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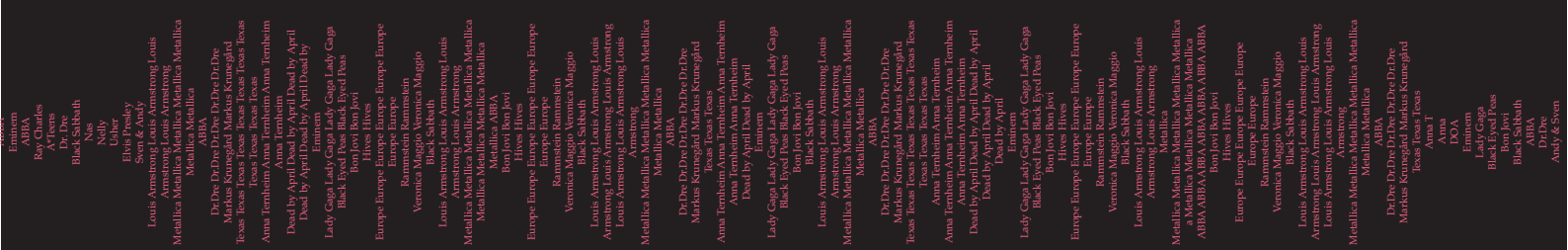

Industry-Wide Business Model Innovation

The Case of the Swedish Music Industry

Abstract

The significance of business model innovation in marketing and strategy is widely acknowledged in literature. Most research on this topic focuses on one focal firm, and the application of theory is rather abstract. Due to the rise of new technologies, entire industries are changing at a faster pace than ever and hence there is a need to understand business model innovation on an industry level.

Thus, the purpose of this study is to investigate how industries can undergo a successful business model innovation, with a focus on the Swedish music industry. Furthermore, an analysis framework to derive key success factors will be developed to close the gap in literature. A qualitative case study was designed to show Sweden's successful transformation from an unprofitable to a profitable overall industry business model. In total, 16 interviews with various industry experts were conducted.

There is evidence that technology built the base for Sweden's success and that business model innovation was spurred through a positive interplay of network architecture, consumers and the market offering. Within these four areas, seven key success factors were identified, namely favorable market size, willingness to change, technological foundation, beta licenses, anticipative solution, emancipated consumers and fast-adopting consumers.

Keywords

business model, business model innovation, industry transformation, music industry, Sweden.

Authors

Sven Ahrens
Andreas Kreidenweiss

Examiner

Bertil Thorngren

Tutor

Christopher Rosenqvist

Discussant

Liubov Smirnova

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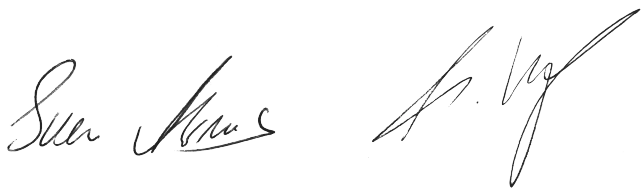

Sven Ahrens & Andreas Kreidenweiss

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WORDS TO KNOW

The authors assume that readers of this thesis have a basic knowledge within the fields of Marketing, Strategy and International Business and related concepts.

Spotify	A service launched in Sweden in October 2008, offering streaming of music on stationary devices (e.g. desktop or laptop) and mobile devices (e.g. smartphones or tables). As of May 2012, the service is available in Australia, Austria, Belgium, Denmark, Faroe Islands, Finland, France, Germany, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.
Physical sales	Includes sales of all physical formats, including CD, vinyl and other. CD sales ordered via the Internet (e.g. Amazon) are reported as physical sales (IFPI, 2012b).
Digital sales	Refer to download sales (via online or mobile) including single tracks, albums and music videos; mobile products including mastertones, ringbacktones, and other mobile products such as dedications and voicetones; subscription income (via online or mobile); ad-supported and digital income from audio/video streams; and other digital income (IFPI, 2012b).
Performance rights revenues	Monies received by record companies from music licensing companies for licenses granted to third parties for the use of sound recordings and music videos in broadcasting (radio and TV), public performance (nightclubs, bars, restaurants, hotels) and certain internet uses (IFPI, 2012b).
Synchronization revenues	Refers to flat fees or royalties from the use of sound recordings in TV, films, games and adverts (IFPI, 2012b).

1 INTRODUCTION

1.1 Case Background

The global music industry suffered tremendous losses during the last decade, mainly triggered by the introduction of the MP3 file format[1] in the middle of the 1990s and the resulting rise of illegal file sharing and piracy (IFPI, 2010). And while recent developments show growth in legal digital music consumption, overall profits still decline, as can be seen in Figure 1 below.

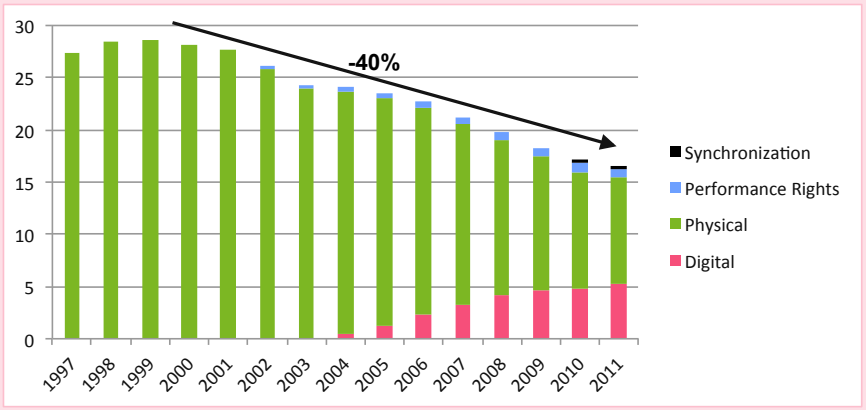

Figure 1. Global recorded music sales 1997-2011 (US$ billions, trade value). Source: IFPI, 2012b.

While global digital music grew from $0.4 billion in 2004 to $5.2 billion in 2011, physical revenues decreased from $28.6 billion in 1999 to $16.6 billion in 2011, resulting in an overall decrease of more than 40 percent. This is due to the fact that the global music industry is undergoing a shift of its business model (henceforth referred to as "BM") from the *"Traditional Business Model"* with the classic distribution of a physical product via brick-and-mortar retailers over *a "Renegade Business Model"* based on illegal P2P[2] music trading to a *"New Business Model"* with legal digital consumption of music via, for example, pay-per-download and music subscriptions[3] (Vaccaro and Cohn, 2004).

[1] MP3 is a digital audio encoding format and the de facto standard for digital audio players.
[2] P2P stands for "Peer-to-Peer" and describes a computer network allowing shared access to files and other data.
[3] Subscriptions in this case refer to music services offering digitally restricted streaming of music to end-users.

Despite the fact that music markets in general are suffering from this business model innovation (henceforth referred to as "BMI"), the Swedish music industry[4] has managed to make positive use of the development as can be seen in Figure 2 below.

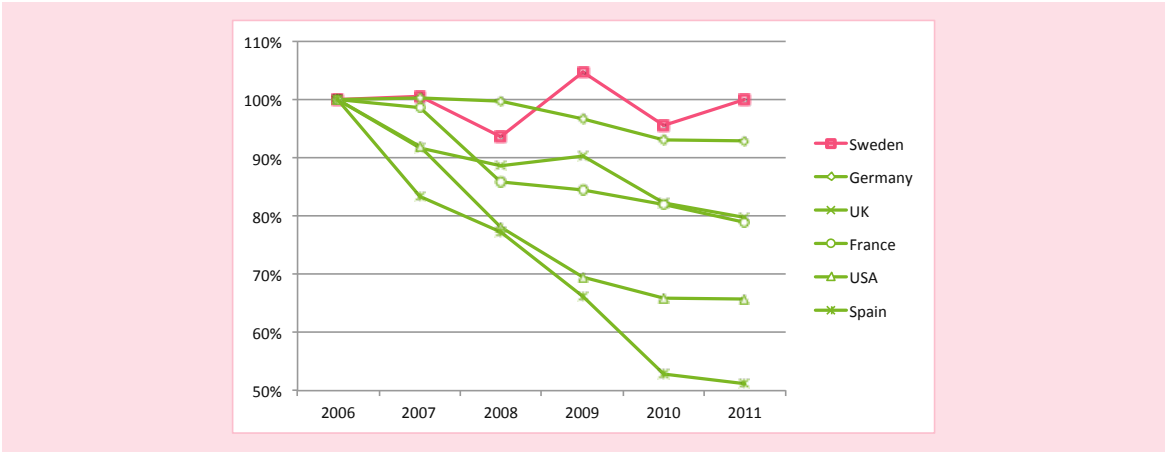

Figure 2. Development of individual country music industry revenues 2006-2011, selected countries, base 100. Source: IFPI, 2012b.

Sweden is the only major market that has been able to keep total music revenues (including physical, digital and other sources) on an overall stable level since 2006, with some major record labels even reporting record quarters in the beginning of 2012 (Tengblad). In contrast, revenues in other countries declined, in some cases drastically; since 2006, the Spanish market decreased by 49 percent (France -21%, UK -20%, Germany -7%). Even the US market – one of the most important markets worldwide – lost an astonishing 34 percent in revenues.

"The record industry is dead, it's six feet underground, and unfortunately, the fans have done this."
(Gene Simmons, KISS)

This leads to the question of what distinguishes Sweden from other major music markets, and how the Swedish music industry was able to more or less fight the general trend of declining revenues.

The answer to that question is as simple as it is complex; Sweden was able to successfully innovate its BM. While in other markets digital revenues still account for a minority of revenues (e.g. Germany 15%, France 19%, Spain 24% or UK 32 % (IFPI, 2012b)), digital sales make up more than half of the total revenue in Sweden (IFPI, 2012c). And even though some

[4] Note: The terms "Swedish music industry" and "Swedish music market" are used interchangeably in this thesis. This is due to the fact that while many data sources use the term "market" to describe a classic buyer (consumers) and seller (labels) relationship to describe specific developments (e.g. revenue and sales developments), the authors apply a more generic and broad view, including a vast variety of actors in their analysis (e.g. copyrights organizations, artists, middlemen, producers, legislation and others).

other markets, like the US (51%), report similar numbers in digital shares, Sweden is still unique. In other countries the BM that is in place today can best be described as a modified version of the traditional model that has been in place for centuries; i.e. consumers acquiring music physically or digitally, resulting in actual possession or ownership.

In Sweden, on the other hand, the traditional model was overthrown with the introduction of Spotify in 2008, causing Forbes (2012a) to name the company's founder and CEO, Daniel Ek, "the most important man in music". The reason for this can be seen in Figure 3 below.

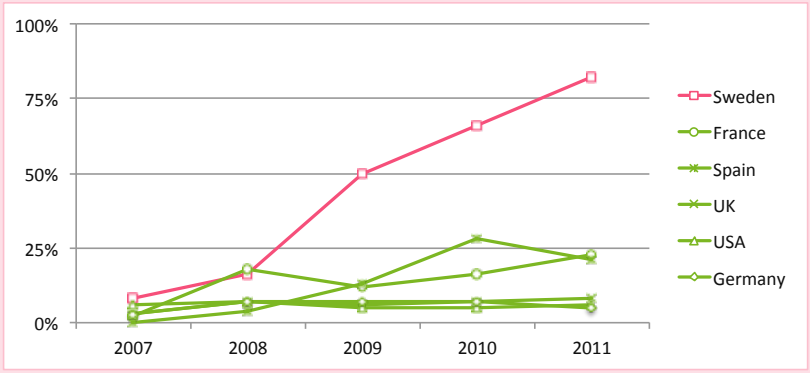

Figure 3. Share of music subscriptions within digital revenues 2007-2011, selected countries. Source: IFPI, 2012b.

