music Industry ♫

A Case Study approach to Spotify's game-changing effect on Sony Music Sweden's business model

Record labels have been continually plagued with different forms of disruptive innovation throughout the past century requiring them to be nimble. Swedish streaming phenomenon, Spotify, introduced a new way of legalized music consumption to the market to counter the threat of piracy causing record label executives to once again re-think their business model. The majority. of disruptive innovation theory is based on firms that have failed in the face of change rather than succeeded, making this analysis a unique study. This thesis will use an empirical analysis to examine how Sony Music Sweden embraced the streaming model, created valuable capabilities and has prepared itself for future innovations. Fourteen record label executives and employees were interviewed at Sony Music Sweden in order to gain an in depth understand of the inner-workings of the organization. Key success factors are drawn from the empirical analysis which includes business environment and practices, and technical and organizational considerations. It's conclusion; an innovation can only succeed within the industry if it has support from senior management, has built a collaborative relationship and is fostered within an environment of open minds

Author: Leah Steffensen
Tutor: Henrik Glimstedt
Examiner: Bertil Thorngren

Opponent: Susanne Holmsäter
Defense: December 17/2013
Keywords: record label, music industry, disruptive innovation, Spotify, Sweden

Acknowledgements

Henrik Glimstedt

for continuous support and inspiration throughout the writing process

Jacob Herbst

for providing me with the opportunity of a lifetime

Rick, Veronica & Danielle Steffensen

for editing my "blogging colloquialisms"

Amir Sela, Ellen Kvarby, Fredrik Borg, Helen McLaughlin, Joakim Johansson, Johan Lantz, Johan Lindgren, Maria Westergaard Alen, Mark Dennis, Mia Annel, Pelle Kuhlhorn, Samuel Arvidsson, Stefan Duberg & Samuel Arvidsson

for giving up your valuable time to help me with my research

Table of Contents

1 INTRODUCTION 1
1.1 Introduction to Case 1
1.2 Research Background 5
1.3 Problem Area and Purpose 5
1.4 Contributions to the Marketing World 7
1.5 Delimitations 7
1.6 Definitions 8
1.7 Thesis Outline 9

2 LITERATURE REVIEW 10
2.1 Relevance of Disruptive Innovation 10
2.2 Introduction to Business Models 11
2.2.1 Internet and the rise of Business Model Literature 11
2.2.2 Business model innovation 13
2.3 Disruptive Innovation 14
2.3.1 Yu's firm's perspective for business model change 15
2.3.2 Leaders and Disruptive Innovation 16
2.3.3 Building new knowledge within disruptive innovation 17
2.3.4 Disruptive Innovation and New Networks 18
2.3.5 Gilbert's Model of Disruptive Innovation 18
2.3.6 Disruptive Innovation framework for this thesis 20
2.4 Research Questions 21

3 METHODOLOGY 22
3.1 Research Strategy 22
3.2 Research Design 23
3.2.1 Unit of Analysis: Case Study 23
3.2.2 Case Study Selection 23
3.2.3 Analysis Framework 24
3.3 Data Collection 25
3.3.1 Ethnography Research 25
3.3.2 In-Depth Interviews 25
3.3.3 Secondary Data 27
3.4 Limitations 29
3.4.1 Methodological Limitations 29
3.4.2 Research Quality 30

4 EMPIRICAL FINDINGS 32
4.1 Preface 32
4.2 New Value Proposition 32
4.2.1 Sony Music's initial attraction to Spotify 32
4.2.2 Consumer's attraction to Spotify 34
4.3 New Business Model 36
4.3.1 Introduction of New Business Model 36
4.3.2 Diverse Revenue Streams 38
4.3.3 Future of the business model 42
4.4 New Sets of Knowledge 43
4.4.1 Competitive Strength – Filtr Playlists 43
4.4.2 Organizational Environment 46
4.4.3 Future of Record Labels 48

5 ANALYSIS **52**
5.1 Embracing a Spotify-centered business model 52
5.1.1 Business environment considerations *52*
5.1.2 Business practice considerations *53*
5.2 Creating sustaining capabilities 54
5.2.1 Technical considerations *55*
5.2.2 Organizational considerations *56*
5.3 Threats of the Spotify Business Model 57
5.3.1 Reliance on a Spotify Model *57*
5.3.2 Spotify's reputation *58*
5.3.3 Future Business Model *58*
5.4 Key success factors tied into Literature Framework 58
5.4.1 New Value Proposition *58*
5.4.2 New Business Model *60*
5.4.3 New forms of Knowledge *61*
5.4.4 Additions to current literature *62*
5.3 Future Outlook 63
5.3.1 Support for senior management *63*
5.3.2 Collaborative relationship with innovation *63*
5.3.3 Open minds *64*
6 CONCLUSION **65**
7 DISCUSSION **67**
7.1 Further Thoughts on Future landscape 67
7.2 Managerial Implications 68
7.3 Suggestions for Future Research 69
8 REFERENCES ..... **a**
9 APPENDIX ..... **g**

1 INTRODUCTION

1.1 Introduction to Case

On September 19th, 2013 Sony Music Sweden's Spotify app Filtr reached 500,000 subscribers, making it by far the most influential music app on Spotify. Filtr is now Sony Music's most powerful distribution method, a far cry from the outlets of yesteryear such as iTunes downloads and physical sales. "*This is a result of a sustained and purposeful strategy*," remarked Mark Dennis, Managing Director (MD) of Sony Music Sweden, "*We have a unique position in the market, and thanks to Spotify's social features have been able to build a platform that can help both our artists and labels reach an even larger audience*." (mynewsdesk, 2013)

Something remarkable has occurred within the music industry in Sweden over the past few years as revenues have returned to pre-illegal downloading days, supported by a 13.8% industry growth in 2012 (IFPI). A once dying industry destroyed by piracy has now recovered thanks to an innovation called Spotify. Today more than a third of all Swedes use Spotify and now have access to more than 25 million songs (Dean, 2013). The last time Spotify released statistics in March 2013, it had 24 million registered users globally (Dean, 2013). While the music industry has seen significant innovation during the internet rein, Spotify is the first that has successfully combatted illegal downloading as a result of its on-demand subscription-based, streaming platform. It capitalizes on the 21st century consumer need to have full access to all music all the time. Sony Music Entertainment along with the other two major record labels, Universal Music and Warner Brothers Entertainment have embraced Spotify into their strategic marketing decisions for it has become both an important source of revenue and promotion tool. 91% of digital music income in Sweden is now generated from streaming sites (Savage, 2013).

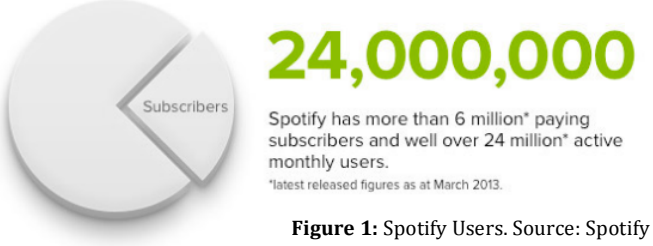


Figure 1: Spotify Users. Source: Spotify website

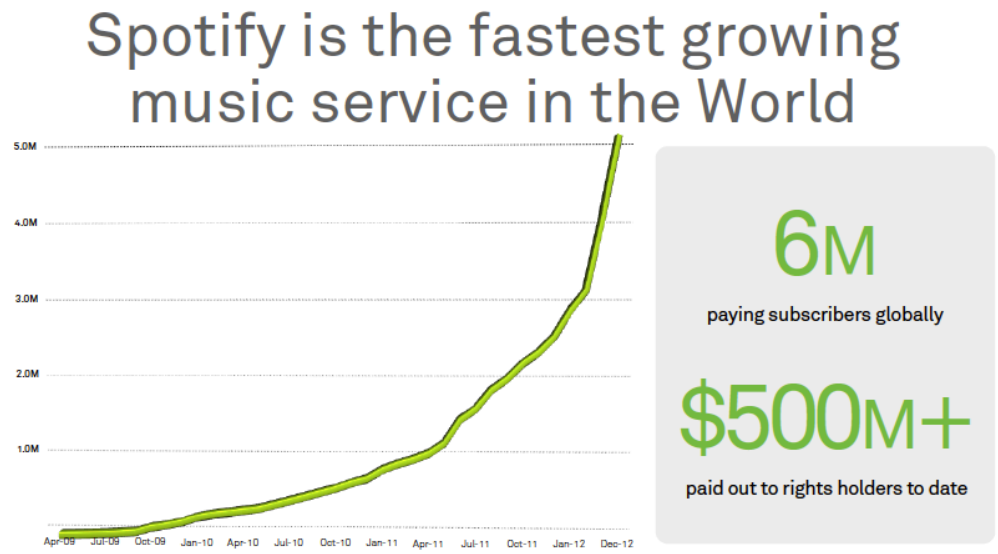


Figure 2: Spotify Growth. Source: Spotify Artist Deck presentation March '13

Prior to the digital revolution, the music industry worked in a relatively straightforward fashion. Record labels would invest in artists by paying them in advance for expenses while they create an album. All revenue would therefore go back to the record label until sales had recovered the initial investment made. Labels owned the rights to songs and albums, and were thus responsible for promoting the material to reach a mass audience. Record labels would utilize alliances at radio stations, TV networks and other commercial platforms to market the music. Artist tours were also used as a promotional tool to help increase record sales. Physical albums were created through the label's own in-house manufacturing facilities, and subsequently distributed copies to record stores nation-wide. Record labels controlled all methods of distribution since artists needed label backing to be played on the radio or sold in commercial record stores. Swedish labels typically used a marketing formula to promote an album using radio and TV, which in most cases would be successful, but would depend on the level of marketing investment.

In the late 1990s, the landscape changed dramatically with the rise of the Internet. Two technological developments radically changed the music industry for good (Dolata, 2011). First, the launch of CD recorders and writable CD's made it possible to copy the product without a loss of quality. Second, the dissemination of data-compression

software in open-format MP3s allowed music to also be file shared online leading to predictable consequences. P2P (peer to peer) networks began to emerge with the dominant player being Napster. Consumers could now share bootlegged files with one another easily through the Internet and without consequence. Consumers could readily access and actively sample virtually any music item (Bhattacharjee, 2009), which in turn changed music listening behavior and expectations.

In the past, major record labels have not been very open to new disruptive innovations that threaten their traditional business model. Before iTunes dominated the download market, major record labels attempted to integrate forward and create their own digital platforms in order to have a direct-to-consumer outlet. After this system failed and iTunes became successful, record labels had to adjust their internal business models to welcome digital downloads and prepare for the demise of physical sales. The transition resulted in a decrease in revenues because the majority of consumers still preferred to download illegally off of P2P sites and stream from sites such as YouTube. The Swedish market in particular had difficulties adjusting to the download model. It wasn't until Swedes Daniel Ek and Martin Lorentzon created a way to embrace consumer behavior and introduce a platform for legal on-demand streaming that this trend stopped. After the success of the iTunes model proved that labels work together better as collaborators on a single platform rather than competitors of their own independent systems, labels decided to support Spotify.

It took two nearly two years of rigorous licensing negotiation until Spotify was finally launched into the Swedish market in 2008. Spotify worked closely with record labels to develop a tight relationship based on mutual respect and a common goal to grow the entire industry revenue base to the level prior to pre-illegal downloading days. Sony Music Sweden had to adjust its business model to focus on number of streams instead of physical sales or number of downloads. Sony Music's old model of doing business was "disrupted," yet they had no option but to change and develop new capabilities.

In Fall 2012, SSE Marketing students Sven Ahrens and Andreas Kreidenweiss wrote their Master's thesis about the industry-wide business model innovation Sweden's music industry went through with the introduction of Spotify. They focused their paper on the environmental factors from a consumer perspective coming up with seven key success factors for why Spotify was a success in Sweden including favorable market size, willingness to change, technological foundation, beta licenses, anticipative solution, emancipated consumers and fast adopting consumers. While this thesis will focus on what went on inside the firm, it's important to be able place this situation within a wider context, which is why Ahrens & Kreidenweiss is suggested as supplemental reading.

Sony Music finds itself within a complex eco-system within the Swedish music industry today. Sony Music owns rights to all music recorded by their artists. It is then dependent on distributors like iTunes, Spotify or physical retailers to reach consumers. In recent years, Spotify has relied on partnerships with major Telcos to ensure the service reaches a wide range of customers. Sony Music is then in turn dependent on these Telcos in order to ensure their repertoire reaches their intended market.

Historically, major record labels have experienced radical shifts within their business models, both in terms of revenue and competitive capabilities. Technology has dictated these changes as disruptive since labels had little control over the way consumers preferred to consume music. By studying a major label (Sony Music), which has made a radical change within its business model, the author will draw conclusions and recommendations on how well the firm is able to adjust to disruptive innovation. The overriding research questions directing the discussion are:

1) Why did Sony Music Sweden decide to embrace Spotify as a disruptive innovation?
2) What capabilities did Sony Music Sweden develop in order to adjust to the new business model?
3) How well is Sony Music equipped for a future disruptive innovation based on the lessons learned from Spotify?

1.2 Research Background

The subject of disruptive innovation has been popular since 1995 when Christensen wrote about the concept in his influential book entitled *Disruptive Technologies: Catching the Wave*. According to Christensen, disruptive innovation is "the phenomenon by which an innovation transforms an existing market or sector by introducing simplicity, convenience, accessibility, and affordability where complication and high cost are the status quo."(Christensen Institute, 2013). With the advent of the Internet, businesses continually had to shift their business models in order to embrace technological change. Technology is now advancing faster than ever before, leaving businesses susceptible to change. Literature to this point in time tends to focus on the difficulties firms encounter when shifting their dominant logic from one ideological structure to another. Empirical research is still quite narrow and thus a problem area has been realized.

1.3 Problem Area and Purpose

Clear themes appear while researching disruptive innovation, such as defining what it is, categorizing it into different sub-categories and critiquing Christensen's early work. In addition, firms faced with the disruptive innovation fail to maintain their market leadership in almost every industry studied (Paap, 2004). This failure is most often attributed to management's hesitation of taking resources away from current operations. Christensen (2008) also outlines examples of well-established companies succeeding in business model innovation, which are rare. It's therefore difficult to identify an empirical study where the said firm succeeds in embracing the innovation while creating proper capabilities and preparing itself for a future disruption. Disruptive innovation also tends to be included as a single concept, when in fact disruptive technological innovation is different from a business-model innovation or disruptive product innovation (Markides, 2006). This thesis will focus on the concept of an opportunity in business model innovation.

Additionally, research tends to have a retrospective view of disruptive innovation, focusing on the ways a firm could have been more prepared instead of looking ahead to

how to better facilitate their organization in the future. It is worthy to conduct a study of a firm who successfully embraced a disruptive innovation in order to learn from an optimal internal process, which can then be applied to future cases. After an in-depth analysis of literature based on disruptive innovation, Yu (2009) states further research could be done in the field of management education processes and how to equip managers with capabilities needed to initiate changes. At the firm level, there is much to be studied on understanding how firms successfully transform capabilities through disruptive innovation.

Furthermore, the majority of industries studied come from a thriving environment with healthy revenues where change is not necessarily needed. It's difficult for these companies to surrender to disruptive innovation for they have an optimal business model adjusted to their ingrained performance measures. Another current gap in disruptive innovation research Yu (2009) stated, is to analyze if managers could ever support potential disruptive projects while also feeling secure in their career within the firm. Incentives are different for those industries that are in decline and are actively searching for an answer. This thesis therefore will explain what those particular incentives of disruptive innovation are and how a firm can adjust their business model to prominently react to incentive drivers.