The share of music subscriptions within digital music revenues in Sweden exploded in 2008, arriving at 82 percent in Sweden in 2011. This is around four times higher than in France (23%) and Spain (21%) and more than 10 times as high as in Germany (5%), UK (6%) or the US (8%), in which the traditional BM dominated by digital downloading is still prevailing.

Thus it can be stated that Sweden, as opposed to other major markets for music, was able to innovate its BM into one that made use of recent circumstances and developments within only a couple of years. This innovation was kick-started by Spotify as the service introducing streaming as a feasible legal alternative towards illegal file sharing and piracy – in Sweden mainly fueled by the world-known BitTorrent[5] site The Pirate Bay. However, the whole industry – labels, rights organizations, music services, telecommunication providers, etc. – participated in this innovation and as a result made Sweden one of the most successful markets for digital music worldwide. An exemplified evolution of the Swedish music market can be seen in Figure 4 on the next page.

[5] BitTorrent is a P2P file sharing protocol heavily used for piracy and illegal file sharing of music.

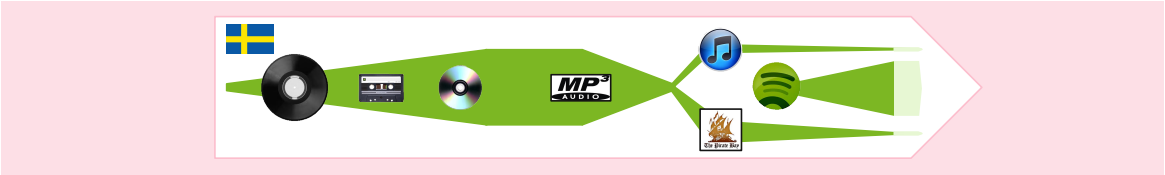

Figure 4. Exemplified evolution of the music industry in Sweden. Bar thickness equals importance of medium over time. Source: Authors' work.

The Swedish market underwent an evolution from classic musical media like LPs and music cassettes over CDs to MP3s. At this point the difference between the markets comes into play. In Sweden, with the introduction of digital music files, piracy became a major part of the consumption and legal services like iTunes were of nearly no importance. Following that, however, the industry was able to convert a significant part of pirates into regular customers through the introduction of Spotify, which in most other markets was not the case as can be seen in Figure 5.

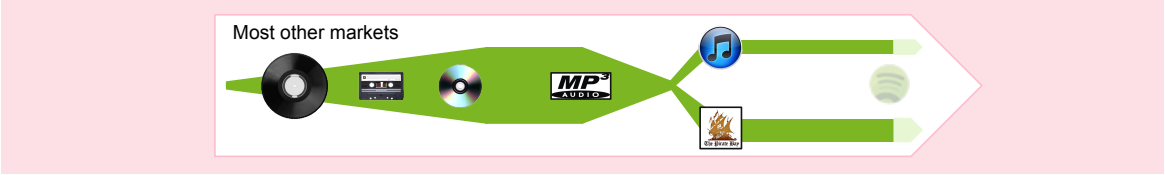

Figure 5. Exemplified evolution of the music industry in most markets. Bar thickness equals importance of medium over time. Source: Authors' work.

Having observed the market's unique success the question that evolves is how Sweden was able to undergo this transformation and implement such successful innovation of the established BM. Neither academic nor practice-oriented literature provides detailed analyses and theoretical frameworks explaining such a development, despite extensively growing interest and acknowledged importance of the concepts of BM and BMI. This represents a clear gap in research as identified by the authors. Thus, this thesis aims to answer just this question and in that way contributes to closing the gap.

By examining in-depth the case of the Swedish music industry the authors draw conclusions and recommendations on successful industry-wide BMI. The derived research questions guiding the analysis are

1. How was the Swedish music industry transformed?
2. Can the learnings be transferred to other markets for music?

1.2 Research Background

In recent years – mainly following the burst of the DotCom bubble around the year 2000 – research on the topic of BMs has dramatically increased with a vast number of academic articles and professional papers being published every year (Zott et al., 2011). This is due to increasing theoretical and practical interest in, first of all, how companies generally operate, create and capture value. Additionally, new interest has been focused on the question of how firms over time can adapt their existing BMs if facing challenges such as changed market environments, threats from within and outside the firm and changing consumer demands – in other words how to innovate the ways they do business and how to adapt a BM over time. However, research on BMs is still far from complete and the authors of this thesis identify two main problem areas.

1.3 Problem Area and Purpose

First of all, the main body of literature mainly focuses on the concept of BMs itself, trying to explain what constitutes a BM, which factors affect a BM and which BM is suitable for which environment and industry (cf. Onetti et al., 2010; Morris et al., 2005; Al-Debei & Avison, 2010). Many of the reviewed articles, for instance, mainly focus on establishing a definition of what a BM is as opposed to giving explicit managerial guidance and looking at how to actually use BMs (cf. Burkhart et al., 2011). And even if such guidance can be found in some cases, it is mostly rather generic and broad. Moreover, authors trying to employ a more practical view and aiming for applicable implications mostly base their research on theoretical findings instead of real life cases (cf. Johnson et al., 2008). This results in academics and practitioners trying to implicitly draw conclusions on BMs in general and their innovation in particular.

Additionally, most studies and research papers apply a firm-centric focus in their analyses. Some authors acknowledge that BMs can span from a single firm over networks to whole industries (cf. Mason & Spring, 2011) and even explicitly mention industries in their analyses (cf. Giesen et al., 2010). However, almost all contemporary literature dealing with BMs and BMI uses the focal firm as a base of analysis and only a handful of literature explicitly takes on an industry view; even if they do so, analysis and implications are still rather theoretical and abstract and do not provide in-depth insights on industry-wide BMI.

As a result, the problem area that this thesis addresses is the current gap in relevant academic and practice-oriented research on industry-wide BMI, and the lack of in-depth

analysis on how to successfully implement such an innovation. Thus, the purpose of this thesis is to provide such in-depth analysis by investigating the case of a successful industry-wide BMI and subsequently drawing conclusions and recommendations from it. The case of choice, as stated before, is the Swedish music industry.

1.4 Contributions to the Marketing World

This thesis contributes both to the academic and the managerial world. The academic contribution lies in the closure of the aforementioned gap in research on industry-wide BMI by transferring existing knowledge from company BMI to industry BMI. The authors further provide a framework that can be used by managers to analyze BMs on an industry level and help identify key success factors within different areas of interest. Also, a deeper understanding of how industries transform is provided.

The authors further contribute practically by providing an in-depth analysis of a successful BMI and through that give insights to managers on how to actively drive forward and transform industries in general. Furthermore, the analysis framework and derived key success factors serve as a strategic foundation for Swedish managers as the thesis provides data and information about the uniqueness of the Swedish market. Finally, the authors provide knowledge on how to deal with consumers' increasing power and show the importance of networks, and by that how to secure businesses' revenues.

Summing up, this thesis contributes in several ways to the fields of marketing, strategy as well as international business to equal extents.

1.5 Delimitations

Studying the issue of industry-wide BMI, the authors intend to understand how entire industries change their business model over time. Due to time and resource constraints, the authors delimit the scope of this study to the music industry. Furthermore, to understand BMI within the music industry, one in-depth case rather than many broad cases was chosen: the Swedish music industry. By analyzing this case, the authors intend to provide a normative study that identifies best practices that could eventually be transferred to other markets within the same industry; explicit knowledge transfer to other industries is not the aim of this thesis, as market characteristics differ greatly among industries. Finally, the analysis focuses strictly on industry-wide rather than company-specific implications.

1.6 Thesis Outline

The first chapter of the thesis introduced the topic, provided an overview of the Swedish music industry and linked the case to the gap in understanding of industry-wide business model innovation.

Chapter two investigates existing theory on BM and BMI from several points of view, followed by the resulting problem area and research questions.

Chapter three describes the methodological approach for this study for examining the Swedish music industry and its business model innovation.

The fourth chapter shows the information and data gathered by the authors through primary as well as secondary research and is followed by chapter five, in which analyses of these findings and answers the posed research questions are provided.

Chapter six concludes the thesis in how the Swedish music industry was transformed and whether the findings can be transferred to other markets for music.

In the last chapter, managerial implications based on the developments in the Swedish music industry and areas for future research are discussed. Figure 6 below summarizes the thesis outline:

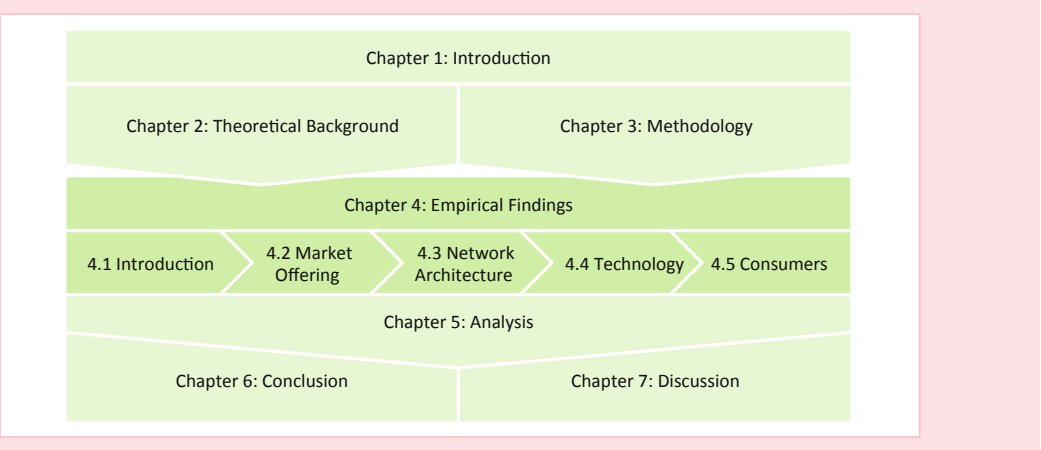

Figure 6. Thesis outline.

2 LITERATURE REVIEW

This chapter gives an overview of the theoretical examination of BM and BMI, and by that shows the reader reasons for why BMs and their innovation over time are relevant areas for study. The authors provide an overview of how and why both concepts have emerged, and which research streams have been prevalent. Finally, the problem area and resulting research questions are presented.

2.1 Relevance of Business Model (Innovation)

BMs as well as their innovation gained increasing attention from both academics and practitioners during the last decade, which can be seen when looking at academic articles published on the topic BMs as shown in Figure 7 below.

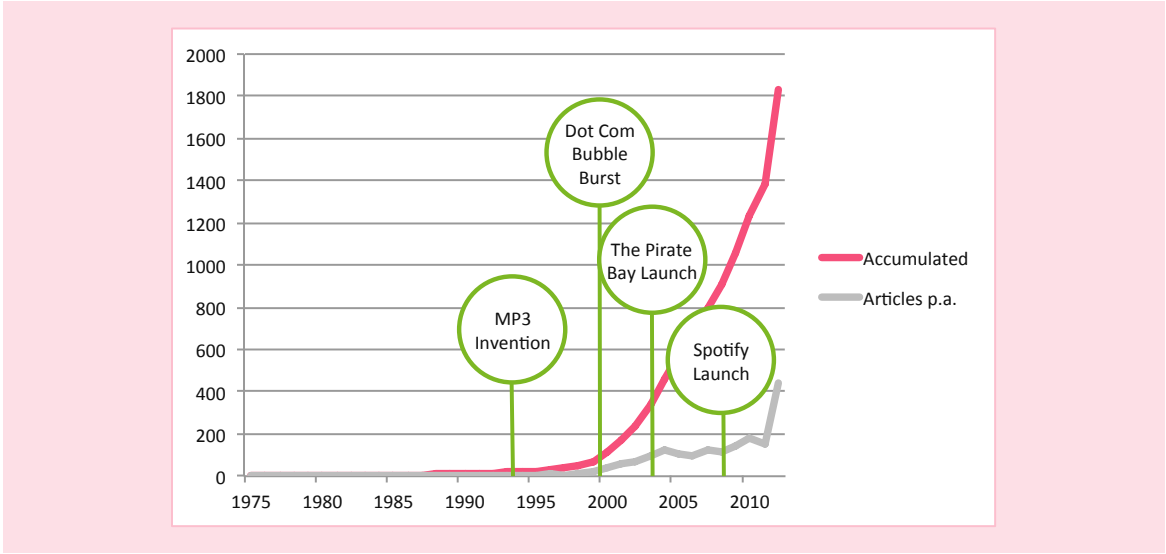

Figure 7. Peer-reviewed academic articles on business models and important events in the Swedish music industry over time. Source: Business Source Complete, EBSCOhost database, search term "Business Model", Jan. 1975-Nov. 2012.