Therefore, the problem area of this thesis will identify purposeful methods in which a firm can conquer disruptive innovation and use it as an opportunity, and how it can successfully prepare itself for future disruptions. Additions to existing theory will be made within the analysis, which will be based on empirical outcomes. The objective will be to create an alternative framework for firms faced with disruptive innovation by providing an in-depth analysis with further conclusions and recommendations. To achieve this purpose, in-depth interviews with fourteen Sony Music Sweden employees and influential music industry veterans were conducted.

1.4 Contributions to the Marketing World

There are several themes residing in this thesis that will be beneficial to the marketing community. The primary theme is disruptive innovation which will be analyzed from a business model level. Within disruptive innovation, themes of senior management processes, organizational change and relationship management will be studied.

Studying senior management's tactics is of particular importance since Sony Music Sweden developed a way to be successful within the face of change. As mentioned above, managers typically have a difficult time adjusting their models to change because they are afraid of the unknown. Using empirical knowledge gathered from this case, marketers will learn which leadership strategies made senior management at Sony Music Sweden so successful.

Organizations as a whole typically have a difficult time reacting to disruptive innovation, yet Sony Music Sweden discovered how to adjust resources accordingly to facilitate change. Several key success factors will be drawn to help marketers understand how to structure their organizations when faced with a new business model. Marketers can only be as successful as the organizations driving them.

Finally, strong relationships within the value chain made the disruptive innovation possible. Firms can at times become too involved with their own interests to properly manage the relationships that are crucial for their success. The case will examine how Sony Music utilized its partnerships to create a successful business environment for all participants involved.

1.5 Delimitations

The analysis of this thesis is narrowly defined to disruptive innovation through business model change on a firm level. It is not intended to provide an industry-wide view of the Swedish music industry, but rather focused on how one record label reacted to a change of environment. Only one case was analyzed instead of a cross-analysis among different labels due to time and resource constraints. It is a normative study, as the objective of this

thesis is to provide key guidelines on how record labels should internally structure themselves to react to disruptive innovation. It is also meant to serve as a guideline for the organization studied for future occurrences of innovation. Finally, only Sony Music Sweden was examined within this study and the results limited to one market. It is difficult to accurately predict if the results of this thesis could transfer to other markets because of the differing nature of alternative business landscapes.

1.6 Definitions

- A&R – Artists and repertoire. The A&R representatives seek new artists and sign them to the label. They are the musician's point of contact at the label during contract negotiations and play an important part in development of the artist (McDonald).
- Copyright – Exclusive rights to work, including the sole right to publish, produce, reproduce, translate, communicate to the public by telecommunication and, in some cases, rent a work. It also includes the right to perform a work in public, and under certain conditions, to exhibit in public an artistic work. (socan)
- Digital Sales – music you purchased online through the internet either through mp3 downloads or streaming
- Label – Label is short for record label. Record labels are companies that manufacture and distribute recorded music and promote that music. There are two types of labels major labels and indie labels. (about.com)
- License – A legal agreement granting someone permission to use a work for certain purposes or under certain conditions. A license does not change the ownership of the copyright (socan)
- P2P – A sharing and delivery of user-specified files among groups of people who a logged onto a file-sharing network. Peer-to-peer (P2P) networking eliminates the need for central servers, allowing all computers to communicate and share resources as equals (socan)
- Physical Sales – Typically means music that you can buy in physical form either on vinyl, cassette or CD from a brick-and-mortar store. Also refereed to as 'traditional sales.'

- Playlist – A personal selection of a consumer's favourite songs
- Repertoire – The stock of songs a record label owns the copyright rights to.
- Streaming – The act of sending and receiving content in a compressed form over the internet. With streaming video or streaming video, a web user does not have to wait to download a file to play it. Instead, the media is sent in a continuous stream of data and is played as it arrives (socan)

1.7 Thesis Outline

The first chapter provides an introduction to the case that will be studied, followed by a definition of the problem area, purpose and contributions to the marketing world.

The second chapter focuses on a review of the literature where relevant business model and disruptive innovation theory will be discussed, followed by the research questions addressed.

The third chapter will examine the methodology used to complete this thesis including a justification as to why a qualitative research method was used and the how empirical data was acquired.

The fourth chapter describes the empirical data collected in a narrative-like structure through a legible framework. The data combines fourteen interviews of primary research with secondary sources.

The fifth chapter provides an in-depth analysis to the initial research questions tying together the literature with new findings.

The sixth chapter summarizes the thesis in a conclusion and answers the question how disruptive innovation was a success as well as implications for the future music industry.

Finally, a discussion which makes recommendations on how management can utilize the framework created, with suggestions for future research which concludes the paper.

2 LITERATURE REVIEW

This section provides a theoretical framework of business models and disruptive innovation. The overview presents the reader with an understanding of the process disruptive innovation takes to create new business models, and which research areas have been dominant. Finally, the problem area and research questions are addressed.

2.1 Relevance of Disruptive Innovation

Disruptive innovation is regularly associated with negative feelings due to its intimating connotation. It is considered an attack that must be met through defensive measures (Gilbert, 2003). Regular logic tells us, anything that "disrupts" regular routine and creates a new market and value network cannot be good for a corporation who is reliant on a certain business model. Yet, a disruptive business strategy is the most rewarding yet most challenging of all business strategies to develop and implement (Dirks, 2012).

Research on disruptive innovation began in 1995 with Clayton M. Christensen's article *Disruptive Technologies: Catching the Wave*, which has been revisited and subsequently critiqued by numerous authors. The music industry has been plagued with disruptive innovation with the introduction of the internet which is why the author believes it serves as a suitable framework for the analysis completed in this thesis. Careful analysis will be placed on how Sony Music embraced Spotify as an opportunity and how well prepared the label is for another disruption. As Birchall (2004) states, "Disruption introduces new rules in a new playing field. It demands new sets of knowledge and appropriate organizational structures, processes and culture. Moreover, it challenges the very mindset of incumbents that have been successful in the past, but are now in danger of succumbing to that legacy." In order to understand disruptive innovation we must examine the initial business model theory, which is found through extensive research in the following sections.

Disruptive Innovation can be categorized into technological innovation or business model innovation. For the purposes of this thesis, business model innovation will be studied.

2.2 Introduction to Business Models

It's important to understand the definition of a business model in order to properly conduct this analysis. Business models and business model innovation are at the core of disruptive innovation theory which is why this section is critical.

2.2.1 Internet and the rise of Business Model Literature

The term "Business model" first became common in the mid-1990s, and has been gathering momentum ever since (Zott, 2010). The meaning of the phrase has interestingly gone from a positive connotation of an intangible concept to something more concrete, which could subsequently collapse (Codrea-Rado, 2013).

The Internet revolution brought a new wave of business practice to unsuspecting industries who quickly realized they had to change processes and embrace e-business, and subsequent literature followed. Zott (2010) define e-business as "doing business electronically." It can both mean business that is conducted only through the internet, or a business that uses the internet as a complement to the firm's traditional operations.

Christensen (2008) stated the most important element of a business model is the customer value proposition. A successful company is one that creates value for customers by helping them solve a fundamental problem that needs a solution. Opportunities are therefore the most potent when there are no alternative solutions currently on the market. Teece (2010) stated the growth of the Internet raised fundamental questions about how a business was to deliver value to the customer, and how companies could capture value in this new channel of distribution. While Mendelson (2000) reflects that the Internet opened new horizons for the design of business models by enabling firms to fundamentally change the way they organize and engage in economic exchanges, both within and across firm and industry boundaries.

In addition, Christensen (2008) stated a business model must have an adequate profit formula which dictates how the company creates value for itself while providing value for the customer. A firm also needs key resources and processes to ensure it has suitable

assets like people, technology, and channels, while having efficient operational and managerial processes that allow it to successfully deliver value. Chesbrough (2002) argued firms can capture value from new technology in two basic ways: through incorporating the technology into their current businesses or through launching new ventures that exploit the technology in new business areas. He also stated (2010) that "a mediocre technology pursued within a great business model may be more valuable that a great technology exploited via a mediocre business model."

It must be noted that firms can use the value created as described above as a source of competitive advantage to enhance their performance. Magretta (2002) argues that this can change the economics of an industry since it can replace the old way of doing things and become the standard for the next generation of entrepreneurs. Afuah (2001) has conceptually explained business models as "the method by which a firm builds and uses its resources to offer its customers better value and to make money in doing so" or rather the total value creation potential of the business model design and the firm's ability to appropriate that value.

The role of strategy within a company's framework and how it relates to the business model, either directly or as separate concepts, has also been addressed by scholars (Zott, 2010). Magretta (2002) found strategy focuses on competition, while the business model emphasizes cooperation, partnerships and joint value creation. Makinen (2007) argues the business strategy of a firm is more concerned with value capture and competitive advantage than with actual value creation, while business models include a concern for value creation with value capture.

There were many definitions and ideas of business models within the e-revolution. To summarize, research on business models has revolved around three different aspects: 1) the networked nature of value creation, 2) the relationship between business models and firm performance and 3) the distinction between the business models and other strategy concepts (Zott, 2010).

2.2.2 Business model innovation

To understand the reasons why a business model will undergo change, literature covering innovation will be examined. The simple definition of business model innovation is defined as a novel way of how to create and capture value, which is achieved through a change of one or multiple components in the business model (Frankenberger et al, 2012). To qualify as an innovation Markides (2006) describes, the new business model must enlarge the existing economic pie, either by attracting new customers or by encouraging existing customers to consumer more.

In order to be open to innovation, firms must first adjust their dominant logic. Prahalad (1986) introduced the notion of a dominant logic which is defined as a set of heuristic rules, norms and beliefs that managers create to guide their actions. It is often entrant companies that use technology to change the "dominant logic," which results in successful companies with successful business models failing (Cavalcante, 2013). The dominant logic can act as a filter on information, preventing managers from seeing opportunities when they fall outside of the prevailing logic, driving firms into the dominant logic trap (Chesbrough, 2003). Christensen (1997) found firms to be effective and far-sighted when technological opportunity reinforces the firms' current business, but ineffective and myopic when that opportunity disrupts the firms' current business.

In Christensen's 2008 paper entitled *Reinventing Your Business Model* he states companies should not pursue business model reinvention unless they are confident that the opportunity is large enough to warrant the effort. It must be game changing to the industry or market to be worthwhile. He explains it must be targeted with a focused and compelling value proposition; have the customer, profit formula, key resources and key processes in mind to get the job done as efficient as possible; be able to create new processes unfettered by the negative influences of the current core business; and finally be able to disrupt competitors.

Organizations also need to create the correct management structure in order to support a business model change. Doz (2010) looks into ways companies could become more

flexible by incorporating strategic sensitivity, leadership unity and resource flexibility. Senior management teams need to have the confidence to take risks necessary to start new business models and desert old ways of business. Some companies struggle with being able to adapt to changes in their competitive environment, despite the best efforts of their CEOs and management teams, because the required response does not comply with the firm's identity (Bouchikhi, 2003).

Francis at al (2003) argues firms can feel particularly vulnerable when going through a discontinuous change because the prevailing core values, routines, strategies, cultural imperatives and asset endowments that were built on a business model have become competitively inferior, reactionary or obsolete.

2.3 Disruptive Innovation

Now that concepts of business model and business model innovation have been defined, disruptive innovation will be examined to understand what occurs at a firm level when a disruptive innovation takes hold.

Disruptive innovations "change the game." They attack an exiting business, and offer great opportunities for new profit growth (Assink, 2006). Coulson-Thomas (2001) and Wind (2005) describe the process as a combination of emergent qualities of several smaller ideas based on observing the world differently, challenging presuppositions, expanding boundaries, spotting the "white space," discovering the unrealized needs of customers, setting challenging targets, thinking the unthinkable and challenging our underlying mental models. Damanpour (1996) states "Innovation is conceived as a means of changing an organization, either as a response to changes in the external environment, or as a pre-emptive action to influence the environment."

Yu (2009) sees literature on disruptive innovation split up into four different perspectives: a) the internal perspective, the business models and organizational challenges of incumbent firms; b) the external perspective, the context and environment; c) the marketing perspective, customer orientation under disruptive change; and d) the technology perspective, technological strategies for disruptive innovation. The purpose of

this thesis will focus on (a) and explain the internal perspective of the firm while undergoing change.

2.3.1 Yu's firm's perspective for business model change

Yu (2009) splits the internal perspective of the firm into four aspects: 1) human resources, 2) organizational culture, 3) resource allocation, and 4) organizational structure.

Human Resources – Yu explains how there are two different sub-aspects within the scope of human resources being managers and employees. Henderson (2006) states senior managers may not understand the allure of the disruptive innovation because their views are deeply entrenched and largely shaped by current experiences. Govindarajan and Kapalle (2006) stress the importance of long-term oriented, subjective-based incentive plans instead of short-term, formula based incentive plans for key executives. The firm has a higher rate of success if the employees are risk-takers and recruited from the outside for expertise (Yu, 2009).

Organizational Culture - Tushman and O'Reilly (2002) describe culture as an effective way of controlling and coordinating people without elaborate and rigid formal control systems. Culture can however create cultural inertia, which is difficult to overcome and is a key reason why managers fail to introduce timely and substantial change (Yu, 2009). The culture therefore needs to unlearn deeply entrenched values at the advent of potential disruptive innovation.

Resource allocation – Structured routines such as evaluation factors and traditional market research reports can constrain a firm since it is using the same criteria to judge its performance by (Yu, 2009). Christensen (2006) also describes firms being locked into businesses in which they have accumulated resources where they focus their investment. Christensen and Bower (1996) state this causes firms to invest more in conventional technologies to offset competition from the disruptive force.

Organizational structure – Yu (2009) contests a large corporation should keep its flexibility by having smaller business units in order to keep decision makers excited and take emerging opportunities seriously. Christensen (2003) proposes firms set up an "autonomous organization" to help develop and commercialize the venture by setting up a unique cost structure. Tushman and O'Reilly (2002) state firms should simultaneously pursue both incremental and radical innovation to improve technical performance and satisfy existing customers.

2.3.2 Leaders and Disruptive Innovation

Past successes and strong corporate culture tend to blind business leaders to developments that do not fit their collective mental framework (Birchall, 2004). Legacy thinking prevents management from recognizing the threat disruption poses to them (Birchall, 2004). Habtay (2013) agrees stating that reconfiguring an organization to take advantage of new opportunities is challenging, especially when this requires the development of new production capabilities, new logistics or distribution systems, or new channels to market (Henderson, 2006).

According to Christensen & Raynor (2003) established firms generally do not allocate resources to emerging disruptive innovation due to a lack of economic incentives. The gross margins for the emerging technology are usually lower than those of the established technology. Managers tend to rise through the levels of management where predictability and control are valued and rewarded (Kaplan, 2013). While Zheng (2010) discusses how the lack of economic feasibility of latent disruptive technology may hold back potential partners and investors from taking part in a new firms value network. According to McGrath (2010), start-up firms are more engaged in discovery-driven innovation than large firms.

Christensen & Raynor (2003) further describe in *The Innovator's Solution* that disruptive growth starts at the top. Executives have three tasks when it comes to disruptive growth; first they must personally stand astride the interface between disruptive growth businesses and the mainstream business to determine which of the corporations'

resources and processes should be imposed on the new business. Next, they must shepherd the creation of a process that can be called a "disruptive growth engine" which capably and repeatedly launches successful growth businesses. Finally they need to personally sense when the circumstances are changing, and keep teaching others to recognize these signals.