Research increased in the beginning of the 1990s and took off around the year 2000 which will be elaborated on in more detail in the following chapter. However, besides a general interest in the concept, the authors believe that business model innovation constitutes an appropriate tool and framework for the analysis done in this thesis. As Chesbrough (2007, p. 12) puts it, "*a better business model often will beat a better idea or technology*". This illustrates the importance of the concept and is in line with Amit and Zott's (2010) argumentation that an innovative BM can create a new market or allow the firm to create and exploit new opportunities in existing markets – as it is the case for the Swedish music industry. There, a BMI reshaped an entire market and saved an industry whose BM – only some years ago – was said to be devastated by the emergence of the Internet (Teece, 2010). Thus, in order to

sufficiently understand both concepts of BM as well as BMI, the authors did extensive research on business models and their innovation, presented in the following sections.

2.2 Business Models

This section examines in-depth the concept of BMs, their emergence, prevalent research streams and different definitions. This ultimately leads to a definition that the authors deem suitable for the purpose of this thesis.

2.2.1 Emergence of the Business Model Concept

BM research is a rather young field of academic studies. Even though the concept of BMs can already be found as early as the 1950s (Bellman et al., 1957), real academic interest and research did not take off until the end of the 1990s (Burkhart et al., 2011). With the emergence of countless e-business start-ups during that time, the BM concept was *"explicitly catapulted into public consciousness"* (Teece, 2010, p. 174). This was due to the growth of the Internet, which raised fundamental questions about how businesses – old and new – should deliver value to the customer and how they could ultimately capture value themselves. In the course of entering a new digital economy, the competitive landscape had radically changed with small startups becoming able to compete with well-established companies, which forced many companies to face new challenges (Burkhart et al., 2011). Additionally, as Teece (2010) states, firms increasingly were confronted with the challenge of delivering services that users often expected to receive without paying, e.g. listening to music.

Thus, the BM notion was often evoked to explain how different types of e-businesses would actually be able to make money, and it was of utmost importance to clarify the underlying business concept in order to be able to raise investment capital (Mason & Spring, 2011).

As a result the term "Business Model" emerged and was widely used in business talk and particularly rather practice-oriented journals (Morris et al., 2005; Burkhart et al., 2011). However, the scope of interest shifted with the burst of the dot-com bubble around the year 2000. The success of the New Economy was put into question and researchers began to study why many of the new companies failed while others were able to remain successful. As a result, academic journals picked up the topic and scholars began researching the concept in a more theoretical manner (Burkhart et al., 2011; al-Debei & Avison, 2010).

Ever since the emergence of the BM concept, a variety of research streams prevailed. This leads Burkhart et al. (2011), for example, to conclude that general knowledge on BMs is

rather fragmented. According to Pateli and Giaglis (2003), this problem stems from scholars with different academic backgrounds who examine the phenomenon. As a result, researchers use different approaches to explain the concept and come to different conclusions (see Figure 8). Some researchers, for example, perceive the BM purely as a business concept that explains the logic of making business for a firm. Others consider it as a link between strategy, business processes, and information systems (Pateli & Giaglis, 2003).

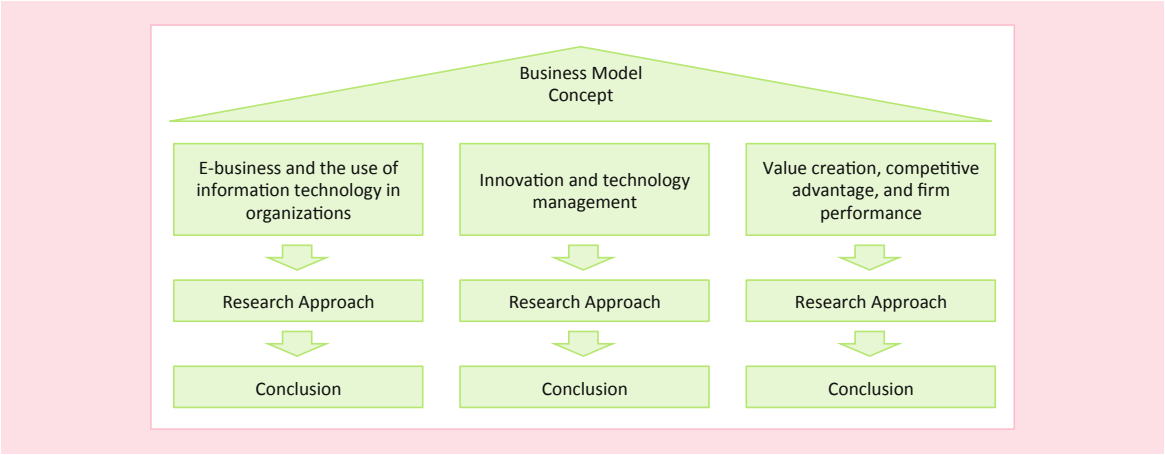

Figure 8. Main phenomena addressed by business models. Source: Based on Zott et al. (2011).

The underlying reason for this lies in the historical background and development of the BM concept itself as described earlier. Onetti et al. (2010) identify two main strands of literature. The former one emerged in the mid 1990s and generally focuses on e-business contexts due to the origins of the concept within the Digital Economy. The latter one appears to have emerged only in recent years; it is rather generic and assumes a more comprehensive approach aiming to identify business tools, which are not necessarily restricted to high-tech companies only. This stream originates from areas such as general strategic management. As a result, some researchers try to specify a BM's primary elements while others have proceeded further to introduce methodologies for developing, changing, or assessing BMs (Pateli & Giaglis, 2003). The outcome of this heterogeneity is that as of today no real consensus exists regarding the nature, structure, and especially the evolution of BMs (Morris et al., 2005), with the latter one being addressed later in this thesis. Another important issue in BM research regards the definition of the BM itself. Despite the growing importance of the concept, there is an absence of a generally accepted definition of what a BM actually is and what the term stands for (Burkhart et al., 2011; Al-Debei & Avison, 2010). Zott et al. (2010), for example, found that the BM phenomenon is often studied without an explicit definition of the concept at all.

To conclude, there currently exist a variety of possible interpretations of the concept, which not necessarily overlap (Zott et al., 2011). This, according to Morris et al. (2005, p. 726) *"poses substantive challenges for delimiting the nature and components of a model and determining what constitutes a good model. It also leads to confusion in terminology, as business model [and, for example,] strategy […] are often used interchangeably*".

2.2.2 What is a Business Model

According to Zott et al. (2011), scholars have used the term "Business Model" to explain a variety of exclusive phenomena. This leads to a diversity of definitions that are difficult to merge, and as a result overall progress to find one unified BM definition is hindered. Many scholars have tried to overcome that obstacle by using different themes (Burkhart et al., 2011), and the authors of this study have identified three such themes: i) Focus on creation and capture of value, ii) Popularity among scholars, and iii) Inclusion of abstract elements.

Business models and value – The first theme focuses on the creation and capture of value. Teece (2010, p. 172) states *"[…] the essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit"*. This is in line with a variety of other authors, e.g. Baden-Fuller and Morgan (2010), who see a BM as a set of generic level descriptors of how a firm organizes itself to create and distribute value – and how to do so in a profitable manner.

Business models and popularity – Another factor to distinguish between different definitions is simply their popularity among scholars researching the topic. Burkhart et al. (2011) state that a definition given by Timmers (1998, p. 2) is one of the most cited ones. He defines a BM as *"[…] an architecture of the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues"*. Another author that is regularly quoted among relevant literature is Magretta (2002) who states that a good BM ultimately needs to answer the questions *Who is the customer? What does the customer value? How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?*

Business models and abstract components – In contrast to these rather concrete definitions there are others that evolve around abstract components of BMs. Osterwalder et al. (2005, p. 17) follow a semantic approach by analyzing both parts of the term "Business Model" and

see it as a *"[…] conceptual tool that contains a set of elements and their relationships [that] allows expressing the business logic of a specific firm […]".*

While the above-mentioned conceptualization mostly stem from own research, a handful of authors use literature reviews to give meaning to the abstract concept. These include, for example, Burkhart et al. (2011, p. 15) who provide a cross-disciplinary and up-to-date overview on literature, and propose a BM to describe "*[…] the business logic of [a] […] company by a combination of interdependent offering, market, internal as well as economical business model components in a static and dynamic way beyond the company's borders. Furthermore, it is not limited to a certain type of business or industry and is thus generally applicable and intended for internal as well as external addressees.*"

Here it can already be seen that the focus of definitions and conceptualizations is mainly on a focal firm instead of a rather industry-spanning approach. However, in some cases factors outside the firms' borders are taken into consideration. This is illustrated in the following overview (see Table 1 below) of different business model definitions, which already shows that the related concept of BMI is mentioned by some of the authors.

Authors	View on Business Models and Business Model Innovation	Main Focus
Al-Debei & Avison (2010)	A BM is an abstract representation of an organization, be it conceptual, textual, and/or graphical, of all core interrelated architectural, co-operational, and financial arrangements designed and developed by an organization presently and in the future, as well as all core products and/or services the organization offers, or will offer, based on these arrangements that are needed to achieve its strategic goals and objectives.	**Firm**
Amit & Zott (2010)	A BM is the bundle of specific activities that are conducted to satisfy the perceived needs of the market, incl. the specification of the parties that conduct these activities, and how these activities are linked to each other. The BM is also a source of innovation.	**Firm**
Baden-Fuller & Morgan (2010)	One role of BMs is to provide a set of generic level descriptors of how a firm organizes itself to create and distribute value in a profitable manner.	**Firm**
Burkhart et al. (2011)	The BM concept is linked but still distinct to the concept of business strategy. It describes the business logic of an underlying company by a combination of interdependent offering, market, internal as well as economical BM components in a static and dynamic way beyond the company's borders. Furthermore, it is not limited to a certain type of business or industry and is thus generally applicable and intended for internal as well as external addressees.	**Firm**
Casadesus-Masanell & Ricart (2010)	BM refers to the logic of the firm, the way it operates and how it creates value for its stakeholders.	**Firm**
Chesbrough (2007)	There are six functions of a BM: 1. Articulate the value proposition, 2. Identify a market segment, 3. Define the structure of the value chain required by the firm to create and distribute the offering, 4. Specify the revenue generation mechanism(s) for the firm, 5. Describe the position of the firm within the value network, and 6. Formulate the competitive strategy by which the firm will gain and hold advantage over rivals. Innovation within a company must also include the BM, not only the product/service.	**Firm**
Chesbrough (2010)	A mediocre technology pursued within a great BM may be more valuable than a great technology exploited via a mediocre BM.	**Firm**
Giesen et al. (2010)	There are four key elements of a BM: 1. What value is delivered to customers, 2. How the value is delivered, 3. How revenue is generated, and 4. How the company positions itself in the industry. Today organizations have to rethink and revisit their BM more frequently than ever.	**Firm**
Hedman & Kalling (2003)	A BM consists of related components, namely customers, competitors, offering, activities and organization, resources, and supply of factor and production inputs	**Firm**
Johnson & Suskewicz (2009)	A BM constitutes of four main elements: 1. Customer Value Proposition, 2. Profit Formula, 3. Key Resources, and 4. Key Processes.	**Industry**