2.3.3 Building new knowledge within disruptive innovation

In 1997 Teece defined the idea of dynamic capabilities within a firm which is defined by two concepts. 'Dynamic' refers to the capacity to renew competences to change along with the business environment, while 'capabilities' refer to the role of strategic management in adapting, integrating and reconfiguring internal and external organizational skills. He states that a difficult-to-replicate or difficult-to-imitate competence is defined as a distinctive competence. Distinctive competences are built within the firm, and therefore cannot be bought. These competences can provide a competitive advantage and generate revenues only if they are based on a collection of routines, skills and complementary assets that are difficult to imitate. Christensen and Overdorf (2000) build on the ideas stating the term capability migration to suggest companies compete at different stages of disruptive innovation's evolution which warrants different capabilities at each stage. Gilbert (2003) highlights how firms must navigate along the market opportunity trajectory in due time. Players have more time than they think to meet the requirements for early entry if they learn the market rules efficiently.

Paap (2004) discusses the importance of dualism within firms, which means functioning efficiently today to sustain the success of its business model while also incorporating the disruptive innovations that will enable them to be competitive in the future. Sometimes the best way to create opportunity from a disruptive innovation is to experiment with, or so Chesbrough (2010) states. Firms should go through stages of experimentation, effectuation, and organizational leadership to guide the transformation of a new business model. While pursing a new business model, there is often an extended period of co-existence between the current and new models which takes a strong organizational

culture to prevail (Chesbrough, 2010). Henderson (2006) argues consumer preferences shift as the innovation becomes dominant which is particularly difficult for the established firm to respond to effectively.

2.3.4 Disruptive Innovation and New Networks

Birkenshaw et al (2007) describe the strength of existing webs of relationships being a fundamental obstacle for firms to change. Firms must build new networks while implementing the new innovation by identifying the relevant new partners and learning how to work with them. By going through the three phases of finding, forming and performing, Firms can scope out new partners while strengthening their relationship and indulging in an open attitude towards knowledge sharing (Birkenshaw, 2007). To turn the new networks into valuable and high-performing partners careful measures should be taken to keep the network up-to-date and engaged while building trust and reciprocity. It's also important for firms to understand their own position in the network, and learn to let go of traditional relationships.

2.3.5 Gilbert's Model of Disruptive Innovation

Gilbert (2003) states disruptive innovation is more than an all-at-once phenomenon that comes out of nowhere. Instead it develops in four distinct phases. First, the innovation creates a new noncompetitive market independent of the established business. Second, the market expands and slows the growth of the established business. Third, the disruptive innovation significantly reduces the size of the old market. Last, the new market realizes new net growth as a whole.



Figure 3: Gilbert's Steps of Disruptive Innovation. Source: Gilbert (2003)

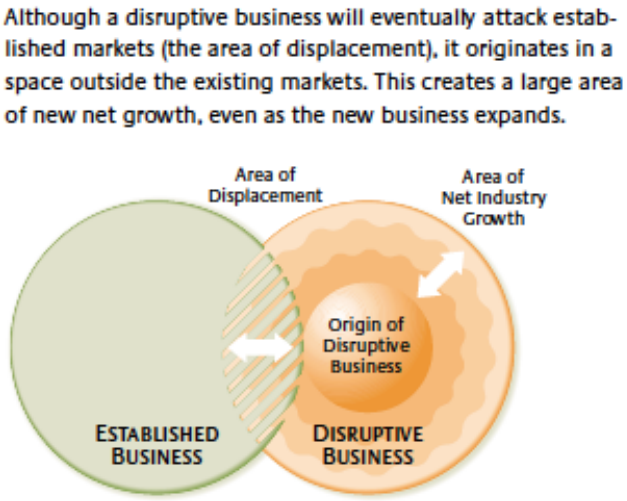
Finding New Customers - Gilbert (2003) explains that managers need to identify a new market in order to locate new customers. Managers can use three criteria: First, current customers should undervalue the disruptive innovation. Second, it must compete against nonconsumption and third, it must help people accomplish things they are trying to do but can't without available products or services.

New Customers, New Business Models – Customers in a disruptive market cannot be serviced according to the established market's business model. Unfortunately, established players who often have trouble seeing the new customer in the first place, often find it difficult to conceptualize the new business model that would allow them to serve a new market's profitability (Gilbert, 2003). A focus on current customers can sometimes blind companies to business-model changes.

Sticking With the New Customers – Companies who want to succeed in new markets must be disciplined and learn how to stick with their new customers so that the business models fit the new market (Gilbert, 2003). It's important to build necessary new business model around the new consumers even if it's difficult to feel confident that a nonconsuming market could be large enough to satisfy senior management expectations.

Realizing New Growth – Glibert (2003) explains that disruption creates new net growth for the industry as a whole. It's important to focus on the combined net effect of growth rather than potential losses in one market. New customers will also be found outside the established market looking to accomplish things they can't with available products or services. It's important to find customers who appreciate the service instead of focusing on the established market. The needs of the new customers will dictate the new business model. Finally, a disruptive new business should start small and not be forced to grow quickly. Managers who understand that the net effect of disruptive innovation is positive will be in a much better position to seek out new opportunities.

Figure 4: Gilbert's model of disruptive innovation. Source: Gilbert (2003)



2.3.6 Disruptive Innovation framework for this thesis

The disruptive innovation framework by Birchall (2003) has been chosen as a framework for this thesis for it clearly outlines the phases a specific firm will go through while incorporating a new innovation. It also permits flexibility within the framework to allow for tailored sub-categories adhering to this specific thesis. Birchall (2003) used knowledge from a number of different innovation scholars to develop the framework, focusing mostly on Gilbert's (2003) phases of disruption as well as Teece's (1997) idea of dynamic capabilities, which will also be used to enhance the study. The structure enables a narrative like structure by using through a step-by-step process.

1) A New Value Proposition – environment, consumers, relationships

2) A New Business Model – resource requirements, revenue structure, market dynamics
3) New Sets of Knowledge – capabilities, management, organizational structure, processes, culture

2.4 Research Questions

Sony Music Sweden will be the firm studied in this thesis to provide an in-depth analysis on how the firm adjusted to a disruptive innovation. The firm was chosen as an area of interest because of its unique position as a global leader in the current streaming phenomenon. The firm has been able to take the incumbent technology, successfully incorporate it into its business model and thus create a viable revenue structure. It's a relevant example of a firm willing to utilize a disruptive technology and create a new market for itself by embracing a new value proposition, new business model and new sets of business knowledge.

RQ1: Spotify as an Opportunity

- Why did Sony Music Sweden choose to embrace Spotify?
- *What is the key value proposition Sony Music Sweden saw within Spotify?*

RQ2: Longevity of the Spotify model

- How can Sony Music Sweden maintain its advantage?
- *What are the ways in which Sony Music is creating capabilities based in knowledge of the Spotify model to help reach maximum revenues?*

RQ3: Replication of the Spotify model

- How can Sony Music use what it's learned to help embrace innovation in the future?
- *What are the hard and soft skills needed to ensure the organization can successfully handle disruptive innovation when it returns?*

3 METHODOLOGY

In this section an outline of the methodology used to complete this study will be presented. First, justification for research strategy will be offered, followed by methods of data collection and practical limitations encountered.

3.1 Research Strategy

The purpose of the thesis is to adequately portray a firm's response to a disruptive innovation with as much accuracy as possible. Within the literature, there appears to be a gap within offering an introspective view of why a firm would choose to embrace innovation as an opportunity. The research methods used in this thesis will be unique when compared with previously written literature on the subject. To connect the systemic outlook of the theoretical world with the observations of the empirical world, an abductive approach will be used in this thesis. The empirical findings derived from a case study will be placed within a theoretical framework therefore treading between inductive and deductive findings (Byrman & Bell, 2007).

A qualitative research design will be used in order to obtain an intensive and detailed examination of a phenomenon and provide understanding for the overall context (Bryman & Bell, 2007). For purposes of this study, it's important to derive meaning from the actions of record label executives and employees. It would not have been enough to scratch the service with a quantitative study, when a more purposeful, reflective design could be utilized.

To answer the research questions proposed, it's important to provide a narrative of Sony Music's experience in order to grasp the full extent of the strategic decisions implemented. To derive whole-hearted responses from those interviewed, carefully selected questions were created to allow respondents to reflect on how the organization has arrived in the position it's in today, as well as their views on what the future will entail. Qualitative research allowed for the breadth of a story rather than only provide statistical data.

3.2 Research Design

3.2.1 Unit of Analysis: Case Study

Sony Music Sweden was chosen as the focal research subject for this thesis because of its unique position in the global marketplace. In order to bring abstract theory to life, a case study will be used to explain casual links, describe contexts and illustrate common topics (Yin, 2009). Case studies are usually focused on an extensive examination of a certain workplace or organization (Bryman & Bell, 2007) which is what the author intends. Since data will be collected both by interviews and ethnography research, a "case study structure provides a vehicle through which several qualitative methods can be combined, thereby avoiding too great a reliance on one single approach" (Bryman & Bell, 2007).

3.2.2 Case Study Selection

There are four types of case analysis according to Yin (2003); the critical case, the unique case, the revelatory case, the representative or typical case, and the longitudinal case. This thesis will be a representative case and it will observe the everyday workings of an organization and delve into issues and identify what changed over time. The case will include retrospective interviewing and analyze archival information.

Sony Music Sweden was chosen on the basis of a number of factors. The most significant factor for this case study was access. The author is in the midst of completing a seven-month internship at the company and has been given permission to complete ethnography research within the organizational workings of the firm, as well as conduct interviews with employees. There are three main reasons as to why Spotify was chosen as the subject area within Sony Music i) Spotify has allowed Sony Music to create profits unseen since the late 90s, ii) Sony Music is a global leader within the streaming phenomenon iii) Sony Music will inevitably be plagued with new innovations and needs to brace itself for change.

First, Spotify has revolutionized the music industry within Sweden with Sony Music at the focal point of embracing that change. With the advent of the Internet and full access

to music readily available, record labels needed to change their business model in order to capture revenue from the new ways that music was being consumed. Spotify offered labels a way to combat music piracy and therefore begin to create profits once again. By intensively working together along with Spotify, Sony Music created ways to reach their consumers through innovative channels within the new platform. Profits in Sweden have soared to levels unseen since before the advent of piracy through Sony Music's strong capabilities and efficient allocation of resources.

Second, the author had the opportunity to visit American record labels before the study and found they are very interested in how Sweden made the Spotify model so successful. In addition, highly regarded publications such as *The New York Times* are finally acknowledging the importance of streaming for global record labels. There is a global interest now in replicating the exact phenomenon that occurred in Sweden with Sony Music at the focal point. The model Sony Music has created will in no doubt be used as inspiration to those organizations that are still struggling with piracy. It's important to understand the key factors that made it a success.

Lastly, the record industry has not yet reached the final chapter with the advent of Spotify, rather it will continue to be introduced to new innovations as time progresses. It is important to look inside the inner-workings of the firm to understand how it adapted to change and if this can be replicated in the future. It provides for a relevant case study not only to compare directly to disruptive innovation theory, but also to try and analyze how change is supported within the firm. Narrowing the formula down to key points could help Sony Music structure itself in the most efficient way for future innovations.

3.2.3 Analysis Framework

To guide the analysis, all empirical data was collected under the framework created by Birchall (2003) as mentioned in section 2.3.5. The framework allows the narrative of Sony Music Sweden's relationship with Spotify flow in an organized manner while focusing on the steps of disruptive innovation.

3.3 Data Collection

3.3.1 Ethnography Research

Ethnography according to Bryman & Bell denotes the practice of writing (graphy) about people and cultures (ethno). It allows for researchers to have an obvious method of understanding work organizations as cultural entities. Before beginning the thesis, the author completed a three-month internship with Sony Music in order to explore potential topics of research. The author was invited to attend meetings, as well as participated in numerous discussions surrounding the current working environment. It allowed for intense involvement in the day-to-day operations within the organization, in order to understand it from an insider's point of view (Bryman & Bell). While no extensive research notes were taken, the information was instead internalized to offer a more thorough observation of the project in question. It gave the author a chance to get hands on experience at working with the firm to understand the challenges employees are met with both currently and in the future. It also provided the opportunity for the author to create relationships with employees which helped with both obtaining interviews and creating a strong sense of trust between interviewer and interviewee.

In addition to ethnography work in preparation for the thesis, the author also was provided a desk in the Sony Music office while conducting research. This allowed for continuous, on-going communication with interviewees while the conducting interviews. The author took a participant-as-observer role within Sony Music. Employees knew the author was a researcher. The author was engaged in regular interaction with people and participants in their daily routines and open about the research project (Bryman & Bell). Employees were excited by the study and therefore gave open and honest responses. It also provided an extra element of company atmosphere into the equation.

3.3.2 In-Depth Interviews

As described above, to fully comprehend how Sony Music was able to utilize Spotify it was imperative to conduct formal interviews in addition to the casual conversations

linked to ethnography. This provided the author an opportunity to delve deep into the reasons why certain strategic decisions were made. To write a proper case a narrative needed to be created which is what the author strived to complete. Interviewees were invited share their experiences which were then recorded and compiled logically into the chosen framework.

Fourteen interviews with employees from various departments within Sony Music were conducted. This was the optimal number of responses, as answers became repetitive after a certain point. While a focus was placed on the digital marketing department, as well as the management team, other employees from departments such as radio, physical, social media and online content marketing were also chosen to help the author understand how Spotify had impacted their current roles. It was important to collect perspective and view points from a variety of participants from the senior management to the newly hired. To obtain an outside perspective, two previous Sony Music employees who now work at Universal Music and EMI were also interviewed. This gave an opportunity to provide not only a retrospective view on Sony Music's progress so far but also to give opinions from an outsider perspective.

During the interviews, there was significant interest in the interviewee's point of view which is common for qualitative research (Bryman & Bell). It was important for 'rambling' to occur in order to dig deeper into issues that were not necessarily addressed in the questions. Although respondents were presented with sample questions before the interview, the conversation was flexible and adapted to each person based on their reactions. Interviews therefore took a semi-structured interview approach (Bryan & Bell) to allow for leeway. The interviews lasted 30 to 60 minutes and were all taken in person, recorded, transcribed and approved by respondents.

Sony Music allowed access to the entire management team which can be incredibly difficult to obtain under normal circumstances (Byrman & Bell). The executive team provided extremely high quality answers, which makes this study truly unique. *"Spotify made some stars in this industry. Mark Dennis is probably the most prominent –Jacob*

Herbst is probably number one in the world" (Arvidsson). Interviews were obtained with both Mark & Jacob.

3.3.3 Secondary Data

Access into Spotify was unfortunately not allowed due to the author's relationship with Sony Music. To obtain quality information from Spotify's perspective, interviews with Daniel Ek, Spotify's co-founder, were obtained through secondary sources online. The data comes from reputable online publications, or from live interviews found via YouTube. Other sources of data were used for the purpose of crosschecking to ensure accuracy of the data obtained (Yin, 2003) including blog posts, industry reports and reputable online publications. Secondary data was primarily used to fill gaps on the narrative told as well as verification.