Johnson et al. (2008)	A BM constitutes of four main elements: 1. Customer Value Proposition, 2. Profit Formula, 3. Key Resources and 4. Key Processes.	**Industry is touched upon**
Kim & Mauborgne (2004)	Markets can be divided into *Red Oceans*, representing industries in existence today/the known market space, and *Blue Oceans*, representing industries not in existence today/ the unknown market space, untainted by competition. Companies can give rise to completely new industries or create a Blue Ocean from within a Red Ocean when the company alters the boundaries of an existing industry.	**Industry**
Magretta (2002)	BMs are stories that explain how enterprises work. A good BM answers the questions: Who is the customer? And what does the customer value? How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?	**Firm**
Mahadevan (2000)	A BM is a unique blend of three streams that are critical to the business: 1. The value stream for the business partners and the buyers, 2. The revenue stream, and 3. The logistical stream.	**Firm**
Mason & Spring (2011)	A BM consists of three main elements: 1. Technology, 2. Market Offering, and 3. Network Architecture.	**Mention firm, network, industry and market**
McGrath (2010)	Only two core components constitute a BM: 1. the basic unit of business (what customers pay for) and 2. key metrics of process or operational advantages for delivering superior performance	**Firm**
Morris et al. (2005)	A BM is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.	**Firm**
Onetti et al. (2010)	A BM defines the way a company structures its own activities in determining the focus (the activities which provide the basis of the firm's value proposition), locus (the location or locations across which the firms resources and/or value adding activities are spread) and modus (the modus operandi or business modes with regards to the internal organization and the network design) of its business.	**Firm**
Osterwalder et al. (2005)	A BM is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm.	**Firm**
Santos et al. (2009)	- A BM is a configuration of activities and of the organizational units that perform those activities both within and outside the firm designed to create value in the production (and delivery) of a specific product/market set. - BMI is a reconfiguration of activities in the existing BM of a firm that is new to the product/service market in which the firm competes.	**Firm**
Teece (2010)	The essence of a BM is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit	**Firm**
Wirtz et al. (2010)	To remain competitive, firms must continuously develop and adapt their BMs.	**Firm**
Zott et al. (2011)	BMs as a (new) subject of innovation, which complements the traditional subjects of process, product, and organizational innovation and involves new forms of cooperation and collaboration.	**Firm**

Table 1. Overview of relevant literature on business model (innovation).

As a general conclusion of this section it can be stated that there exists no clear and universally accepted definition of what a BM is and what it consists of. Thus, authors often adopt own definitions that fit the purposes of their studies (Zott et al., 2011). This approach is followed in this thesis as well.

2.2.3 Business Model Definition Used for this Thesis

For the purpose of this thesis the BM definition by Mason and Spring (2011) has been chosen for four specific reasons. First, it is one of the first academic attempts to analyze BMs and their core elements on an industry level. Second, in their research, they use the recorded music industry as a broad example to verify the framework. Third, it is a contemporary definition, which has taken previous scholarly work into account. And fourth, by focusing

on three key elements it is easily comprehensible. According to the definition, a BM consists of three core elements:

1. **Market Offering:** *Artifacts, Access, Activities, Value.*
   What is actually offered to the customer and how
2. **Network Architecture:** *Market & Standards, Capabilities, Transactions, Relationships.*
   The configuration of buyers and suppliers that make the market offering possible
3. **Technology:** *Product, Core, Process, Infrastructure.*
   The technologies that make up the product/service offering, its delivery and management

These elements can be seen in the following overview (Figure 9).

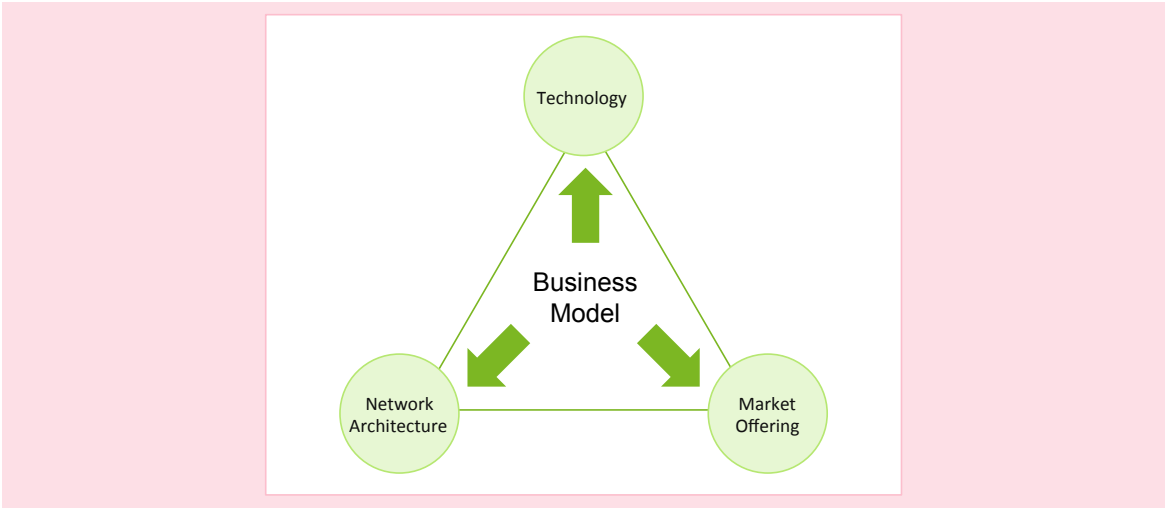

Figure 9. Business model elements. Source: Mason & Spring (2011).

2.3 Business Model Innovation

This section examines the development and innovation of BMs over time following a similar structure as the previous section. First, an overview of academic and practice-focused research is provided, leading, in a next step, to answer the question of what BMI actually is. Finally, the authors examine existing theory on when and how to undergo BMI.

2.3.1 Emergence of the Business Model Innovation Concept

Industry drivers such as globalization, deregulation and technological change are continuously changing the competitive landscape. Giesen et al. (2007) mention that in today's fast-changing business environment, CEOs face both opportunities and threats from various directions. Wirtz et al. (2010), for example, argue that Web 2.0 trends and

characteristics are changing the rules of how to create and capture value, and thus significantly disrupt the effectiveness of established businesses and business models.

In this new setting business leaders are forced to react in order to remain competitive. According to Amit and Zott (2010), incremental improvements processes and products are often expensive and time-consuming. Additionally, future returns on these investments are almost always uncertain. Therefore, they wonder if there might be a way for companies to remain competitive by innovating in their existing markets with their existing products, by utilizing their existing resources and capabilities. As a solution they suggest designing a new, or modifying the firm's extant activity system. This is what they refer to as "Business Model Innovation".

2.3.2 What is Business Model Innovation

Santos et al. (2009, p. 3) define the term BMI as *"[…] companies finding a performance advantage by altering their existing business models"*. Thus, the term basically describes the adjustment of a BM over time due to challenges from within or outside the existing system. The concept has generally been used by a vast number of researchers and practitioners alike. According to Casadesus-Masanell and Ricart (2010), both groups agree that the fastest growing firms appear to be those that have taken advantage of structural changes to innovate their BMs. Thus, there has been virtual consensus that BMI is a valid approach for a firm to remain competitive. Chesbrough (2007) states that in today's competitive landscape innovation must explicitly include BMs, rather than just technology and R&D. Teece (2010) also claims that while technological innovation is a natural and desirable progress, the creation of new BMs is of equal if not greater importance. This is in line with Wirtz et al. (2010, p. 272) who state that in order *"[…] to remain competitive, firms must continuously develop and adapt their business models"*. Zott et al. (2011) also see BMs as a (new) subject of innovation, which complements the traditional subjects with new forms of cooperation and collaboration. They ultimately see BMI as key to firm performance.

Thus, it can be stated that in addition to adopting BMs to facilitate technological innovation and the management of technology, firms can view the BM itself as a subject of innovation (Mitchell & Coles, 2003). Therefore, a shift towards BMI and the recognition of the concept's importance can be observed.

2.3.3 When to Innovate the Business Model

Building on the definition and importance of the concept, a question that naturally arises is when a new BM is needed and thus when a firm should consider BMI. Besides the aforementioned broad notion of 'in times of challenges faced', Johnson et al. (2008, p. 57) provide a guideline by stating that a firm regularly faces times when creating new growth requires venturing into both unknown market and BM territory, namely *"[…] when significant changes are needed to all […] elements of your existing model."* Using this as a base, they develop five strategic circumstances that often require BM change (see figure 10 below).

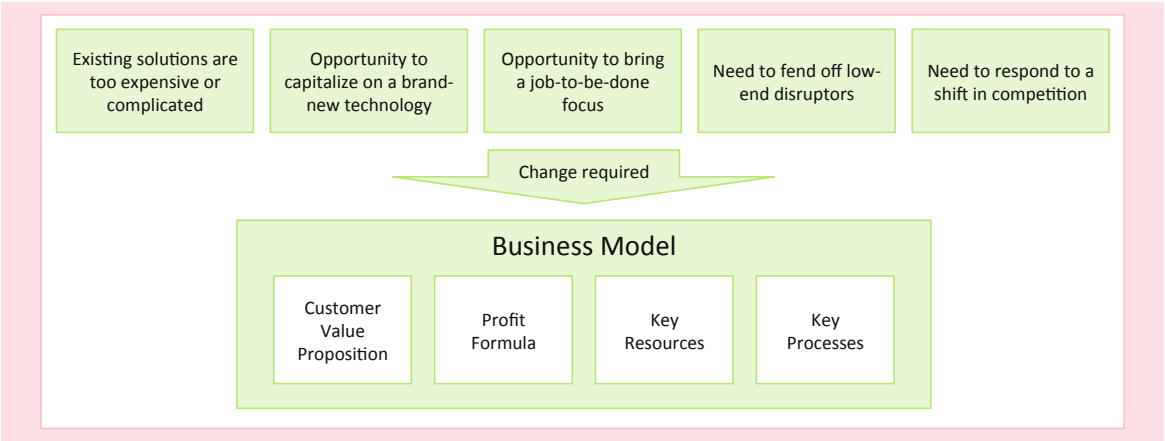

Figure 10. Strategic circumstances requiring business model change. Source: Based on Johnson et al. (2008).

Amit and Zott (2010), however, mention that BMI could be appropriate when it connects previously unconnected parties, links transaction participants in new ways, or introduces new transaction mechanisms. Wirtz et al. (2010) even go as far as stating the inability to adapt when confronted with environmental change has proved deadly for many firms.

Nevertheless, established companies should not implement new BMs without thorough research (Johnson et al. 2008). Chesbrough (2010), for instance, states that the search for a new BM might result in co-existence between current and new models at one point in time. Therefore, knowing when to shift the firm's resources towards the new model is a balancing act and thus, designing new BMs is in fact closer to arts than to science (Casadesus-Masanell & Ricart, 2010). It is essential to understand that every organization needs to review carefully whether the time is right to revisit its BM (Giesen et al., 2010).

2.3.4 How to Innovate the Business Model

The final question that arises is how a BMI can be implemented. Giesen et al. (2010) introduce three characteristics that are critical to the successful design and execution of business model innovation – the "Three A's" (see Figure 11 below).

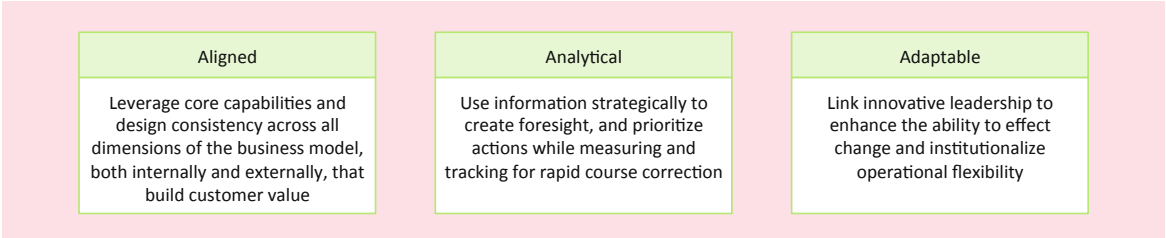

Figure 11. The Three A's of successful business model innovation. Source: Based on Giesen et al. (2010).

While these factors provide a guideline of "how to innovate", Mitchell and Coles (2003) focus on "what to innovate" by proposing that BMI involves modifications in the *"who", "what", "when", "why", "where", "how", or "how much"* involved in providing products and services to customers. Amit and Zott (2010) suggest a focus on the activity system as the unit of analysis for BMI and as a result derive content, structure, and governance as important design elements that characterize such an activity system. In contrast to these rather abstract approaches Giesen et al. (2007) provide a concrete and practice-oriented framework for understanding BMI and identify three main types of strategies of how to innovate BMs. The three different strategies are *"Industry Model Innovation", "Revenue Model Innovation"* and *"Enterprise Model Innovation"* (see Figure 12 below).

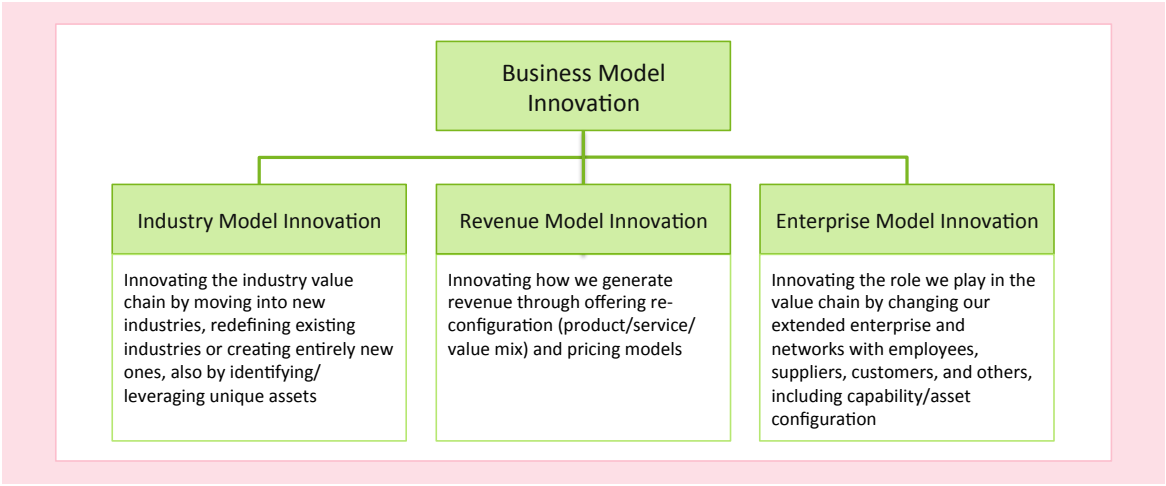

Figure 12. Business model innovation strategies. Source: Giesen et al. (2007).

Using this framework, they conclude that all three types (or combinations) of BMI can lead to successful results.

In conclusion, BMI is a strategy many contemporary practitioners and researchers find valuable in today's ever-changing business environment. And while the approach of how to execute innovation might differ from author to author, there is an increasing consensus that BMI is key to firm performance (Zott et al., 2011).

2.4 Firm-Focus vs. Industry-Focus

Building on theory on both BM and BMI presented so far, it is evident that most literature focuses on the firm level. As a result, the BM's multi-level implications can become lost (Mason & Spring, 2011). This general firm-focus, as well as exceptions, will be elaborated on in the following paragraphs.

2.4.1 Firm-Focus of Business Models

The prevailing firm-focus within BM research becomes obvious when looking at definitions of the concept again. Casadesus-Mansell and Ricart (2010), for instance, state that a BM is a reflection of the *firm's* realized strategy. The same is true for Baden-Fuller and Morgan (2010), who see the role of the BM in providing a set of descriptors of how a *firm* organizes itself to create and distribute value, and Magretta (2002), who sees BMs as stories that explain how *enterprises* work. Onetti et al. (2010) also apply a firm-centered view and state that a BM describes the way a *company* structures its own activities. This firm-centered approach can be observed for a majority of current BM literature[6]. Zott et al. (2011) confirm this and identify the BM as a *firm*-centric activity system.

2.4.2 Firm-Focus of Business Model Innovation

The firm-focus is also apparent in BMI research. Wirtz et al. (2010), for example, maintain an organization focus and state that, in order to remain competitive, *firms* must continuously develop and adapt their BMs as opposed to take into consideration that industries probably face the same challenges. And while Amit and Zott (2010) state that BMI relies on recombining the existing resources of a firm and its partners, the main level of activity is still the *firm*. Some authors, however, take into account that BMI could in fact be applied to a whole industry. Nevertheless, they are mostly content to simply stating that possibility

[6] Refer back to Table 1 in section 2.2.2 for an overview oft he focuses of contemporary BM and BMI literature.

without further analyzing the reasons, implications and the potential use of the phenomenon. Teece (2010, p. 187), for example, states *"[…] sometimes the creation of new business models leads to the creation of new industries"*.

2.4.3 Exceptions among Literature

An exception are, for instance, Johnson et al. (2008, p. 57) who conclude their research stating that *"[…] there's really no point in instituting a new business model unless it's not only new to the company but in some way new or game-changing to the industry or market. To do otherwise would be a waste of time and money."* Other authors that could be mentioned as an exception are Johnson and Suskewicz (2009) who have recently explicitly referred to the BM concept at the level of an entire industry. They argue that when confronted with large infrastructural change the key to success is to shift the focus to creating whole new systems instead of just looking at developing individual technologies. Therefore, they introduce the BM as part of a framework for thinking about systematic change consisting of four interdependent and mutually reinforcing components: an *enabling technology, an innovative BM, a careful market-adoption strategy,* and *a favorable government policy*. Other well-known exceptions are Kim and Mauborgne (2004) with their 'Blue Ocean Strategy'. While this concept not explicitly talks about BMs or BMI, it can still implicitly be associated to both concepts and employs a rather industry-focused view. The authors come to the conclusion that the business universe consists of 'Red Oceans' and 'Blue Oceans'; Red oceans represent all the industries in existence today (the known market space). Blue oceans denote all the industries not in existence today (the unknown market space), which are still untainted by competition and where demand is created rather than fought over (see Figure 13 below for an overview).

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost.

Figure 13. The imperatives for Red Ocean and Blue Ocean strategies. Source: Kim and Mauborgne (2004).

The link to the concept of BMI becomes obvious: in order to enter or create blue oceans, companies need to innovate existing ways of doing business and thus transform their current BMs. There are generally two ways to create such blue oceans, namely either giving rise to completely new industries or creating a blue ocean from within a red ocean when a company alters the boundaries of an existing industry.

Concluding, most business model (innovation) literature is mainly concerned with a focal firm and strictly applies an intra-firm point of view (Zott et al. 2010). The few authors that take into account a more broad and industry-wide view mainly state the possibility that the concepts of BMs and/or BMI could be applied to whole industries as well without further going into detail.

Authors that recently pointed towards this limitation in contemporary BM and/or BMI literature are Mason and Spring (2010, p. 1033) who state that "*[a]n important limitation of the […] literature is that it only creates a description of the firm at a single point in time and in so doing, fails to take account of the influence of the business network on the business model and vice versa. Taking a network perspective on business models and their creation and practice suggests that the business models of networked firms must in some way be overlapping or complementary.*" This implies that maintaining a more open mind about the BM concept and the relevant level of analysis (e.g. firm, network, industry) is beneficial. They further state that knowledge about the way BMs are created and evolve at multiple levels and forms in these embedded systems is rather limited. The same can be stated about guidance for managers on how to actually go about assessing the relevant aspects of environmental change, and those aspects' specific effects on the managers' own BMs (Wirtz et al., 2010).

2.5 Problem Definition and Research Questions

Based on the theoretical discussion on BMs and BMI outlined so far the authors, in the following paragraphs, present the problem area as well as resulting research questions, which will be answered in later sections of this thesis.

2.5.1 Problem Definition

The problem area of this thesis can be identified as a current gap in relevant academic and practice-oriented research on industry-wide BMI and a lack of in-depth analysis on how to successfully implement such an innovation. This is illustrated in the following overview (Figure 14) of relevant literature.

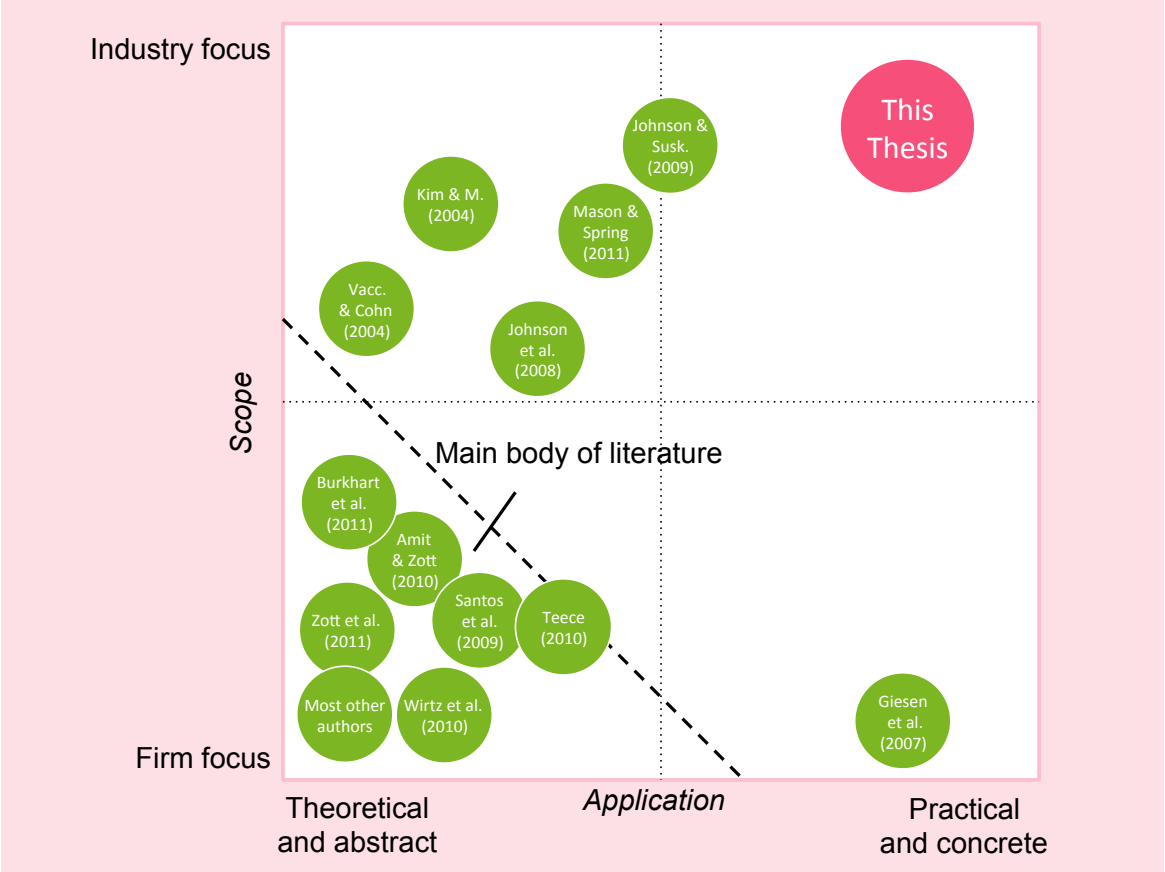

Figure 14. Overview business model (innovation) research. Source: Authors' work.

As can be seen, the main body of research applies a firm focus and is somewhat theoretical and abstract in the sense that it provides rather a simple overview of literature and only in some cases (and if so, rather generic and broad) examples of firms without actually providing in-depth analysis and managerial implications. On the other hand, two additional streams of research can be identified. First of all, authors such as Giesen et al. (2007) explicitly deliver practitioner-oriented research but still apply a rather firm-focused view. Authors such as Johnson et al. (2008) and Mason and Spring (2011) on the other hand leave the boundaries of the firm level behind, or at least acknowledge that a limited view might not be appropriate and take an industry-wide approach. At the same time, however, they typically provide limited managerial implications due to the scope of their research, which mostly is quite broad and do not take one concrete example or case of successful BMI into consideration.