Table 1: Interviews Conducted

Interviews Conducted						
Date	Name	Position	Firm	Background	Length	Location
2013-10-08	Fredrik Borg	Interaction Designer	Sony Music Sweden	Less than 2 years in Music Industry	30 minutes	Sony Music Sweden Office
2013-10-10	Mark Dennis	Managing Director	Sony Music Sweden	More than 10 years in Music Industry	40 minutes	Sony Music Sweden Office
2013-10-10	Stefan Duberg	Digital Designer	Sony Music Sweden	5-10 years in Music Industry	30 minutes	Sony Music Sweden Office
2013-10-11	Johan Lindgren	Marketing Director	Sony Music Sweden	More than 10 years in Music Industry	40 minutes	Sony Music Sweden Office
2013-10-15	Maria Westergaard Alen	Digital Account Manager	Sony Music Sweden	3-5 years in Music Industry	45 minutes	Sony Music Sweden Office
2013-10-16	Jacob Herbst	Head of Business Development	Sony Music Sweden	More than 10 years in Music Industry	45 minutes	Sony Music Sweden Office
2013-10-22	Samuel Arvidsson	Former Head of A&R	EMI Sweden	More than 10 years in Music Industry	60 minutes	Sony Music Sweden Office
2013-10-22	Helen McLaughlin	Head of A&R	Sony Music Sweden	More than 10 years in Music Industry	40 minutes	Sony Music Sweden Office
2013-10-23	Ellen Kvarby	Head of Social Media	Sony Music Sweden	Less than 2 years in Music Industry	30 minutes	Sony Music Sweden Office
2013-10-28	Joakim Johansson	General Manager/Marketing Director	Universal Music Sweden	More than 10 years in Music Industry	50 minutes	Universal Music Sweden Office
2013-10-31	Pelle Kuhlhorn	Physical Sales Representive	Sony Music Sweden	More than 10 years in Music Industry	30 minutes	Sony Music Sweden Office
2013-11-05	Amir Sela	Online Marketing Manger	Sony Music Sweden	3-5 years in Music Industry	40 minutes	Sony Music Sweden Office
2013-11-05	Mia Annell	Head of Radio	Sony Music Sweden	More than 10 years in Music Industry	40 minutes	Sony Music Sweden Office
2013-11-06	Johan Lantz	Digital Business Development Manager	Sony Music Sweden	3-5 years in Music Industry	45 minutes	Sony Music Sweden Office

3.4 Limitations

To provide an accurate, full-rounded perspective of the study limitations must be discussed to provide understanding for questions of quality.

3.4.1 Methodological Limitations

The number of interviews conducted inside the firm peaked to an optimal level during the study, yet more external interviews could have been useful for validity purposes. It was difficult for the author to obtain these interviews because of ties with Sony Music. Luckily, two interviews of this nature were conducted with the help of the author's associations in the music industry. Spotify declined which was unfortunate considering their perspective on label relationships could have improved the quality of the report.

The study was conducted in a participant-as-observer setting meaning the author had a strong relationship to the company. Participants knew management would read the thesis after it was completed, which may have put pressure on them to say the right thing. The questions however were for the most part mostly quite general and avoided provoking questions that would elicit an inappropriate personal response.

The language barrier could be perceived as another limitation for all interviews were conducted in English. All but two of the respondents were native Swedish speakers, yet were very comfortable and articulate in the English language. However, it may have been slightly more difficulty to some respondents to express themselves in English. Special measures were taken to make sure each respondent understood what was being asked of them. It was also important for respondents to read through their transcribed interview and change quotes as they saw fit.

It is also important to note the generalizability of this case research. It is essential to remember that this is a specific case based upon a certain industry atmosphere. Although the author intends to take lessons learned from Spotify and apply them to future cases, it's important to not assume the results in this case study are a perfect example that will apply to future circumstances (Bryman & Bell).

3.4.2 Research Quality

Quantitative studies differ from qualitative studies in the way the research quality is designed. Reliability and validity are important for quantitative quality, yet there has been discussion over whether this applies to qualitative study (Bryman & Bell). Measurement is difficult to assess through qualitative studies, which is why Kirk and Miller (1986) came up with a separate metric based on external reliability, internal reliability, internal validity and external validity to prove quality. A second position by Guba and Lincoln (1994) propose trustworthiness and authenticity should instead be used as a metric including four sub-categories; credibility, transferability, dependability and conformability. The central argument for their structure is that there is no single absolute account of social reality; rather there can be more than one and possibly several accounts. Therefore, the later method will be used for this thesis.

3.4.2.1 Credibility

Guba and Lincoln (1994) argue that multiple accounts of social reality must be completed in order to fulfill the criterion of credibility. It's important the research is carried out according to good practice, while making sure the findings collected are a good portrayal of reality (Bryman & Bell). Yin (2003) describes credibility as internal validity where it's crucial to reveal an accurate picture of the situation studied. The author of the thesis used triangulation – using more than one source of data to study the social phenomena – to crosscheck validity of the research. Online sources were used to confirm facts were correct. Openness was also encouraged during interviews to allow respondents to deviate away from specific questions. All interviews were transcribed word-for-word to verify the content (Merriam 1994).

3.4.2.2 Transferability

Lincoln and Guba (1985) infer that qualitative research typically entails the intensive study of a small group, which share certain characteristics limiting it to the context of the certain social world being studied. This could limit the ability to transfer the results of one study to another. Therefore, it is important for researchers to produce a think

description, or rather rich accounts of a culture. The author examined the culture in depth through ethnographic research and extensive questions. The thesis was also complete with a transparent account of research methods used to enable transferability.

3.4.2.3 Dependability

In order to establish a criterion of trustworthiness, Guba and Lincoln argue researchers should adopt an 'auditing' approach. This means keeping accurate documentation of all phases of the research study so results could be replicated if another researcher chose to imitate. Within this research project, all interview questions and answers were recorded, as well as all steps from problem formulation to selection of interviewees.

3.4.2.4 Confirmability

Bryman & Bell profess that even though it's impossible for researchers to be fully objective in business research, personal values can still be embraced within the thesis. To ensure maximum objectivity in the study the author i) interviewed and recorded numerous respondents for each question asked ii) altered base questions to include information obtained from preceding interviews iii) used triangulation to verify the responses of the case study using outside sources. Using Birchall (2003) data structure for empirical research also helped improve objectivity.

4 EMPIRICAL FINDINGS

4.1 Preface

In 2003, a group of hackers created The Pirate Bay in Sweden operating as a website that used torrent files to assist in peer-to-peer file sharing. This essentially allowed free access to unlimited music. The people who started the service ran it as a business using copyright content to sell ads, but were consciously trying to uphold the image they were doing it for political reasons. High speed Internet penetration was extremely high in Sweden compared to other countries making it an easy target for piracy platforms (Annell, Sela). Sweden had millions of users downloading billions of pieces of content by the end of 2008 creating a financial crisis for record labels. By 2009 the site was closed down by rights holders (only to be resurfaced shortly after), yet the damage had already been done. Other P2P networking sites like Kazaa, Limewire and Direct Connect still held the market, and The Pirate Bay remained alive through support outside of the EU. Revenues in Sweden sank tremendously from 2003 forward causing the five majors to be condensed down to four (later to three in 2013), and the viability of the music industry was at an all-time low. Record labels needed a solution and they needed one fast. *"What was happening was not going to stop. There had to be a way where we could do this in a controlled environment, where we could actually make some revenue instead of losing it all to piracy"* (McLaughlin). Record label executives were at the point where they were terrified of losing their industry (Johansson), when digital music services began to emerge.

4.2 New Value Proposition

4.2.1 Sony Music's initial attraction to Spotify

When the digital download revolution arrived, it took many years before record label executives finally woke up and started to embrace what was happening in the digital era, Lindgren explains. The executives refused to believe the Internet was here to stay, merely thinking it was just a fly on the wall. This wasn't new, for the industry had always struggled to keep up with market trends. *"The public sets trends, we just have to be there as quickly as possible, which we've never been as an industry – it's been terrible quite*

frankly" (McLaughlin). The blood bath of 2002-2009 helped convince leaders it was time to change both their mind and way of doing business (Lindgren). *"We were in a bad shape as an industry and Spotify was our saving grace"* (Johansson).

The founder of Spotify, Daniel Ek began making pitches to the major labels in Sweden offering a legal alternative to combat illegal downloads. Before Spotify was proposed, there were no legal platforms that were attractive enough for the majority to leave piracy (Annell). "*They basically made a product that was mirroring piracy but better and legal. I still believe the biggest threat to piracy is better services"* (Dennis). Many of the platforms being proposed at the time to labels were of traditional nature, such as download stores. It was difficult for a service to survive within the tough climate (Dennis).

Spotify came prepared to negotiate and offered a long term vision which set it apart from many streaming services at the time (Dennis, Herbst). Negotiating agreements with labels before going public, creating meaningful relationships (Dennis) and having the proper funding and commitment (Herbst) made the service attractive to label executives. It was also valuable that they had a functional platform already created, instead of only offering an idea (Lantz). Although the platform wasn't completely finished, the founders did have proof of the concept and a presented a functional prototype filled with illegally downloaded music (Herbst).

Spotify was willing to participate on the record label's terms when it came to licensing and launching the product in congruence with Sony (Dennis, Lindgren). With a well thought out plan and revenue structure, Spotify not only had a realistic business model but also offered an attractive marketing alternative, "*What they offered us was not only a way for us to just earn money but also expose the music not only as a sales injection, but to get the focus back on music and make music sexy again."* (Lindgren)

Executives began to see potential in the product "[…] *it was the very, very early days but I could see that Spotify was a service that could change the way people consumed music in Sweden."* (Dennis). The service offered a chance for the Swedish market to get back

on track and create some hope. "*Spotify has definitely provided a new kind of confidence within the industry. It was a matter of hope. Finally we had something that can beat piracy with mainstream potential."* (Arvidsson).

Spotify only specialized in music unlike other music platforms such as Apple's iTunes, which made it attractive to labels (Dennis, Herbst). "*I'm more confident in having all my eggs in a basket where people carrying the basket have the same end goal as us. It's all about the music to them."* (Herbst). Ek agreed in a recent interview stating it makes sense for large companies such as Apple and Google to want to compete via streaming, but their core priority will never be music. (Sloan). This meant Spotify would always be more dependent on cooperating with labels than iTunes (Dennis).

Another significant reason Spotify succeeded is because of iTunes' failure to grasp the market (Arvidsson, Johansson, Herbst, Duberg, Lantz). While markets such as the United States began to download legal music, Sweden had no problem with continuing to pirate music (Duberg). The main reason for this was the lack of repercussions for illegal downloading compared to other markets such as written warnings, threat of fines, etc (Herbst). Apple failed to invest in efficient marketing in Sweden, so iTunes sales naturally started to taper off before it even began (Arvidsson) and Swedes preferred to access their music for free.

Spotify also knew exactly how to capture the labels using relationship management. They have a specific label relations representative for every region, which is a key component to success (Herbst). Lantz describes the relationship as collaborative. Spotify helps them to create special analytical reports, and are always there to help citing their relationship as strong and cooperative.

4.2.2 Consumer's attraction to Spotify

To provide a full-rounded perspective of Spotify's initial value, it's also important to account for consumer's attraction to the service. Record labels needed to keep up with market trends in order to appease their consumers and provide their repertoire on the most favorable outlet for consumption.

Music piracy sites and streaming sites such as YouTube allowed for consumers to access any song of their choosing at any point in time. This then changed expectations of the younger generations who demanded full access to all music all the time (Johansson, Alen, Lindgren, Sela, Lantz). Spotify offered a direct counterpart to that consumer behavior. *"You could search for anything. The second you clicked play you could hear a song, and hear it in good quality. That kind of service is contagious; you want to show all your friends and get people on the service and be part of it."* (Johansson)

Rather than a radio choosing the selection of music playing like other streaming models such as Pandora or Last FM, Spotify offered users to make that choice on-demand. *"When people discover Spotify, especially the younger people, they're going to love that they can find and stream any artist that they like and not pay a huge amount of money. Young people don't just like one artist and one album, instead they have to listen to everything all the time."* (Alen). Sela states it's much easier to stream rather than download pirated songs, which took up an enormous space on user's disk drives.

Spotify offered labels a direct way to appease their consumers one song at a time. With iTunes selling each track for $0.99, consumers became accustomed to buying singles instead of albums (Herbst). The music industry rapidly shifted from an album driven market to quick selling singles becoming the focal point. The market became driven by short-lived trends. *"When something is new for the younger generation, it's new for one day and that's it. Something is just new and hit until it gets released. Once it's released, the focus turns onto something else"* (Lindgren).

In addition, with music so readily available through various online platforms, behavior has shifted to make consumers believe they have a right to consume music without a cost. Daniel Ek admitted in a recent interview that he considers himself part of the "lost generation" which believes they do not have to pay for music (Bertoni). Through an easy to understand subscription based service, Spotify offered a way to consume music without the inconvenience of having to pull out your credit card each time a consumer

needed a song, but rather the payment comes directly from consumer's bank accounts at the same time each month (more on the subscription model in Section 4.3.1).

Spotify also had a strategic plan when it came to consumers, Annell describes. At first it was considered to be an exclusive service. Consumers had to be personally invited in order to get a login, which made it more desirable. Spotify also paired up with telecom operator Telia creating marketing plans centered around "Free Premium" service on mobiles which caused a surge in consumer interest (Sela, Lantz).

The simpler the model, the more attractive it is to consumers, Dennis states. *"My feeling is that the simplest business models are the ones that work the best.There are innovative and crazy businesses being developed all the time - when the business model gets complicated, then the service gets complicated.."* (Dennis) It is important to remember that at the end of the day, the consumer and listener decides which direction the market goes, not the artists or the label (Dredge).

4.3 New Business Model

4.3.1 Introduction of New Business Model

Physical sales were the primary source of revenue for labels that counted on consumers buying physical recorded music on vinyls, cassette tapes, and CDs from brick-and-mortar stores. Digital downloads spawned as the next innovation, which provided albums and singles available through a platform such as iTunes. Consumers paid per transaction in each model whether buying a single or an album.

Spotify on the other hand, uses a subscription based business model where consumers pay monthly. It currently has three different price tiers available to its consumers. The first model is free and is supported by banner and audio ads. Commercial interruptions come every few songs, while the banner ads make the platform more difficult to navigate. 49 SEK/month gives consumers unlimited desktop streaming uninterrupted by ads, while premium service costs 99 SEK/month and offers unlimited service across all platforms – mobile and desktop. The premium package also offers a higher bit rate and an option to

listen to playlists offline (Cetin). *"We've come now to a business model that people are very used to, at least in most of the Western world, which is the subscription model. Most people have had subscription in one way or another whether it be the electricity bill, TV, phone. You are getting into a model people are comfortable with and people understand"* (Dennis).

Spotify returns approximately 70% of its revenues back to rights holders, labels and musicians. The musician's share depends on the arrangement they have with labels and distributors (Griffith). To explain further, Spotify pays in proportion to an artist's popularity on the service. If an artist is streaming 4% of what users are streaming in a certain territory, Spotify will pay out 4% of the gross royalties to that artist (Griffith). This in turn has shifted music currency from nickels and dimes to seconds and minutes. *"We know that people are going to spend X amount on music – what we need to fight about is not to spend more money but more time on our products."* (Johansson). This means, Arvidsson explains, the sky is the limit to how much money you can make. The trick is making music good enough that people want to come back to and stream over and over. The revenue has changed from a pay-per-download structure to a long-term revenue stream.

Spotify has provided labels the chance to create predictable revenue streams, and create better forecasting measures. This of course means, the labels can give artists a more accurate number on remuneration and fees, as well as more accurate number when it comes to advances. (Arvidsson, McLaughlin). "*There are more projects coming out of Sweden because we are able to bankroll artist's projects more efficiently. We're able to take more risks"* (Arvidsson)

There has always been a sharing in revenue from digital vs. physical platforms, but overall a larger share of revenue is directed to an artist from digital sources as there are no deductions for distribution costs, returns, etc (Herbst). Most Swedish consumers were not buying one CD/month, but with Spotify going mainstream there are millions of people paying 99 SEK/month who otherwise would be spending very little on music. In

the future, Dennis argues Spotify needs to find a way to maximize its revenue from consumers who are willing to pay more. If labels can get more money from each user through different packages or features, the model would be optimal.

As mentioned above, consumers prefer the new music subscription model to downloads for it allows them all-access for a flat rate creating a psychological ease of use. While it may be the preferred model for the consumer explains, it's slightly more difficult convincing artists and management that this is the way forward. *"People are afraid. When new things come into the market like this – people are afraid. You have to show them that this is not eating up anything that you had before; this is just another revenue source for you. This is just another way for people to consume music. It's not about what's most convenient for us as a record label or for the artist but what's best and most convenient for the consumer and for fans."* (Johansson). It's up to the record labels to sit down and convince artists they are better off having their material available on the service, and making sure they truly understand how their music is creating revenue (McLaughlin).

A number of artists such as Nigel Godrich and Thom Yorke have spoken out about Spotify over the past year citing it is "bad for new music" and pays "pennies" in compensation for new artists (Peoples). Popular artists have also begun "windowing" known as the practice of staggering release dates to encourage purchases before fans can stream on services like Spotify. Adele and Taylor Swift are among the biggest names to keep a new release off Spotify in hopes people with purchase more albums instead of stream (Peoples). This could cause a threat to labels like Sony if future artists continue to keep their repertoire off the service (Herbst).

4.3.2 Diverse Revenue Streams

Physical market – Physical sales declined by 15% in 2012, and 24% during the first six months of 2013 (IFPI). Two segments that are growing include the trendy "vinyl" market for the younger generation, as well as targeted gift campaigns (Kuhlhorn). Teenagers are more willing to buy records when the price point is low, and the artist holds a

promotional event to sign records. The older demographic still primarily buys physical CDs.

Record stores have come a long way past their initial hesitation and fear of the digital marketplace. They now offer customers the ability to pre-listen to albums they wish to buy through Spotify in the stores according to Kuhlhorn. In the future, he hopes digital departments will work alongside physical departments in order to learn from each other and coordinate mass campaigns.

Radio – Radio is still viewed as Sony Music's primary promotion platform, but that market is quickly changing with surge of Spotify. Radio stations such as RIX, Energy or P3 use statistics from Spotify's Top Lists to understand what is current and popular. *"RIX FM just a few weeks back started a music program between 10-12 that's called Spotify Top 40. It's a chart show based on the Spotify chart. This means that some of the music that's on the Spotify Top 40 gets to be played on RIX which is a very big commercial network that might not be play listed by RIX but it gets that airplay and that attention from the channel on Sundays"* (Annell)

Sony Music also uses the Top Charts and Spotify Analytics to prove to the radio stations what songs are rising in popularity, making the fans in essence responsible for what's playing on the radio (Annell). Radio stations are trying to view Spotify as more of a collaborator rather than competitor.

Download market – iTunes was the dominant player within digital consumption before Spotify, even though the service never quite took off the way it had in other markets (Lantz). Digital consumption at that time was very low and being the dominant player did not have much value when being compared to the total market. Downloads relative share in Sweden is smaller than in Norway and Denmark (Herbst). To encourage competition, the labels offered other download services like Amazon with lower pricing in order to grow the service and be better positioned (Duberg). Unfortunately, paying for downloads failed to advance within the Swedish market as consumers preferred piracy.

Even though Spotify is the predominant platform within Sweden, it's important to remember the rest of the world still primarily runs on downloads or the physical market (Herbst). For global campaigns for world-class artists such as Justin Timberlake or Daft Punk, iTunes will still be the digital key partner. Lindgren explains that although iTunes is just a minor player within the Swedish market, it serves as a good indicator for what will occur with a new single.

Streaming alternatives – *"[…] people are probably concerned that Spotify so big now. We're kind of creating a dinosaur in a sense that what would happen if Spotify were to fail? We can't afford for them to fold, so obviously it's safe to have more outlets"* (McLaughlin). The majority of employees agree that it would be advantageous if Spotify had competition from other services so they feel motivated to continue to offer both consumers and labels the best product possible. *"I think it's dangerous if Spotify becomes the only music source. I would not want that to happen. People need to consume music on different platforms"* (Sela). Denmark for example, has no dominant service where iTunes, Spotify, WIMP and YouTube all share around the same market share (Herbst).

With Spotify's commercial success, the streaming business is only at an early stage. Bigger players such as Apple and Google are starting to take notice of the new trend within music consumption (Arvidsson). On September, 18th 2013 Apple launched iTunes Radio which streams music but in a radio like function, instead of on-demand like Spotify. The service is not yet available in Sweden but has seen success in its home market in the United States. Although Apple and Google are not yet direct competitors to Spotify, their sheer brand power and cash flow could wipe out the service if they decide to move into that sector. *"It's a common mistake that you underestimate companies and fail to look at their enormous pile of cash. Apple or Google could buy the entire music industry 10 times over, and to think they would just stand on the side like this and not be a formidable competitor is naïve – they are going to be a competitor."* (Arvidsson). On the other hand, cash is not always the most important indicator of a successful service. An example was Apple launching an unsuccessful service called "Ping" which failed because of its poor user interface (Herbst).

Google's YouTube and Swedish-based music creators' rights organization STIM finally reached a European licensing agreement on October 20th, 2013 which now provides rights owners a share of YouTube's ad revenues (Brandle). This again, is an exciting prospect for labels that can now count on revenue from videos as well as Spotify (Dennis). It is important to keep in mind however, that a play of a video in full HD on YouTube generates less revenue than a Spotify play. YouTube is still seen as a promotional device instead of a revenue-building platform, which is similar to Soundcloud (Herbst).

In addition to Apple and Google, smaller streaming services such as WIMP and Deezer are beginning to emerge which could potentially offer Spotify competition in the future. Employees all agree it's important to have a good relationship with other partners as well for it will be difficult to identify which service will dominate next. "*Just because they don't bring us the money, they might in the future. We've learned. It was the exact same way with Spotify. In the beginning, no one cared. We tried and worked really hard to make sure they get exclusive stuff and make sure we have a good relationship with them.*" (Alen). Record labels will continue to generate revenue streams from the new services since they will always own the repertoire, which is why it's important for them to understand and accept new entrants to the market (Herbst, Alen, Dennis, Lantz). Annell explains however, that it's difficult for these services to take off while Spotify holds such a large share of the commercial support, although neither WIMP nor Deezer has put that much effort into gaining support from the Swedish market (Herbst). Another threat comes from illegal, unlicensed streaming service such as Grooveshark which take away market share from those legally in the market.

Fundamentally, record labels are primarily interested in growth (Herbst). Whether it's coming from Spotify or another platform, Sony Music wants to see the music industry grow. Within the digital era, dominant players have emerged such as Facebook, Twitter and Instagram, making it likely Spotify will become dominant in its field of music subscription services (Herbst, Dennis).

4.3.3 Future of the business model

The rest of the recording world has their eyes on Sweden and the impact of the Spotify model. Sony Music collaborates on a global scale when it comes to rollout distribution and planning how each territory can incorporate Spotify in their strategy. Swedish management are sought after to teach other markets the success of their model (Alen, Herbst). *"Whenever Spotify is launched somewhere, I or one of my colleagues in the US on our global digital team will go to that market and have a full day workshop and talk about Spotify and how you work with this partner."* (Herbst). The communal voice of the global label helps newcomers come in and understand how to best utilize it (Alen).

Within the United States market, labels are particularly optimistic and willing to work with Spotify (Herbst) even though the general mindset is still set on downloading and owning music (Johansson). For Spotify to be successful in America, Johansson, Annell and Arvidsson agree they need to partner with a major Teleco in order to deliver their mobile service onto consumers. Broadband access needs to improve as well as mobile broadband networks, but primarily they need to be more aggressive in marketing (Johansson). Internet and ad-free satellite radio is significant in the United States, perhaps since legal on-demand streaming services haven't been available until recently (Herbst). Labels in the United States still need to build up the strong relationship Swedish counterparts currently have (Alen). It's easier to work together and collaborate once you create a dependent relationship on one another.

"[…] that's now Spotify's biggest challenge is how do they drive growth in their company through mobile? Especially in some of the markets they are growing in 90% of Internet usage is mobile" (Herbst). Along with most tech companies, mobile delivery platforms have become Spotify's primary growth driver. Campaigns such as free mobile service in the United States have helped Spotify expand their presence. Sweden's success can be attributed to good timing when the desktop model was still the most popular platform to consume music. It's a different landscape now that mobile is quickly gaining

preference, so Spotify must work through this challenge and appease customers through their phones (Herbst).

As with every business model, it is imperative to adjust the initial offering as the market matures. Spotify has reached a large segment of the population in Sweden, which means growth will eventually slow down (Dennis). To capitalize on their current customers, Spotify must invent different models, such as having multiple premium packages with more features included for those willing to pay more, or have corporations pay more for the service (Dennis, Arvidsson, Johansson, Lantz). There should be subscription levels that work with all levels of demographics as well as preferences. *"[…] videos in Spotify, personalization, personalize the client, labels could offer more exclusive content, editorials, pre-releases, lots of options could be built into future products – the focus is on scale*" (Dennis).

Sony Music wishes to work alongside Spotify when developing new models so they can each maximize revenue. Several employees brought up the prospect of a video or a DJ service possibly being integrated into the Spotify interface in the future. Lantz argues there should be further commercial involvement such as integrating Spotify playlists into video games like Grand Theft Auto. In summary, Johansson explains it's about finding the way the gives the consumer what they want and pays the artists and rights holders fairly.

4.4 New Sets of Knowledge

4.4.1 Competitive Strength – Filtr Playlists

During the early days of Spotify, Sony Music knew there was a big opportunity to grow exposure to their repertoire but the interface didn't yet have the proper tools. *"We knew Spotify was launching apps in the platform, and we knew for sure that we wanted to be part of it somehow, if anything for learning more about the service. We wanted to find an instrument to improve our market share."* (Herbst). The problem with having unlimited access to music is developing a way for consumers to find your music. Playlists are therefore considered the future album (Lantz) and help consumers organize their music.

The digital team felt there was something missing within the Spotify client and thought that it would be even more of a success if people started to use their playlist app, then understood how to create their own personalized playlists (Alen). Along with apps there were hundreds of playlists sites that grouped together playlists into different categories. People still want advice on what they should listen to within Spotify which is why curated playlists are important (Johansson).

Initially, Alen explained, there was much discussion over the name of the app, whether it should be called 'Sony Music' or something else. The team decided a new name would give it more credibility. If it was called 'Sony Music' consumers may think they were only pushing their own artists, which was not the case. *"It's so important for us that people use the app to discover new music. It should not just be Sony music."* (Alen). The goal was to get people generating their own playlists at the beginning, and it would provide them with the best possible music recommendations no matter what the label (Herbst, Alen).

Universal had also started their own app called Digster, which consists of playlists almost exclusively including their own repertoire divided into different categories. (Herbst). Alen explains everything on the Sony Music side was started so much earlier than Universal with respect to meetings and campaigns utilizing the Filtr brand. The digital team had created a forum where they continuously talk about how to involve a playlist brand or what other playlists they should start (Alen). The vision of the Filtr brand was never to push as much Sony Music repertoire as possible onto their playlists, but rather to build a quality app and trusted brand consumers would continue to follow (Herbst, Alen).

Along with creating cohesive playlists and categories, Sony Music could use data from the app to improve the service and uncover business insight (Lantz). Every time a user searched for a song, artist, etc within the app, Filtr could view and archive the data (Herbst, Lantz). With 500,000 monthly unique users, they created a database of sorts to view music consumption. *"It's kind of a consumer insight tool. It's also a tracking tool.*

We track the number of followers to all of our playlists and competitors globally using the Filtr backend." (Herbst).

Digster, Universal Music's playlist aggregator, Lantz explains, may have a higher brand awareness but Filtr is a higher quality app with a stronger follower base. *"We focused on building our technology really, really well and created playlists that did not include the FIltr name like Dancefloor Hits. We build those brands instead of building the Filtr brand. Universal did an app that wasn't that advanced but it focused on building the Digster brand"* (Lantz). The digital team does intend to build the Filtr brand, but will continue using a "House of Brands" approach to playlists, rather than a "Branded House" like Universal.

Within the Spotify client, Sony Music has created their own D2C channel which they can control without interference from Spotify, unless of course Spotify made changes to the product. Sony Music has been able to develop a high impactful profile as a result of the infrastructure provided by Spotify (Herbst). On iTunes, labels pitch their releases to an editorial team who then decide what is featured. With Spotify it is easier because labels now have their own 'storefront' in the shape of playlists, apps and label profile pages (Herbst).

One of the reasons the app was so successful so quickly was because of the significant social aspect incorporated into the client. Filtr was the first app to have the social aspect *"We had magazines review the app - people who tried it for the first time, and that was the feature people first talked about. It was the ability to build a playlist based on your best friend's music taste, or the ability to play a playlist based on an event on Facebook for example. The tagline for the app was "Playlist generator with a social twist" which was a good thing at that time."* (Herbst) Having the extra social appeal allowed the app to spread fast, and Filtr's playlists to accumulate thousands of followers along the way. On September 19th, 2013 the Filtr Sweden profile hit 500,000 followers, making it the most influential 3rd party playlist service on Spotify in Sweden. It continues to grow

daily, and Sony Music continues to utilize the features Spotify creates within the platform.

Along with Facebook, Twitter and Instagram, Spotify has become one of Sony Music's most important social channels. It serves as a direct way to market towards consumers and build a substantial following. *"If you look at one of our biggest stars, she has 95,000 followers on Spotify but 8,000 on Facebook and a little bit more on Instagram. We're going to work with her profile and how to really get people to follow her, and listen to her playlist and try to get people to enter competitions through her Spotify profile. If they don't leave Spotify, they're more likely to continue to play songs"* (Kvarby). Spotify is also likely to enhance their social presence even further in the coming years with new features that will encompass an entire social network based on music so users can obtain all information about their favorite artists within the platform (Sela).

4.4.2 Organizational Environment

"I would say from a Swedish perspective it started off with a few champions in each company. Mark Dennis who today is the Managing Director Sony Music Swedish office. He was such a champion of this – he walked around, showcasing it to everyone, every single meeting we were in – he brought it up. He always brought up Spotify to the point where people got sick of it. At a certain point, he managed to turn it all around and everyone fell in love with it" (Johansson). The inspiration for change came from senior management who lobbied internally for their organizations to take on the new innovation. (Dennis, Arvidsson, Johansson). People were skeptical at first since it was a completely different business model and employees weren't yet convinced it could work, but leaders kept pushing (Dennis). *"Had I not put my neck on the line about Spotify I probably wouldn't have the job I have now. I joined Sony Music September 2007 and they launched in October 2008 so there was 12 months of serious focus and trying to get it started. Lots of delays but there were a bunch of negotiations going on internationally."* (Dennis)

To accommodate the significant change Spotify brought to the organization, Sony Music had to switch mindsets and adjust to the new digital landscape. Mark Dennis, the current MD came from a digital background meaning he understood the importance of growing digital presence (Herbst). He took a proactive approach in growing the digital team from a one-man show into a six-person group that had significant influence over the organization. "*Before I came to Sony in 2007 I was working at a digital music startup called Music Brigade, a pan-european service selling downloads and streaming music videos. I was working as the licensing director there and negotiating with all the labels and this was 2005 to 2007. It was a really hard slog because a lot of people working in digital at the labels at that time weren't necessarily digital people. Many had come over from legal affairs and more traditional areas of the business when the labels had started up their digital departments."* (Dennis)

To begin with Sony Music began to add more young, digitally driven people in the organization (Lindgren). It's the combination of old school knowledge plus academic smarts that drives the industry (Lindgren). Alen describes the importance of retaining employees who have an open mindset when it comes to change. Music consumption will continue to be around, but what changes is the way people will consume it. The only way to be successful in this industry is to move forward and continue to investigate new ways of consumption (Alen). *"I think we've learned so much. We learned to be flexible, and that we need to be able to get into new service and embrace change"* (Johansson).