2.5.2 Research Questions

As a result, the goal of this thesis is to provide above-mentioned in-depth analysis and gap closure by investigating the case of a successful industry-wide BMI and drawing

conclusions and recommendations from it. In order to do so, the authors first choose to use the recorded music industry as a focus of interest. This is due to the fact that this industry has undergone drastic changes in recent years – mainly triggered by the emergence of the Internet – and is being challenged to completely re-think its BM because the old model no longer works (Teece, 2010; Chesbrough, 2010). According to Vaccaro and Cohn (2004), the industry moved from a traditional BM to a new BM, as seen in the figure below (Figure 15).

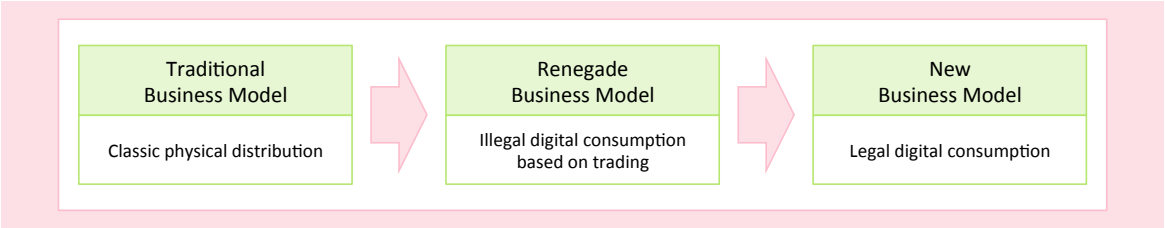

Figure 15. Overview music industry business model development. Source: Based on Vaccaro & Cohn (2004).

Thus, the music industry in general can be seen as a good example of industry-wide BMI. The authors further focus on the Swedish music industry in particular. The reason behind this is that the Swedish market for digital music can be seen as one of the most successful ones in terms of BM transformation (Tengblad, 2012; IFPI, 2010; IFPI, 2012) and thus provides a best practice example.

As a result of the above outlined problem area and best-practice approach two specific research questions emerge and will be addressed accordingly:

RQ1: The Success of the Swedish Music Market

- How was the Swedish music industry transformed?
  What are the key factors that enabled the Swedish recorded music industry to transform its business model and become one of the most successful markets for digital music?

After analyzing the factors that lead to the apparent success of the Swedish market for digital music the authors further address the question of transferability, e.g. is it possible to repeat this success in other markets for music. Therefore, the second research question addressed by the authors is:

RQ2: Transferability

- Can the learnings be transferred to other markets for music?
  Can other markets for music undergo a similar transformation with using the learnings from the Swedish market as a blueprint?

3 METHODOLOGY

This chapter summarizes the methodology used to fulfill the purpose of the study. A general description of the research strategy is first presented, followed by an elaboration of the executed case study research and an introduction of the employed analysis framework. Finally, the data foundation is presented before the chapter concludes with a discussion of the research limitations.

3.1 Research Strategy

Since the problem area of this study lies in the rather unexplored field of BMI with an industry-wide focus, there is no directly relevant literature available. While there is plenty of literature on business model (innovation) on company level, the transfer of this academic knowledge to an industry level has yet to be made. In order to establish this transfer, the authors follow an abductive logic by relating to both the theoretical foundation of BMI on a company level and the findings from the case study into a newly developed industry-wide analysis framework (Bryman & Bell, 2007). This abductive approach is close to induction – an iterative process of constantly going back and forth between theory and empirical findings (ibid).

A qualitative approach is chosen since it best fits the purpose of this study, namely answering "how" and "why" questions (Miles & Huberman, 1994). Holmes and Solvang (1997) also argue that a qualitative study enables researchers to gain deep knowledge and understanding of the study subject, rather than to analyze many subjects superficially. Furthermore, this thesis aims to investigate process descriptions, their understanding and their development over time. This approach contrasts quantitative research, which rather focuses on understanding phenomena at a given point of time. Also, qualitative research sees theory as the outcome of the collection and analysis of empirical data, as opposed to quantitative research with its number-driven imposition on existing theories (Bryman & Bell, 2007).

Although the authors had considered a quantitative set-up, this approach would have neglected the context and dynamics within the recorded music industry and its participants. Hence, a quantitative study would have been a rather static look onto the industry and the transformation it is going through. Instead, a qualitative research strategy was deemed the most suitable for this study, as it is *"[…] particularly helpful in the generation of an intensive, detailed examination"* (Bryman & Bell, 2007, p. 62). This kind of examination is necessary

because the study aims to get *"[…] a holistic overview of the context under study"* (Miles & Huberman, 1994, p. 6).

When looking at literature on qualitative research, two streams can be identified: "definite" and "sensitizing" approaches (Blumer, 1954; Coffey, 1996). Opposite to the definite stream, following a sensitizing approach implies that researchers start with a *broad* outline of their topic and *narrow* down research questions throughout the empirical data collection and analysis. Throughout the duration of the study, the authors made use of this iterative sensitizing approach. Hence, the initial research questions have constantly been revisited and refined when new findings occurred. Figure 16 summarizes the used research method.

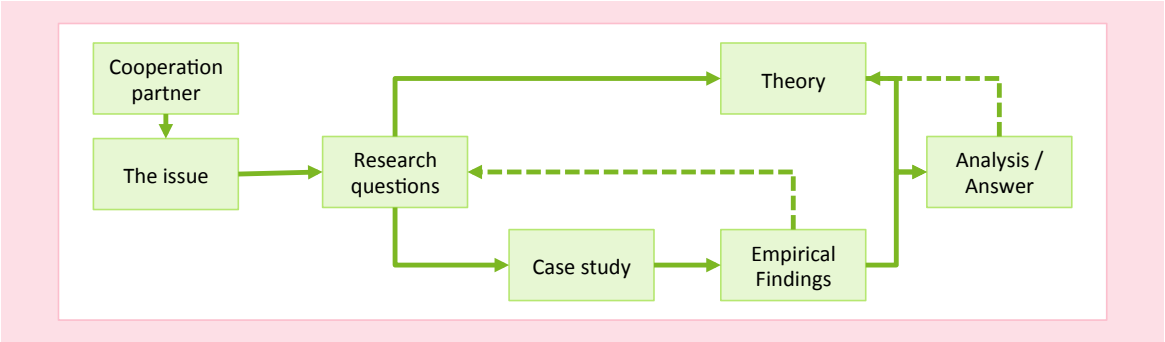

Figure 16. Overview research method. Source: Based on Bryman & Bell (2007).

3.2 Research Design

3.2.1 Unit of Analysis: Case Study

In order to understand BM transformations on an industry-wide level, a case study approach was chosen as the research design. Case studies are concerned with the complexity and particular nature of the case in question, which in the case of this thesis is the recorded music industry in Sweden (Stake, 1995). However, cases can also serve to identify the common (Stake, 2005), i.e. transferring the gained insights to the global music industry. Knights and McCabe (1997, cited in Bryman & Bell, 2007, p. 62) point out that case studies *"[…] provide a vehicle through which several qualitative methods can be combined, thereby avoiding too great reliance on one single approach"*. Having this in mind, a case study fits well to the purpose of this thesis and helps greatly to investigate industry BM transformation processes in-depth.

3.2.2 Case Study Selection

For the purpose of this thesis, the Swedish recorded music industry and its transformation during the last decade have been chosen as a case study subject. The case provides in-depth material for an appropriate analysis of how the entire industry has changed during the last decade.

Yin (1984, 2003) distinguished five general categories of case studies: the *critical, unique, revelatory, representative/typical,* and *longitudinal* case. The case of the Swedish recorded music industry has elements of a revelatory case since there is practically no research on industry-wide BM transformation as of today.

There are several reasons for why the Swedish music industry has been chosen as a case, namely i) fast progression in the BMI process, ii) relevance for other markets, iii) good documentation/access to interview resources, and iv) personal contacts, which were evaluated to be beneficial.

First, the Swedish recorded music industry is regarded as one of the most progressive markets in the world when it comes to generating revenues out of digital music (IFPI, 2011). Compared to other major music markets, digital music stands for a significantly higher share in revenues (IFPI, 2012b; Tengblad). Furthermore, Sweden is one of the only markets in the world where record companies were able to increase their revenues and profits during last years – despite an increase in worldwide piracy and falling CD sales (Tengblad). Also, the entire music distribution landscape looks highly different from other music markets. Finally, consumers in Sweden are regarded as comparatively open to new ways of listening to music, hence, the high transformation rates (Werner).

Second, the emergences of the Internet, globalization and other macro-economical factors have urged many industries to change. However, no other sector has been forced as much to review their BMs as the media sector. Within the media sector, the music industry has been hit the most in terms of declining revenues, for example, and is therefore the most pressed. While industry transformation in the music industry is already on its way, other media industries such as TV, cinema, gaming, etc. can still rely on traditional BMs. However, at some point even they will have to completely re-think how their industry can generate sustainable revenues – which again is only feasible through an industry-wide transformation (Vaccaro & Cohn, 2004).

Third, since music plays such a great part in human life, the music industry has always played an important part in the economy as an employer (Laing, 1996). With the changes during the 2000s, no other industry has been reported of in media as an object of studies and been researched in academics as has the music industry. Hence, there is a rich body in data on which this case can build on. Furthermore, the authors worked in co-operation with Universal Music Group (UMG) Sweden, which eased access to a range of opinion leaders within the industry. The thesis also serves as a basis for future projects within UMG.

3.2.3 Case Study Coding and Analysis Framework

In the analytical part, the authors follow a combination of inductive and deductive methods. First, all empirical data will be collected and guided by a framework introduced by Mason and Spring (2011), as introduced in section 2.2.3.

Initial talks within UMG and industry experts have revealed that the role of the customer is not brought forward by the framework in an appropriated manner when analyzing the music industry, as – according to Tengblad, Werner and Hjelte – one of the major drivers for the rapid change within the Swedish market were the consumers themselves. As a consequence, the authors modified the original framework and added the consumer as an additional and independent part of a BM as opposed to the original framework in which the consumer is included under Network Architecture.

The framework will be used to code and analyze the innovation process of the Swedish music industry's BM by i) analyzing each business element on its own and ii) studying the interplay of the elements during the transformation process. Figure 17 below summarizes the case study analysis framework.

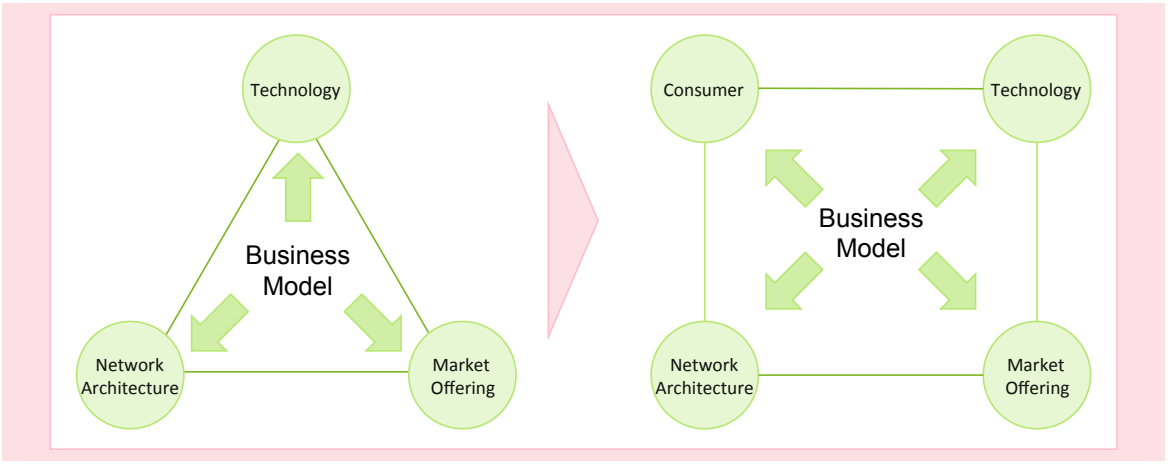

Figure 17. Modified business model elements. Source: Based on Mason & Spring (2011).

3.3 Data Collection

3.3.1 In-Depth Interviews

Since the main focus of this study is to understand how an entire industry changes, traditional surveys would not help greatly to understand the underlying processes of industry transformation. In line with the nature of the research purpose, it is rather of importance to collect data of opinion leaders and, additionally, other actors within an industry, which is why the authors have chosen to use in-depth interviews as the main method of data collection for this thesis. This view is supported by Gillham (2005), who points out that interviews are more flexible and allow a deeper understanding of the topic than questionnaires.

Overall, the authors conducted 16 interviews with actors from all areas within the music industry network: record label managers, copyright organization managers, agents, artists and producers (see Table 2). Sampling was done following both a purposal and snowball approach (Bryman & Bell, 2007). Not only were interviewees chosen to represent a variety of actors/organizations, but also to represent different seniority levels and countries of workplace. All these measures were taken to mitigate bias towards an actor category's opinion (ibid). The international aspect was chosen specifically to mitigate ethnocentric view that might have occurred when interviewing only Swedish persons. Some initial contacts were provided by UMG Sweden. However, the majority of the interviewees was acquired through research and subsequent cold calls and e-mail.

#	Date	Interviewee	Company	Company Description	Position	Interviewer	Background	Location	Specifics
1	2012-02-07	**Robin Hjelte**	**XLENT Strategy**	Management Consulting	**Consultant**	Kreidenweiss	Thesis on the Swedish music Industry, worked with issues related to the music industry	Kulturhuset Stories, Stockholm	50min, personal interview
2	2012-02-08	**Ludvig Werner**	**IFPI Sweden**	Represents the interests of the recording industry worldwide	**VD**	Kreidenweiss	Several positions within the music industry since 1996	IFPI Office, Stockholm	45min, personal interview
3	2012-02-10	**Gus Seyffert**	**Sargent Records, Keyboarder "The Black Keys"**	Record Label, Band	**CEO**	Ahrens	Musician, song writer, producer since the early 1990s	Skype video call, Barcelona	60min, personal interview
4	2012-02-13	**Michelle Kadir**	**Spotify**	Streaming Service	**Director of Product Development**	Kreidenweiss	Several positions within the music industry since 2004	Spotify Office, Stockholm	30min, personal interview
5	2012-02-19	**Samuel Arvidsson**	**EMI Sweden**	Record Label	**Marketing Director**	Kreidenweiss	Several positions within the music industry since 2001	TBar Hotell Diplomat, Stockholm	60min, personal interview
6	2012-02-26	**Scott Farrant**	**STIM**	Collecting society for songwriters, composers and music publishers of Sweden	**International Director**	Kreidenweiss	Several positions within the music industry since 1988	STIM Office, Stockholm	45min, personal interview
7	2012-02-29	**Per Sundin**	**Universal Music Sweden**	Record Label	**Managing Director**	Ahrens	Several positions within the music industry since the early 1990s	Mobile World Congress, Barcelona	20min, keynote speech
8	2012-03-06	**Helen McLaughlin**	**Sony Music Sweden**	Record Label	**Head of A&R**	Kreidenweiss	Several positions within the music industry since 1992	Sony Music Office Stockholm	30min, personal interview
9	2012-03-07	**Leon Hill**	**Universal Music Norway**	Record Label	**Digital Business Affairs Director**	Ahrens	Lawyer within the media industry from 2000-2006, now negotiating digital license deals	Skype video call, Barcelona	60min, personal interview
10	2012-03-09	**Francis Keeling**	**Universal Music Global**	Record Label	**Global Head of Digital Business**	Ahrens	Several positions within the media industry prior to 2002, then joined UMG	Skype video call, Barcelona	30min, personal interview
11	2012-03-22	**Fredrik Nyström**	**WiMP**	Streaming Service	**General Manager**	Kreidenweiss	Entrepreneur, several positions in the music and related industries since 2008	Hotel Anglais, Stockholm	45min, personal interview
12	2012-03-23	**Martin Elford**	**SAMI**	Swedish artists' and musicians' Interest organization	**Marketing Director**	Kreidenweiss	Worked within SAMI since 2001	SAMI Head Office Stockholm	30min, personal interview
13	2012-04-10	**Mia Forsgren**	**Universal Music Sweden**	Record Label	**Marketing Director**	Kreidenweiss	Worked within Universal for one year	Universal Music Sweden, Stockholm	30min, personal interview
14	2012-04-11	**Hans Kjellberg**	**Stockholm School of Economics**	University	**Associate Professor**	Kreidenweiss	Research focus on the shaping of markets	Stockholm School of Economics	30min, personal interview
15	2012-05-04	**Niklas Twetman**	**Universal Music Sweden**	Record Label	**B2B Manager**	Kreidenweiss	Within Universal Music Sweden since 2010	Universal Music Sweden, Stockholm	45min, personal interview
16	Continuous	**Mattias Tengblad**	**Universal Music Sweden**	Record Label	**Commercial Director**	Kreidenweiss / Ahrens	Several positions within the music industry since 1997	Universal Music Sweden, Stockholm	Continuous, various channels

Table 2. Overview of conducted interviews.

With three exceptions (Hjelte; Werner; Sundin), all the interviews were of a semi-structured nature, which allowed the authors to *"vary the sequence of the questions… [and] to ask further questions in response to what are seen as significant replies"* (Bryman & Bell, 2007, p. 213). In order to give the interviewees enough time to prepare, a generic interview guide with sample questions was sent in advance (see Appendix A-I). Throughout the data collection phase, these interview guides were constantly updated after interviews in order to add new relevant/interesting topics, increase understandability and – most importantly – improving the fit with regards to the research questions.

Since the recorded music industry is a vast network of different actors, and hence difficult to comprehend, the authors chose to interview two "neutral" professionals to get an initial grasp of driving forces within the industry at the beginning of the study. These two interviews with Ludvig Werner of IFPI Sweden and Robin Hjelte of XLENT Consulting were conducted in a rather unstructured manner with major themes as a guideline (Bryman & Bell, 2007).

All interviews were conducted either in person in Stockholm or via Skype video call. The authors chose video calls over telephone calls, since they increased familiarity and tended to give better interview outcomes. All interviews were recorded, transcribed and approved by the interviewees.

3.3.2 Secondary Data

As mentioned earlier, the case study design allowed the authors to make use of several source types and triangulate them (Yin, 2003; cited in Bryman & Bell, 2007). For the purpose of this study, secondary data was mostly used to cross-check the interviewees' points of view and assertions (Yin, 2003). While some of the data available to the authors was confidential, it was still of use for the above-mentioned cross-checking. External data comprise industry reports, news articles, and blog entries. While blogs are often not regarded as scholarly sources, they have developed into the fast and reliable sources within the technology and media sector. Here, online authors belong to the new garde of opinion authorities.

3.4 Limitations

Throughout the course of the study, some observations regarding methodological limitations and research quality were made. They will be presented in the following section.

3.4.1 Methodological Limitations

The authors identified certain possible limitations concerning the generalization of findings. Commonly, business researchers use the term generalization to describe statistical generalizability (Bryman & Bell, 2007). Thus, the sample size of 16 interviews (thereof none with consumers, only one with artists) could pose a challenge when the intent was to generalize their findings. However, Yin (2003) stresses that case studies, as chosen by the authors of this thesis, do not aim at pointing out results that are generalizable; they rather focus on the uniqueness of each case. Hence, the authors of this study intent to generalize to theory rather than a larger population. Thus, the limitation analysis focuses on this form of generalization rather than the traditional statistical one.

Furthermore the case selection in this study might be questioned, especially since Stake (2005) claims that one of the most important quality factors for case study research is a representative selection of cases. Since this thesis is based on a single-case study, there might be doubts in regards of representativeness of the Swedish music industry towards all industry-wide business model innovations. However, the authors do not intent to generalize the findings from Sweden to all industries; they rather point out best practices that could or could not be transferred to other markets for music. Since every market and every industry comprises a different actor configuration, the only way of conducting a representative study would be analyzing every industry and even every geographical market in detail. This, however, is beyond the scope of this thesis.

On another level, some limitations to breadth and depth for the analysis in Sweden can be identified. However, while more interviews with more different industry actors would have yielded more consistent results, one has to take time and location considerations into account – affected by, for example, the fact that one of the authors was based in Barcelona (Spain) throughout the entire course of the study. Furthermore, the interview process was ended in the beginning of May 2012 to allow enough time for coding and analysis.

Finally, since all of the interviews were conducted in English, there are possible limitations with regards to understanding and answering questions posed by the authors. However, all

interviewees were either Anglo-Saxon, conducted their business in English or, due to their cultural background, were used to the English language to a sufficient degree. Nonetheless, whenever there appeared any interpretation issues, questions were posed twice or in a different manner, and unclear answers were requested to be repeated. Furthermore, the meaning in the Swedish context was crosschecked in regular meetings with Mr. Tengblad.

3.4.2 Research Quality

While reliability and validity are often-used criteria for research quality in quantitative studies, there has been controversy among researchers with regards to qualitative studies (Yin, 2003; Bryman & Bell, 2007). Among others, Lincoln & Guba (1985) propose a different set of criteria to assess research quality of qualitative studies. According to them, trustworthiness and authenticity should be regarded as key criteria. However, trustworthiness has been highly controversial among scholars (Bryman & Bell, 2007). Thus, for the purpose of this study, the authors use Lincoln & Guba's (1985) sub-categories of trustworthiness as research quality criteria. These include credibility, transferability, dependability and confirmability.

3.4.2.1 Credibility

Credibility is concerned with depicting an accurate picture of the studied subject and is what Yin (2003) describes as internal validity. To increase credibility, the authors adhered strictly to academic standards throughout the data collection process. Openness during interviews was encouraged, answers from other interviewees were crosschecked, and responses were transcribed word-by-word to keep the context intact (see Appendix B: Interview transcripts). Finally, triangulation helped to increase credibility (Stake, 2005); the interviewees' responses were crosschecked with other sources, e.g. UMG internal data, as well as industry reports. Thus, although this study relies on only one case, credibility maintains a high level.

3.4.2.2 Transferability

Lincoln & Guba (1985) define transferability – also known as external validity in traditional research criteria – as the degree to which the findings of a study can be transferred to other studies. According to Yin (2003), a single case study can be generalized/transferred with regards to a certain result set, which the authors try to do by answering RQ 2. Furthermore, the authors provide a full description of the methods and processes used in order to

facilitate transferability. Finally, the Swedish music industry was examined to the best possible extent in order do reach a 'thick description', which in turn is necessary for a high level of transferability (Lincoln & Guba, 1985).

3.4.2.3 Dependability

Dependability resembles the traditional criterion of reliability (Lincoln & Guba, 1985) and is concerned with the consistency of results if another researcher replicated the same study. As with transferability, providing a full account of the research process and methods, as done by the authors, enables other researchers to replicate a study. Additionally, using semi-structured interviews with the help of a re-usable guidelines, as employed by the authors, help increasing the level of dependability.

3.4.2.4 Confirmability

Confirmability examines to which extent the researchers acted in good faith and were not led by personal values (Lincoln & Guba, 1985). The authors mitigated subjective influences by 1) interviewing as many representatives per actor category as possible, 2) integrating interview findings into subsequent interviews, and 3) triangulating interview results with secondary data and other interviewee's views on the music industry. Finally, the case analysis framework was developed following existing literature (cf. Mason & Spring, 2011) to increase objectivity.