Eventually, the organization began to see the importance of Spotify which began to take a larger presence within their strategic marketing plan. *"I used to be a one-man digital department and now we're a lot of people. When we used to have a Spotify meeting a few years ago, it was me and maybe somebody from marketing, whereas now it's the whole company. We have our monthly Spotify meeting and everyone's in there and everyone's fighting to get their artist more featuring on Spotify"* (Herbst). The digital team is constantly educating employees on the intricacies of the business model, and believes Sony Music knows more than competitors on how to properly utilize it (Herbst, Alen). In addition, resources shifted within the marketing department to place focus on the Spotify

client. Duberg mentioned his role changing from working 100% of his time on artist websites to now 80% of time spent working within the Filtr app.

Different departments feel the need to get their artists on Spotify, making the digital team in high demand. *"The digital team is allowed to have a lot of presence in meetings. They are allowed to take a lot of room and talk a lot. People are okay with that which is different in other organizations when there's new business models entering – people get scared for their areas."* (Kvarby). Sela describes the Spotify's presence in the organization as "enormous." It's the number one sought after channel since that's where most the revenue is derived.

4.4.3 Future of Record Labels

Artists & Repertoire (A&R) – Although marketing has changed dramatically throughout the past few decades, the label's central function is still primarily the same. Its primary role is to invest in talent and take the role of a venture capitalist (Dennis, Arvidsson, Johansson). Dennis also explains that the role of A&R has become undervalued within the recent music environment. Focus still needs to be placed on how to advise artists as well how to develop and create their music. Along with playing a role alongside the artist, Arvidsson argues A&Rs need to be more analytically minded. They should be able to see both the numbers and discuss creative development with equal strength. With Spotify Analytics – a feature that provides a multitude of statistics about consumption - it's the first time the industry can view how well marketing and promotional efforts are performing in real time. It's difficult for A&R's to hide now with new systems constantly judging their performance on the charts. Risk taken by A&Rs has become a blatant numbers game, unlike the past where solid metrics were difficult to secure. Trends are obvious because of the charts updating in real time so it's important for labels to stay one step ahead (McLaughlin, Kvarby).

Reward systems have changed within the organization to accommodate the changed measures of a successful record (Herbst). In the past, A&Rs were judged based on how many physical albums sold, or number of downloads purchased ultimately leading to

ranking of Gold or Platinum status if successful. However, the Swedish industry transferred the way of judging the success of an artist by introducing measures to allow for certification based on the number of streams (Lindgren). A&Rs now receive performance rewards based on certifications reached (Herbst).

In addition, Arvidsson argues that there needs to be a balance between long and short-term signings. Recently there has been a trend towards short-term quick "hits" that are driving the market share in the short term. Labels need to look at what will drive sales in the long term. Johansson explains labels are in the business of developing artist careers, not just keeping them on their roster. Artists will always need advice on their careers from a long-term perspective and how to build their success into the future.

With a possible threat of Spotify dipping into A&R of their own in the future, Lantz argues, *"[…] it's also a good thing for it helps us stay on top of things, and we need to defend what we do and really develop what we have to offer for our artists."*

Human Resources – *"I think they will need to review HR practices, how can you develop and retain the right type of people? How can we continue to professionalize this industry?"* (Arvidsson). Within the music industry, it's difficult to find talented people who are both academic and have a passion for music. *"In the same way that BMW demands that you actually care about cars, the music industry needs to hire people who actually care about music and want to learn how to run the business. Just enjoying listening to credible music and drinking beers backstage at a festival isn't a qualifier to be able to make a difference to an artist's career"* (Arvidsson). Johansson states finding smarter, more creative people is the key while training and development in e-business remains important. As digital music today is very data driven, Lantz argues marketing teams need analytically-minded people who can utilize all the data that's now available. He also states people need to have a combination between brain and heart. *"Now you have to fight much harder and be much smarter. I think that requires a different type of employee and mindset. We have to be much more on our toes now and fight much harder for every single point of market share."* (Lantz)

Even though it's important to attract people with an analytical mindset, labels cannot lose sight of their overall purpose, which is signing and promoting quality music (Herbst). The people who know the most about the music, and the business of music are those who have been in the industry for many years. Although these people may not understand the digital landscape to the same extent as the young people, their knowledge about the industry is invaluable and must not be lost (Herbst).

Labels have now found themselves in a position where they are hiring people instead of letting them go (Alen, Johansson). Sony Music kept the people who have the right mindset when it comes to innovation, and will continue to recruit people who bring in the right attitude (Alen). *" […] because it's developing so fast and there's so much new stuff coming all the time, you are always learning something new. You have to work with people that have that point of you that you always learn. You're never done"* (Sela).

Marketing – All Label executives interviewed agree the market is too premature for artists to succeed only using Spotify as a distribution mechanism without a label. *"This is one of the topics that always comes up – "why do you need a label when anyone can put their music on Spotify. So put your music on Spotify – we see this a lot with artists who already have their music on Spotify but it's not working. It's great music but people aren't finding it"* (Herbst). Dennis explains that a label combines all departments under one roof allowing synergies. With the rise of the Internet, labels have endless opportunities to spread their message. Previously there was a much clearer "end" to what you could do meaning the team has to figure out ways to cut through the noise.

Metrics are now determined by who has the most followers on social media including Spotify (Herbst). Labels need to know their consumer by understanding what they listen to and how they can most effectively communicate with them (Johansson). Marketing in the music business ultimately comes down to relationships, which labels have been building for years and years (Lindgren). People often underestimate the close contact labels have with influencers and the muscles they have within marketing (Annell). It's no coincidence the Top List in Spotify looks the way it does (Lantz).

The power of playlists has also become an important market driver. Record labels in the Nordic Region are now running TV campaigns to promote their Spotify playlists. If Sony Music Denmark adds a song to their biggest playlist, it instantly shows up on the Spotify charts which is essentially like controlling radio (Herbst). Artists who sign to labels are in a much better position since their songs will be added to the influential playlists and be heard by a much larger audience.

Alen sees a merge between digital and sales teams to provide more collaborations within the entire marketing department. *"In the future, there will be someone taking care of the playlists and being in the internal editorial team of sharing the profile and doing the newsletters and making sure everyone is happy with the playlists. There will also be someone who can take care of the artists and make sure the artists have their own part within Spotify, to make sure we use it in the right way."* (Alen) Annell has an optimistic view of the future of marketing stating *"There are always going to be new ways of looking at income and spreading your music and getting your music to consumers. Were looking at different marketing opportunities and ways of pushing out your music in different channels. There's always something new."*

Arvidsson summarizes with his perspective on how labels are to grow and embrace their business over the next few years. **"***I think they need to broaden their services and offering with more flexibility and truly leverage their global reach. They need to continue to experiment with business models, formats and grow wisely through acquisitions and partnerships. Labels often fail to understand the big value that they bring to the music community. There is no one even close to supply artist careers with that first major investment in cash and resources as record labels do. It's not the live business, not the publishing or management's community, it's the labels. In the main, they are taking the big bet that everyone else then, rightly because they, especially hardworking managers, take advantage off*"

5 ANALYSIS

Using the empirical findings above, an analysis will be conducted in order to link the data gathered back to the theoretical outline presented earlier as well as create a new framework. This is meant to explore the reasons why Sony Music chose to embrace Spotify, the competitive capabilities it created, and what the future has in store.

5.1 Embracing a Spotify-centered business model

Based on the testimonials outlined previously, a number of patterns emerge as to why Sony Music decided to embrace the new innovation. From the humble beginnings to the complex systems in place today, Sony Music is continually immersed in an atmosphere of change. Past blunders and missed opportunities have helped the corporation prepare for the digital era in which they have little control over the future business environment. While good timing was certainly an important factor, good business practice and relationship management were just as influential. The key factors for success will be discussed in more detail below. The framework divides deciding factors by business environment considerations and business practice considerations to clearly disassociate one from the other.

5.1.1 Business environment considerations

Piracy – The music industry in Sweden was plagued with consumers accessing music for free through P2P networks. The Pirate Bay not only severely damaged music industry profits, but convinced customers they no longer had to pay for music. The public started to rely on the Internet to access their music causing physical sales to lose their "sexiness." Even with multiple attempts at trying to shut the service down, piracy prevailed without a feasible mainstream solution. Record labels had to reduce staff in excess of 50% and the remaining staff feared the business might not survive. The overall business climate was damaged and desperate in Sweden.

Lack of legal alternatives – iTunes failed to grip the Swedish market like it had in markets like the United States meaning Swedes continued to pirate music instead of

paying for downloads. There was no service available that consumers found more attractive than piracy that record labels could use to monetize. Traditional services such as download stores failed to grasp the label's attention, and it was difficult for such a service to survive in the difficult atmosphere. Spotify offered the first service within the Swedish market which legally streamed music making it attract the attention of label executives.

Consumer behavior– In addition to preferring "free" music, consumers also demanded full access to all music all the time. If the song was not available through legal means, consumers would simply find it illegally. Consumers also preferred to listen to singles instead of albums, leading the market to become spastic and quick driven. It was also important to be able to categorize music according to personal preferences. Subscription services allowed consumers to not have to pay per transaction making the service successful with psychological ease of use. Exclusive access and partnering with a major Teleco also helped encourage customers to use the service.

5.1.2 Business practice considerations

Adequate product & business model– Spotify came prepared when approaching label executives with both a fully functioning prototype and plan for how to execute the service. Many initial service providers that had failed approaching executives with only an idea rather than a service that actually functions. Having a functioning platform allowed executives to fully understand the model at hand. It wasn't until the label executives tried the service that they really grasped the entire concept behind it. Spotify also proved they had proper financing for their long-term vision which is also a rarity among tech startups.

Relationship management – Spotify waited until it had full support from the labels before launching which made agreements easier to manage from the onset. It participated on the label's terms when it came to obtaining the proper licenses demonstrating they had the capacity to work as collaborators. Executives liked the fact that music was their primary focus, unlike giants Apple and Google who have multiple offerings. This

allowed relationships to run deeper as the two were truly dependent on one another. Spotify also used a collaborative mindset while working with labels, ensuring they had the proper tools to promote their repertoire.

Executive support – Inspiration to embrace the service stemmed from the top. Senior management had to lobby for internal support by showcasing the service, bringing it up in meetings and convincing employees it would work. Management became advocates for the service both internally and externally. Resources were also allocated to digital teams in order to grow its presence within the organization. Employees mentioned feeling inspired by top management since they were persistent and encouraging when it came to implementing the service into marketing strategy.

Key Success Factors for Embracing a Spotify Model	
Business Environment Considerations	**Business Practice Considerations**
➢ Environment rife with piracy	➢ Adequate business model
➢ Lack of legal alternatives	➢ Relationship management
➢ Consumer behavior	➢ Executive Support

Table 2: Key Success Factors

Therefore, Spotify was embraced by Sony Music because of a combination of environmental factors along with good business practice. It would not have been possible for the service to flourish without a mix of both. Disruptive innovation was viewed as an opportunity rather than a threat due to environmental factors, while good business logic made it attractive rather than feared.

5.2 Creating sustaining capabilities

After implementing Spotify into its business model Sony Music began to develop creative ways to grow its presence within the Spotify platform. Employees not only wanted to create an attractive outlet for its repertoire to gain market share, but also to

grow the industry as whole. Technical considerations were important to successful implementation, but even more important were soft skills in the organization such as the attitude employees brought to work each day. These topics will be explored below along with an outlook on how Sony Music intends to keep its successful market at bay in the future. The key factors for success will be discussed in more detail below.

5.2.1 Technical considerations

Quality playlist app – The success of Sony Music's app Filtr is highly attributed to the quality of the playlists created at the initial development stage. Instead of focusing on the marketing of a strong brand, the digital team focused on including repertoire from all labels to increase the consumer's listening experience. Each playlist had a unique branding strategy creating a 'house of brands' rather than a 'branded house' like the competition, which helped to focus followers onto specific playlists. Data collected by the app was strategically used to gain insights about consumer patterns and therefore improve the service. Analytics served as a strong tool for perceiving popular trends and appeasing to consumers tastes.

Social component – Music is a social experience. It has been since the dawn of its time and will be until the end of time. Filtr was successful due to its utilization of this fact. It achieved relatively fast and broad appeal and collected followers due to its social twist. Followers could now share playlists with one another and easily share song recommendations. Spotify is becoming more and more social with new features being incorporated into the platform to help lock consumers into the service. Sony Music has devoted resources to utilizing Spotify's social potential even further by developing clever campaigns to utilize their mass amount of followers.

D2C (Direct to Consumer) Channel – Sony Music found itself in a position to now control it's own retail "storefront" with the advent of the Filtr app and profile. The digital team can now essentially control the precise music and message it wants to convey through the Spotify medium. This gives Sony Music an opportunity to interact directly with their consumers allowing for control over what their consumers discover. The

interface directly contrasts platforms like iTunes where a content manager controls what the consumer sees based on their preference.

5.2.2 Organizational considerations

Acceptance for change - Employees stress the importance of keeping an open mind when it comes to innovation. The music industry is so fast moving that any stubborn attitude will severely hamper the success of the label. Sony Music is attracted to people who have a high capacity to learn and can quickly adapt to market trends. Sony Music has looked both externally for people with new sets of digital skills, as well as internally for people who are willing to learn new ways of doing business. It is imperative for them to stay focused on trends so they can adjust to the market accordingly. In today's business environment, the statistics available are abundant. A&Rs as well as digital account managers need to have an analytical mindset that can guide them in making routine decisions. Finding that perfect balance between a music lover and an academic capacity to learn is the key to success.

Size of Digital Team – Mark Dennis, the current MD came from a digital background meaning he understood the importance of a strong digital presence. He devoted company resources to growing the team, as well as its influence within the organization. He hired key players such as Jacob Herbst who came from a strong digital background to take the reins of the new group and grow it accordingly. Employees from other departments began to recognize the influence Spotify had on the organization as the digital team proved the service worthy. It continues to grow as of today with new employees being hired for the purpose of growing Sony Music's presence on smaller streaming services.

Reward Systems – The Swedish music industry could no longer focus on traditional metrics such as platinum and gold record sales to judge A&R performance meaning they had to alter metrics to properly account for the new environment. Sales targets are now based on number of streams, while competition is focused in on Spotify charts and number of followers. Radio charts still account for promotion metrics, but Spotify

accurately accounts for both promotion and revenue. Incentives have now been properly adjusted to the shifting environment allowing for employees to strive accordingly.

Key Success Factors for Sustaining Competitive Advantage	
Technical Considerations	**Organizational Considerations**
➢ Playlist app focusing on quality	➢ Acceptance for change
➢ Social component	➢ Size of digital team
➢ Direct to Consumer	➢ Reward Systems

Table 3: Key Success Factors

The capabilities Sony Music created are split into technical and organizational considerations which each serve a distinct purpose. Technical functions such as the Filtr app were only created because of employees who had innovative, agile mindsets who had strong relationships with Spotify. The organization was also structured to allow for the strong presence of a digital team. Knowledge was created using clever techniques of data collection, while strong analytical minds were needed to properly make use of that data. Reward systems which were catered towards the specific environment allowed employees to strive for attainable goals. Capabilities are therefore dependent on marrying technical skills with organizational management.

5.3 Threats of the Spotify Business Model

While Spotify has certainly been a success within the Swedish market, it's also important to account for the threats Sony Music faces with such a strong reliance on Spotify as a distribution mechanism. Employees realize the disruptive innovation has brought positive change, but are not myopic when analyzing the current business environment.

5.3.1 Reliance on a Spotify Model

The majority of employees agree it would be advantageous if Spotify had competition from other services in order to make them feel motivated to continue offering both labels and consumers the best service possible. If Spotify were to fail, Sony Music would find

itself in a dangerous position for it has become both an important source of revenue as well as promotion mechanism. Denmark for example, has no dominant service where iTunes, Spotify, WIMP and YouTube all share around the same market share. This model is ideal for labels competition could spark incentives to improve the service offering.

5.3.2 Spotify's reputation

Spotify suffers from negative publicity from a number of both artists and advocators who do not believe streaming is good for the music industry. These advocators contest Spotify only pays artists "pennies" while record labels receive mass amounts of revenue. They believe the unfair remuneration of artists will eventually cause the industry to collapse. The largest threat posed to Sony Music is therefore artists who are unwilling to allow their songs on Spotify. While this would cause the legitimacy of Spotify's catalogue to crumble meaning havoc for labels, it would also mean Sony Music would not have a viable platform to create revenue from.

5.3.3 Future Business Model

As with every business model, it's imperative to adjust the initial offering as the market matures. Sony Music relies on Spotify to continue to grow its subscriber base, especially within the premium service in order to maximize revenue. Employees agree that in order to capitalize on their current customers, Spotify must invent different models such as offering different levels of subscription services or premium packages. The primary goal should be having Spotify as ubiquitous as cable TV which will take continuous effort from Spotify.

5.4 Key success factors tied into Literature Framework

5.4.1 New Value Proposition

According to Christensen (2008), the most important element of a business model is the customer value proposition. A successful company is one that creates value for customers by helping them solve a fundamental problem that needs a solution. Gilbert (2003) believes managers need to first identify a new market in order to locate new customers. He stated that managers can use three criteria: First, current customers should undervalue

the disruptive innovation. Second, it must compete against nonconsumption and third, it must help people accomplish things they are trying to do but can't without available products or services.

With piracy rife and a lack of feasible alternatives to monetize music, Spotify seemed like the perfect solution to reach an untapped market. At the time customers undervalued the disruptive innovation, as they did not want to pay for music. Even though customers initially did not want to pay, Sony Music saw the value in Spotify making music consumption easier, which would eventually lead to consumers agreeing to the subscription model. Managers were certain the new model would enlarge the economic pie by attracting new customers to its value proposition. This in turn allowed them to change their dominant logic and focus on the potential of the opportunity. Music consumption changed with the digital revolution allowing for full access to all music, all the time. Spotify factored in consumer behavior into their offering making labels more willing to comply. A further factor Gilbert failed to discuss is factoring the current business climate. A healthy business environment would have changed executives on Spotify's perceived value significantly. Whether it was absolute desperation that made executives so willing to change or because it was actually a good service offering is difficult to say.

Sony Music did not see Spotify as an "attack" to their current business model since their current value proposition to consumers was not working. Consumers had moved past physical and download markets therefore extinguishing what Sony Music could offer to them. Although not outlined in the empirical data, it is important to remember that Sony Music will always be reliant on a third party to distribute its music to consumers. It needs to coordinate with other labels to offer consumers all catalogues of music. The main value it saw in Spotify was a "game-changing" way to offer consumers an easy to use streaming service that it knew it could effectively monetize. It was because of the dire business environment that this value proposition was considered worthy.

Value Creation attractive due to **Environment**

5.4.2 New Business Model

Gilbert (2003) also stated that customers in a disruptive market cannot be serviced according to the established market's business model. He states it is sometimes difficult for players to conceptualize a new business model that will allow the firm to profit leaving it to become blind to current customers. According to Christensen & Raynor (2003) established firms generally do not allocate resources to emerging disruptive innovation due to a lack of economic incentives. The gross margins for the emerging technology are usually lower than those of the established technology. Managers tend to rise through the levels of management where predictability and control are valued and rewarded (Kaplan, 2012).

Executives have accepted the Spotify model because of one concept - incentives. Christensen stated in his disruptive innovation theory that most fail because a lack of immediate rewards. Why change your business when it's performing fine in its current environment? The music industry needed a grand upheaval to capture value from consumers which is why they were not afraid to change their dominant logic. Instead, executives are more foresighted than ever before, taking an active role in scouting new business opportunities while building up current models. They have learned staying comfortably within a certain business model is not possible within the music industry where consumption patterns can change so rapidly. Global executives have been inspired by Sweden's competence to unleash a new model making it likely the model could be a global success. Sony Music also continues to have a strong incentive to help Spotify shape future offerings for that's where the majority of their revenue will come from.

Business Model attractive due to **Incentives**

5.4.3 New forms of Knowledge

Finally, Gilbert (2003) stated that firms need to stick with new customers by building entire models around them in order to fit the new market. In order for customers to stick, Teece (1997) states that the firm needs to build dynamic capabilities to create difficult to replicate competences. These competences can provide a competitive advantage and generate revenues only if they are based on a collection of routines, skills and complementary assets that are difficult to imitate. Often, these steps are taken through phases of experimentation trial and error to figure out how to best capture interest of the consumers, Chesbrough (2010) states.

In order to gain market share, Sony Music's digital team devised a way to collect followers and promote their own repertoire. Filtr, Sony Music's app helped consumers organize their music into quality playlists while building their own D2C channel. During the process, Sony Music used data from the app to learn about consumer behavior, therefore creating knowledge to improve their offering. In addition to devising a way to promote their product in a new and innovative way, Sony Music also realized the importance of employee's attitudes when trying to change knowledge. Change depends on support from the entire organization, which has gradually happened over time. Finally, Sony Music has adjusted its future outlook to become much more lenient when it comes to new ways of business, primarily residing in who the type of person they hire.

New forms of knowledge were devised by both senior management promoting the service to the organization, and by the digital team inventing new ways of distribution. The competitive strength Sony Music built as a result of Spotify proves the team found opportunity in its changing environment instead of relying on "old school" ways of marketing. Bringing new "digitally minded" employees was key to making this change successful proving the organization somewhat relied on outside knowledge to make the change possible. Trail and error was used to create a successful service, even though the experimentation was backed by data.

Capabilities built through **Adaptatation**

5.4.4 Additions to current literature

An alternative framework has been created based on the empirical findings which explains the key aspects a firm needs to successfully embrace disruptive innovation. First, the business environment must present an opportunity for value creation. External forces play an extremely important role on whether disruptive innovation will be deemed a success. Second, business practice considerations dictate whether a firm can create the proper alliances to secure the market. Functional relationships are needed to push the innovation through all aspects of the value chain. Third, technical considerations such as creating new ways to learn consumer insight, or clever ways to market the innovation are needed to grow the service. Finally, organizational considerations are needed to ensure competitive capabilities are created and supported within teams. Open, accepting minds foster a corporate culture that will be able to react swiftly to market trends.

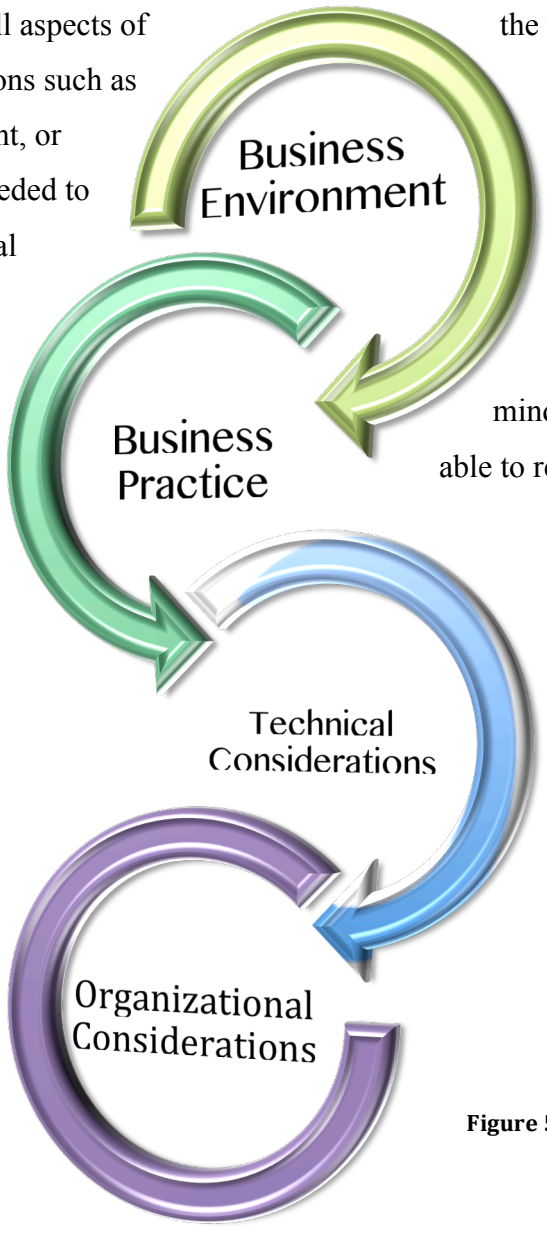


Figure 5: Integrative Framework

5.3 Future Outlook

In order to make this a feasible analysis, it's important to apply the lessons learned through this Spotify case to make way for future disruptive innovations. Spotify will not be the last innovation to dramatically change Sony Music's business model so it must recognize the internal capabilities which made it such a success. Although it will be difficult to replicate the same scenario, certain soft and hard skills can be utilized when the future innovation presents itself.

5.3.1 Support for senior management

The reason Spotify succeeded at the beginning stages was due to support from senior management who lobbied the service internally and helped to grow its reach externally. Executives were attracted to the service because of a smart offering combined with good timing. It took some internal persuasion for Sony Music's Managing Director (MD) to convince the organization they should take on and pursue Spotify, but generally people were willing to comply since the MD was so passionate about the new model. Since the MD is responsible for allocating resources and creating the organizational structure, it was easier for the label to make the adjustments necessary for change. The MD's enthusiasm towards Spotify eventually trickled down throughout the organization and gained support from the majority of employees. Therefore, a new disruptive platform would first need the support from senior management who can then allocate resources to make it a success.

5.3.2 Collaborative relationship with innovation

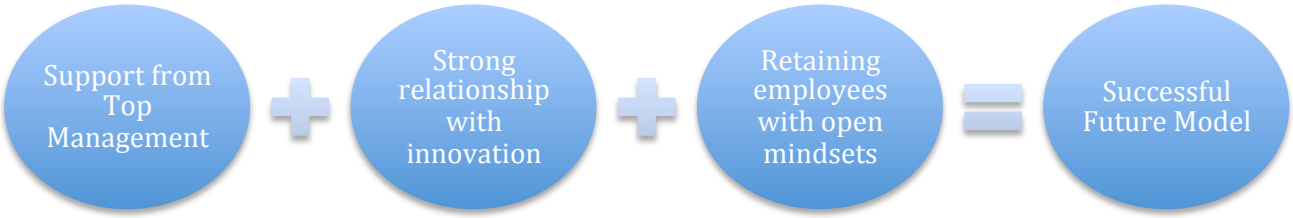
Senior management embraced Spotify not only because it was a great service, but also because the execution of the service was clearly developed. It is one thing to have a great idea for an innovation, but another to have every step of the process meticulously planned. Spotify was willing to work on the record label's terms by making sure all the fine details were finalized before launching the service. Subsequently, Sony Music developed a very strong relationship built on trust with Spotify, which helped it create further synergies such as the Filtr app. Spotify's relationship management techniques

exceeded that of competitors such as iTunes making it an ideal partner to work with. This proves executives are more willing to both work with and help promote a service who complies to their way of working and views the relationship as collaborative. To make a future innovation a success, it's important for them to make the label feel like they are part of the implementation plan.

5.3.3 Open minds

Even though the inspiration for Spotify came from the leadership team, it took open-minded employees within the organization to help facilitate the change. Sony Music both hired new digitally minded people into the organization, as well as shifted the mindsets of its current employees. Hiring external talent helped bring a new set of skills to the label as well as an optimistic attitude for change. The employees who were successful had the right mindset when it came to innovation. The music industry is an incredibly fast-moving environment making it imperative to hire the right people who can easily adjust their habits. In the future, this will be just as important as it is today. It's a soft skill, which labels need to be mindful of when making human resource decisions. An organization is only as a good as the employees who contribute to it in the face of change.

Figure 6: Successful Future Model Factors



6 CONCLUSION

This thesis contributes to disruptive innovation literature in a number of ways. It uses an empirical case study to prove disruptive innovations can be embraced by firms if a number of key success factors come together. To prove this point, the thesis develops an integrative framework to close the gap on current organizational change literature. It adds several conclusions that current theory has not developed completely due to the limited supply of organizations that have made a successful change.

The first research questions states:

RQ1: Spotify as an Opportunity

- Why did Sony Music Sweden choose to embrace Spotify?
  What is the key value proposition Sony Music Sweden saw within Spotify?

The author develops a framework based on *business environment* considerations, and *business practice* considerations to answer the question. The conclusion drawn from the analysis based on key success factors states the organization chose to change primarily because of *incentives*. It is important to state that most the incentives drawn upon in this case will most likely not be non-repeatable, meaning the incentives are derived from a very specific period in time.

The second research question states:

RQ2: Longevity of the Spotify model

- How can Sony Music Sweden maintain its advantage?
- *What are the ways in which Sony Music is creating capabilities based in knowledge of the Spotify model to help reach maximum revenues?*

The author develops a framework based on *technical* considerations and *organizational* considerations to answer the question. It was the marrying of both hard and soft skills which allowed the organization to adapt to technology, creating a culture of *adaptability.* Employees with *innovative*, *open-minds* flourished within the new environment allowing

them to develop *analytical* abilities. This will be a trait that will be repeatable in future cases.

The third research question states:

RQ3: Replication of the Spotify model

- How can Sony Music use what it's learned to help embrace innovation in the future?
- *What are the hard and soft skills needed to ensure the organization can successfully handle disruptive innovation when it comes again?*

The author develops conclusions based on *support from senior management*, a *strong relationship with innovation* and *open-minds*. An emphasis was put on certain traits within the organization that can be transferred to future cases. The conclusion drawn from the analysis states a combination of these three factors once embraced will allow record labels to be successful with innovations in the future.

7 DISCUSSION

7.1 Further Thoughts on Future landscape

The purpose of this thesis was to understand the reasons why Sony Music successfully implemented Spotify as a disruptive innovation so it can adequately prepare itself for future disruptions. Spotify will not be the last innovation to radically change the music industry which Sony Music realizes and accepts. In order to properly answer this question, the thesis must conclude by answering why Sony Music embraced Spotify in the first place, and what types of capabilities it created along the way to make it a success. There are three main conclusions derived from this case study, which will be discussed below.

First, Sony Music responded primarily to incentives when it came to rebuilding their industry. Spotify offered Sony Music a way to rebuild revenues and connect with consumers which senior management then turned into a viable opportunity. If the business environment were not in complete turmoil like it was at that specific time, it most likely would have been more difficult for the disruptive innovation to penetrate the market. Spotify worked closely with management to ensure a smooth rollout process while creating meaningful relationships, which continue today. Therefore, it may be difficult to transfer this incentive to future markets for in the future, management will have revenues to lose instead of just gain like in Spotify's case.

Second, employees felt inspired by senior management and were open to a new innovation and business model. It was because of this inspiration that digital teams created new ways of interacting with consumers via the Filtr app and therefore collected data, which ultimately provided a competitive advantage. It would be very difficult for a disruptive innovation to achieve the same success without support from the senior leaders within the organization. Management allocated resources to allow the business model to favor Spotify. Future innovations will therefore require senior management support in order to be successfully implemented.

Third, Sony Music's strong ties with Spotify created a mutually beneficial relationship, which was seen as a collaborative effort between entities. Spotify has Swedish roots which made Sony Music Sweden motivated to support the service. It was also easier for the label to create meaningful relationships with Spotify employees since they were culturally similar. The two entities work together to promote growth of the music industry and still continue to have a partner-like relationship today. iTunes was not successful in Sweden because it was not seen as an important market for Apple, therefore dampening relationships. It is therefore crucial that future innovations work side by side with labels to promote their business.

One final observation pertains to the relationship between technology and the recording industry. The music industry is now completely dependent on technology for distributing their product. Technology is changing at a rapid pace, meaning record labels need to change just as quickly. The record labels that survive the technology era will be those with adaptable organizational structures. It is more important than ever for global labels to adjust their attitudes when it comes to change, a feat proved possible by Sony Music Sweden.

7.2 Managerial Implications

As mentioned previously, managers need to serve as the *inspiration* for change. The firm's culture and attitude surrounding change is stemmed from the top as proved by this case study. Managers have the power to allocate resources how they see fit, whether it means hiring external minds to help launch a new business model, or providing internal employees with the proper tools. Within the music industry, the environment will always be fast moving, and rely on technology for distribution. Even though record labels ultimately own the rights to music, senior management needs to make sure they have advantageous relationships with their retail outlets. As proved by the Spotify case, the digital team was able to work with Spotify to create a favorable D2C channel. Instead of managers using their power over Spotify, they instead saw it as a collaborative relationship full of potential.

In addition, senior management could benefit from understanding the perspectives of their younger employees. With such rapid advances in technology, it's important for management to trust opinions of the newly hired that may understand the digital landscape to a fuller extent. There needs to be a healthy balance between "old school" experience and fresh minds. Part of adapting to a new environment is bringing in external people who understand the intricacies of the newly emerged digital landscape in order to know their young consumers. Managers will only lose out on market share with a myopic attitude. In this case, Sony Music managers had the ideal attitude when it came to change and therefore created impressive gains not only for their organization, but for the entire music industry.

7.3 Suggestions for Future Research

First, this case study focused on the Swedish market exclusively. Spotify is beginning to take off within the United States and labels are very slowly starting to make adjustments to their business models. It would be an interesting follow up to compare and contrast the American market compared to the Swedish market from a managerial perspective. Are managers just as willing to jump on the streaming bandwagon? How do the environmental factors such as population size and dominance of iTunes affect Spotify's success? How has Sweden's success story affected their willingness to adapt? It will take a few more years for the American market to reach the levels that Sweden has achieved today, but will nonetheless be interesting to analyze how their market evolved in comparison to Sweden.

Second, this case study also focused exclusively on Sony Music. It would be useful to document Spotify's point of view. Label executives obviously believe they have agile mindsets, but do Spotify employees agree? What was it really like for Spotify at the beginning while they were trying to get licensing deals from label executives? Although this case study has made the process seem relatively easy from a retrospective point of view, it is a one-sided perspective which could benefit from a full-rounded analysis. It would be useful to research Spotify's perspective on what the future of the music industry

has in store, and how they plan to remain relevant. It would also be beneficial to understand how their relationship with labels is changing as they gain more power.

Finally, this case study focused very little on the consumer's perspective. It's difficult to understand from this analysis if it was consumer preference driving the market change, or if it was because the labels were heavily promoting it. Why do consumers embrace Spotify? Is it because of its user interface or because of network externalities? Would they prefer a different streaming service if it offered them a better service or do the playlists and social focus make it difficult to switch? It would be useful academic exercise to conduct a quantitative study that analyzes how consumers utilize streaming platforms.

8 REFERENCES

Afuah, A., and Tucci, C.L. (2001), Internet business models and strategies: Text and cases, New York: McGraw-Hill.

Ahrens S., & Kreidenweiss, A. (2013) Industry-Wide Business Model Innovation. The Case of the Swedish Music Industry. Stockholm School of Economics – Department of Marketing & Strategy. Fall 2012.

Assink, M. (2006), Inhibitors of disruptive innovation capability: a conceptual model, European Journal of Innovation Management, Vol.9 No.2, 2006, pp. 215-233

Bertoni, S. (2012), Spotify's Daniel Ek: The Most Important Man in Music. January.4th 12. Forbes. http://www.forbes.com/sites/stevenbertoni/2012/01/04/spotifys-daniel-ek-the-most-important-man-in-music/

Bhattacharjee, S., Gopal, R.D, Marsden, J.R, & Sankaranarayanan, R. (2009), Re-tuning the Music Industry – Can They Re-Attain Business Resonance?. Communications Of The ACM, 52(6), 136-140.

Birchall, D.W. & Tovstiga, G. (2004), Capturing Opportunity in Disruption: Strategic Capabilities and Organizational Factors. Management Studies and Centre for Business in the Digital Economy. Session A-3.

Birkenshaw at el (2007), Finding, Forming and Performing: Creating Networks for Discontinuous Innovation. California Management Review. Vol.49.No3.

Bouchikhi, H., and Kimberly, J.R. (2003), Escaping the identity trap. MIT Sloan Management Review, 44, pp. 20-26

Bower, J.L, & Christensen, C.M, (1995), Disruptive Technologies: Catching the Wave. Harvard Business Review. http://hbr.org/1995/01/disruptive-technologies-catching-the-wave/

Bryman, A. & Bell, E. (2007), Business research methods, 2nd ed. Oxford University Press, Oxford, 2007

Cavalcante, S.A. (2013), Understanding the impact of technology on firms' business models. European Journal of Innovation Management. Vol. 16 No. 3, 2013 pp. 285-300

Cetin, Marissa (2013), The Beginner's Guide to Spotify. Mashable. http://mashable.com/2013/10/17/spotify-beginners-guide/

Chesbrough, H. and Rosenbloom H.S (2002), The role of the business model in capturing value from innovation: evidence from xerox corporation's technology spin-off companies, Industrial and Corporate Change 11(3), 529 (2002)

Chesbrough, H.W. (2003), Open innovation. The new imperative for creating and profiting from technology. Boston, MA: Harvard Business School Pres.

Chesbrough, H (2010), Business Model Innovation: Opportunities and Barriers. Long Range Planning 43, 354-363

Christensen, C.M (1997), The Innovator's Dilemma, Harvard Business School, Boston, MA

Christensen, C.M. (2006), The ongoing process of building a theory of disruption. Journal of Product Innovation Management, 23, pp. 39-55

Christensen, C. M. et al. (2008), Reinventing your business model. Harvard Business Review, Dec 2008, Volume: 86 Issue: 12 pp. 50-59

Christensen, C.M. and Bower, J.L. (1996), Customer power, strategic investment and the failure of leading firms. Strategic Management Journal, 17 (3), pp. 197-218

Christensen, C.M. & Overdorf. M. (2000), Meeting the Challenge of Disruptive Change. Harvard Business Review, March – April 2000, 67-76.

Christensen, C.M. and Raynor, M.E. (2003), The Innovator's Solution: Creating and Sustaining Successful Growth. Harvard Business School Press, Boston, M.A.

Clayton Christensen Institute for Disruptive Innovation
http://www.christenseninstitute.org/key-concepts/disruptive-innovation-2/

Codrea-Rado, A. (2013), Until the 1990s, companies didn't have "business models." Quartz. April 17, 2013 http://qz.com/71489/until-the-nineties-business-models-werent-a-thing/

Coulson-Thomas, C. (2001), "Unriddling the innovator's dilemma", Strategic Directions, May, pp. 8-10

Damanpour, F. (1996), "Organizational complexity and innovation: developing and testing multiple contingency models". Management Science, Vol.42 No.5, pp. 693-716

Dean, J (2013), Let a Billion Streams Bloom. Fast Company. October 14, 2013. http://www.fastcompany.com/3018622/let-a-billion-streams-bloom#!

Dirks, D. (2012), A disruptive business strategy. Rich's management blog. http://www.richsmanagementblog.com/a-disruptive-business-strategy/management-principles/

Dolata, U. (2011), The Music and the Internet – A decade of Disruptive and Uncontrolled Sectoral Change. Research Contributions to Organizational Sociology and Innovation Studies.

Dredge, S. (2013), How Spotify and its digital music rivals can win over artists: 'Just include us'. The Guardian. October, 29th 2013 http://www.theguardian.com/technology/2013/oct/29/spotify-amanda-palmer-songkick-vevo

Doz, Y.L, and Kosonen, M. (2010), Embedding strategic agility. Long Range Planning, 43, pp. 370-382

Frankenberger, K., Weiblen, T., Csik, M., & Gassmann, O. (2012), The 4I-framework of business model innovation: an analysis of the process phases and challenges. Institute of Technology Management, University of St. Gallen

Gilbert, C (2003), Disruption Opportunity. MIT Sloan Management Review. Summer 2003. Vol.44 No.4

Govindaragan, V & Kopalle, P.K. (2006), The usefulness of measuring disruptiveness of innovations ex post in making ex ante predictions. Journal of Innovation Management, 23, pp. 12-18

Griffith, E. (2013), Is Spotify hurting record sales? Not exactly. Pandodaily. January 18, 2013 http://pandodaily.com/2013/01/18/is-spotify-hurting-record-sales-not-exactly/

Habtay, S. (2012), A Firm-Level Analysis on the Relative Difference between Technology-Driven Disruptive Business Model Innovations. Creativity & Innovation Management, 21(3), 290-303

Henderson, R. (2006), The Innovator's Dilemma as a Problem of Organizational Competence. Product Development & Management Association. 23: 5-11.

IFPI Digital Music Report 2013 http://www.ifpi.org/content/library/DMR2013.pdf

Kaplan, S. (2013), Leading Disruptive Innovation. Ivey Business Journal. http://iveybusinessjournal.com/topics/innovation/leading-disruptive-innovation#.Un6VtZS4Fc8

Makinen, S., and Seppanen, M. (2007), Assessing business model concepts with taxonomical research criteria. A preliminary study. Management Research News, 30, pp. 735-746

Magretta, J. (2002), Why business models matter. Harvard Business Review, 80, pp. 3-8

Markides C. (2006), Disruptive Innovation: In Need of a Better Theory, Journal of Product Innovation Management. January 2006;23(1):19-25

McDonald H. (2013) A&R – Artist and Repertoire. About.com. http://musicians.about.com/od/ah/g/artistandrep.htm
McGrath, R.G. (2010), Business Models: A Discovery Driven Approach. Long Range Planning, 43, 247-61.

Mendelson, H. (2000), Organizational architecture and success in the information technology industry. Management Science, 46, pp. 513-529

mynewsdesk (2013), Sony Music Sweden. http://www.mynewsdesk.com/se/sonybmg/news/filtr-sveriges-stoersta-spellistetjaenst-naar-miljonen-paa-spotify-66649

Paap, J., & Katz, R. (2004), Anticipating disruptive innovation. Research-Technology Management, 47(5), 13-22.

Prahalad, C.K. and Bettis, R.A (1986), The dominant logic: A new linkage between diversity and performance. Strategic Management Journal, 7, pp. 485-511

Savage, M (2013), Digital Music: Can streaming save music sales? BBC News, Stockholm. http://www.bbc.co.uk/news/business-22064353

SoCan (2013) Music Industry Glossary. SoCan. http://www.socan.ca/creators/member-resources/glossary

Spotify Artist Deck Presentation (2013). Spotify. January 2013.

Teece, D at el (1997), Dynamic Capabilities and Strategic Management. Strategic Management Journal, Vol. 18:7, 509-533 (1997)

Teece, D. J. (2010), Business models, business strategy and innovation. Long Range Planning,(43:2-3), pp. 172-194.

Tushman, M.L. and O'Reilly, C.A. III (2002), Winning through Innovation: A Practical Guide to Leading Organizational Change and Renewal. Boston, MA: Harvard Business School Press.

Wind, Y. and Crook, C. (2005), The Power of Impossible Thinking, Wharton School Publishing, Upper Saddle River, NJ.

Yin, R.K. (2009), Case study research: Design and methods. 3rd ed. Thousand Oaks, California: Sage.

Yu, D & Hang, CC. (2009), Reflective Review of Disruptive Innovation Theory. International Journal of Management Reviews, Vol 12, 435-452 (2010)

Zheng, Y., Liu, J. and George, G. (2010), The Dynamic Impact of Inovation Capability and Inter-Firm Netwrok on Firm Valuation: A Longitudinal Study of Biotechnology Start-Ups. Journal of Business Venturing, 25, 593-609.

Zott, C. at el (2010), The Business Model: Theoritical Roots, Recent Developments, and Future Research. IESE Business School. June 2010.

Interviews

Arvidsson, Samuel (2013). Former Head of A&R at EMI Sweden, Former Head of Radio at Sony Music Sweden. Interview conducted on October 22/2013

Annell, Mia (2013). Head of Radio at Sony Music Sweden. Interview conducted on November 5/2013

Borg, Fredrik (2013) Interaction Designer at Sony Music Sweden. Interview conducted on October 8/2013

Dennis, Mark (2013) Managing Director at Sony Music Sweden. Interview conducted on October 10/2013

Duberg, Stefan (2013) Digital Designer at Sony Music Sweden. Interview conducted on October 10/2013

Herbst, Jacob (2013) Head of Business Development at Sony Music Sweden. Interview conducted on October 16/2013

Johansson, Joakim (2013) General Manager/Marketing Director at Universal Music Sweden, Former Head of International at Sony Music Sweden. Interview conducted on October 28/2013

Kuhihorn, Pelle (2013) Physical Sales Representative at Sony Music Sweden. Interview conducted on October 31/2013

Kvarby, Ellen (2013) Head of Social Media at Sony Music Sweden. Interview conducted on October 23/2013

Lantz, Johan (2013) Digital Business Development Manager at Sony Music Sweden. Interview conducted on November 6/2013

Lindgren, Johan (2013) Marketing Director at Sony Music Sweden. Interview conducted on October 11/2013

McLaughlin, Helen (2013). Head of A&R at Sony Music Sweden. Interview conducted on October 22/2013

Sela, Amir (2013) Online Marketing Manager at Sony Music Sweden. Interview conducted on November 5/2013

Westergaard-Alen, Maria (2013) Digital Account Manager at Sony Music Sweden. Interview conducted on November 15/2013

9 APPENDIX

9.1 Sample Questions

New Value Proposition

1. Why do you think the major labels supported Spotify from the beginning?
2. How long has Sony been pro-Spotify? Did it take some time to adjust to the idea of a new innovation? Why did Sony trust it would work?
3. What was the value Spotify was offering? Has that initial value offering remained true over the years?
4. How has management adapted to using Spotify within their strategy? Do you feel it's the focal point for reaching your consumers?
5. Has your corporate culture changed at in relation to Spotify? Have there been positive/negative effects?
6. How have you been able to capture value within Spotify's platform?

New Business Model

1. How has Spotify changed the way customers are marketed to? Is it more aggressive or less aggressive?
2. How would you compare the iTunes distribution model to Spotify? Which platform can be best utilized to Sony's advantage?
3. Does the Spotify business model work in your opinion? Do you think it's sustainable?
4. How important are other distribution methods for your business right now?

New Sets of Knowledge – capabilities

1. What do you see happening to Spotify in the future? Is Sony always looking for the next best new innovative platform?
2. How flexible is Sony to new ways of distribution? If an unanticipated better innovation than Spotify came along in the marketplace, do you think it could adapt?
3. How have you grown competitive capabilities using Spotify? What have you created to spin the platform in your favor? How have you learned to compete differently?
4. Who is creating the new app functions on Spotify? Do they listen to ideas from major labels or do they create everything themselves?
5. How have the employees made this change possible? Are they open to new innovations?