4 EMPIRICAL FINDINGS – THE CASE OF SWEDEN

In this part of the thesis the authors will first give an introduction to the case of the Swedish music industry transformation and then present the empirical findings gathered throughout the study. As outlined before, the case analysis follows the modified Mason & Spring (2011) framework established by the authors. This chapter accordingly summarizes the authors' findings from both primary and secondary research within these areas.

4.1 Introduction

As outlined before, the case of choice for this thesis is the Swedish music industry. The reason for this is that Sweden – as opposed to other major markets for music – was able to successfully transform its business model.

Triggered by constantly declining revenues, an innovation took place towards a business model relying on streaming of music rather than digital or physical purchase. As can be seen in Figure 18 below, this resulted in drastically rising general digital revenues, of which streaming accounts for more than 80 percent (IFPI, 2012b).

Figure 18. Swedish recorded music revenues 2006-2011 (US$ millions, trade value). Source: IFPI 2012b.

As a result the market today has managed a turnaround and has regained strength in terms of revenues. The following paragraphs will look at different factors that have affected the innovation guided by the modified Mason & Spring (2011) framework – Market Offering, Network Architecture, Technology, Consumers.

4.2 Market Offering

Market offering as part of a BM describes firstly, what is actually offered to the customer and secondly, how it is offered. In this section the market offering as found in the Swedish music industry is divided into two levels of analysis: the role of piracy and the benefits of streaming services.

4.2.1 The Role of Piracy

All industry experts have emphasized the role of piracy in the development of markets for music in general and in particular the Swedish market. This view is also supported by Harrison and Kjellberg (2012) who state that file sharing has contributed in several ways to shaping media markets, for example, by triggering a wide variety of efforts to develop new and more attractive offers to combat illegal downloading. However, while in other markets this development mainly resulted in an adjustment of existing BMs, a whole new model developed in Sweden.

The Benefits of Piracy – With the emergence of the MP3 data format in the middle of the 1990s the recorded music industry faced its biggest threat ever – illegal file sharing. While it is widely acknowledged that digital piracy has been a major factor in the decline of industry revenues (IFPI, 2012b) some benefits can still be observed – at least from a consumer point of view. With services like Napster and Kazaa emerging, consumers were able to get access to a nearly unlimited amount of music and the need to buy a physical medium vanished. Thus, piracy was able to provide accessibility like no one else (Arvidsson). The fact that The Pirate Bay, the world's largest file sharing site established in Sweden in 2003, according to the Internet information company Alexa, was ranked number 77 worldwide on the list of top sites in terms of visits in late November 2011 (Harrison & Kjellberg, 2012) clearly shows that piracy, illegal file sharing and implicitly this way of consuming music, are highly valued by consumers.

"Piracy is an awful form of consumption. It's the worst experience you can imagine."
(Scott Farrant, STIM)

The Drawbacks of Piracy – While piracy obviously made consumption easy in terms of "what" to consume, there is evidence that the question of "how" to consume was still a major problem for consumers. Werner states that downloading music illegally still is problematic because one has to download music files first to see if one likes the music or not. However, it can be stated that piracy opened peoples' minds to downloading music and consuming it digitally (Nyström). And by doing

this, it can be seen as the trigger that steered the music industry in a direction leading to where it is today – an industry in need of a BMs that allow consumers the consumption of digital music legally. This is especially true for Sweden, since there *"[…] illegal file sharing was enormous […], absolutely huge"* (Farrant), which in the end made Sweden one of the least profitable markets for digital music in the world (Kadir; Tengblad; Farrant).

Streaming Services as a Direct Outcome of Piracy – Since piracy was adopted so quickly especially in Sweden (Hjelte), and a lot of people were used to accessing music illegally (Werner), the industry sooner or later had to face the need to change its BM to the circumstances. Nonetheless, the question that needed to be answered was what exactly should be done. In 2005 Apple launched its iTunes service in the Nordics but it never became popular enough in Sweden to stop the trend of declining music revenues. Werner states that four years ago the share of digital music in the Swedish market was only 8 percent, with a generally rather slow growth the years before: *"[…] there was no money in it […]. The increase could have been 100 percent but that was just from 1 percent to 2 percent of share. So it didn't really have an impact."* Thus, it can be concluded that the solution offered by iTunes was one that was not suitable for the Swedish market with its particular characteristics. According to Kjellberg, the argument the pirates always put forth was 'if you give us alternatives, we will consider them'. However, it took until 2008 – the year Spotify launched – for the Swedish market to finally get back on track and show significantly growing revenues in the overall music market in general and the digital music market in particular. The reason for this, according to a majority of leading industry representatives, is simply that Spotify was the first service that was 'better than piracy' (McLaughlin; Kadir). According to McLaughlin, the main reason behind Spotify's success and thus the underlying cause for the transformation the whole Swedish music industry went through is that *"[p]eople are fine with paying if it actually works, if it's there, if it's simple. […] People will pay the 99SEK if it is just a simple and great way to get access to what they want"*. Kadir mentions that if something is better than piracy it will win and Farrant goes as far as stating that piracy is *"[t]he total opposite of Spotify where you can just sit, click, thank you. That's why Spotify is winning now – because the user experience on the illegal things is so bad"*. Arvidsson adds that as legal services continue to evolve to meet consumer demand, the need to turn to piracy will ultimately diminish.

> *" Spotify is winning now – because the user experience on the illegal things is so bad."*
> *(Scott Farrant, STIM)*

> *"If Sweden hadn't had The Pirate Bay, Spotify would not have happened. It triggered everything."*
> *(Niklas Twetman, Universal Music Sweden)*

Therefore, streaming services in general and Spotify in Sweden in particular can be seen as a direct successor of piracy due to its unique market offering. The service was able to convert pirates to paying listeners (Seyffert) due to the fact that it offers basically the same benefits but at a much higher convenience.

4.2.2 The Benefits of Streaming Services

After analyzing the origins of streaming services as a main reason for the transformation in the Swedish music industry, the question that arises is what sets those services and especially Spotify apart from previously existing market offerings such as classic analog music consumption, other digital music consumption, related services that existed prior to services like Spotify and, most importantly, piracy.

Music Catalogue – One of the main benefits of streaming services is the sheer amount of music that is made available to consumers. Spotify offers over 18 million tracks to its customers – equaling over 100 years worth of music (Kadir). This is in line with Hjelte who mentions the service's catalogue paired with its pricing as one major factor in its success. While other already established services like iTunes had similar or even better catalogues, none of the similar streaming services had near the quality or the catalogue of Spotify (Hjelte). Together with its cost benefits, Spotify became a plausible alternative to everything else the market offered.

> *"In Sweden SEK99 could almost be seen as a sort of music tax – almost everyone can afford to pay it and then you basically get everything."*
> *(Robin Hjelte, XLENT Strategy)*

Pricing – Launched in 2008, Spotify was ad-financed with other sources of income to follow. Thus, the offering presented to its customers was basically a pirating-like music experience; it enabled them to listen to a huge catalogue without having to pay. As Nyström states, there suddenly was *"[…] a way for consumers to get legal music for free basically."* As of today, Spotify offers three different services: Free, Unlimited (SEK49) and Premium (SEK99). However, as Hjelte mentions *"[…] in Sweden it could almost be seen as a sort of music tax – almost everyone can afford to pay SEK100 per month and then you basically get everything [you want]."* Thus, even in its most expensive version the service offers an almost unbeatable price-performance ratio (Farrant).

One-Click-Consumption – Spotify also simplifies obtaining the good; music does not have to be purchased piece by piece anymore (Hill; Werner). Instead, consumers pay a monthly fee and can find and listen to what they want, whenever they want. Before, people had to search and download/buy music before listening to it. These steps were eliminated by Spotify (Seyffert; Hill). As Werner states *"[…] your effort needed when you are interested in […] listening to […] albums is zero – because you basically just click and the next album starts."* Thus, consumers choose and immediately consume. This new way of consumption opened the world to the service because people thought it was better than expected (ibid).

Ultimate Access – Closely related to the above-mentioned advantages is something the authors refer to as "Ultimate Access". This term describes the possibility not just to listen to what consumers want, whenever they want – but also wherever they want. According to Forsgren *"[s]treaming means accessing the stuff everywhere."* Not just are users able to listen to any song they can imagine at home but with streaming services like Spotify they also have the opportunity to consume their music on-the-go without going through the trouble of (ideally) purchasing music digitally and then transferring it to a portable music player. In the case of streaming services, consumers simply access a smartphone application and immediately have access to the services' whole catalogue. This is in line with Kadir who mentions that *"digital Music is so simple […]. Our managing director says 'music needs to be like water' [...]."* Thus, what Spotify understood and was able to commercialize on is that consumers want *"[…] one simple thing, which is: all content, anywhere, anytime on any device"* (Farrant).

> *"Music needs to be like water."*
> *(Michelle Kadir, Spotify)*

4.3 Network Architecture

As another important part of any BM, Network Architecture deals with the market configuration and describes how different actors engage in relationships and do business with each other. In this section, the Network Architecture is divided into three levels of analysis: network structure and relations, market characteristics and management characteristics.

4.3.1 Network Structure and Relations

When talking about why the Swedish music business has changed the way it has, many interviewees point at the network of actors and its reconfiguration. While Sundin sees the major reason in three specific events (IPRED law pass, Spotify launch, The Pirate Bay trial),

the authors believe that the complete multitude of involved parties within the network changed the business. Accordingly, their roles in this transformation and innovation process will be highlighted in this section.

4.3.1.1 The Role of Labels

The role of labels during the transformation period is multi-faceted. The record labels realized that they needed to embrace change regarding both business partners and models, became investors, lobbyists, educators and re-focused on their core strengths.

"Business has changed from sex and drugs to bits and dots – and it works perfectly in Sweden."
(Per Sundin, Universal Music Sweden)

Embracing change – The bad situation in the Swedish music industry around 2005 forced label managers to re-think their position towards digital music and new distribution channels; they embraced new partners because legal digital music consumption had to become better and more accessible for users, as Kadir points out. All interviewed managers from the labels claim that they were in the forefront of negotiations with Spotify and the copyright organizations. Arvidsson says it only took him five minutes to be convinced that Spotify would be a suitable substitute for piracy. The simplicity of the interface along with the speed of the surfacing and streaming music was the main factors in reaching that conclusion. And together with this new partner – a digital music service instead of offline CD retailers – the labels also realized that they had to change their BM. According to Hill, everything is digital now and companies have to adapt accordingly. Sundin remarked that this BM works even better than the traditional CD-driven one: *"Business has changed from sex and drugs to bits and dots – and it works perfectly in Sweden."*

Record labels as investors – Now that the labels were partners with the promising Spotify start-up, they were also interested in financially backing it up, and hence all major labels became shareholders in Spotify, accounting for about 18 percent of the shares (Music Void, 2012). This is a major difference to other markets, where streaming services are majorly backed by telecommunication providers (Arvidsson). In turn, this shows the commitment of the Swedish record labels and their conviction in the success of digital streaming music services.

Record labels as educators – As mentioned earlier, a major industry transition does not happen without resistance, and thus some actors within the network – most notably artists and copyright associations – expressed concerns. Hence, all major labels took on a role as

educators and lobbyists. Keeling and Hill stress the importance of time, saying that the digital revolution cannot be stopped and eventually will reach everyone in the industry. However, they also remark that educating partners is crucial in order to speed the transition process up. Most importantly, artists need to be convinced of the new revenue stream, as the majority is still used to measuring (financial) success in record sales. Forsgren sees the solution in constant education of how the streaming system works and Hill even points out that Sweden as of now is the first and only country where the streaming royalty BM works for artists and they actually earn more than they did before. Interestingly, Keeling states that the royalties are split in the same way as they are for CDs, thus giving the artists the exact same share as for a CD. However, many artists do not seem to understand yet that they need more streams per song, as the reach is higher and the value of a single stream lower compared to, for example, a purchased MP3 file.

Record labels as lobbyists – Record labels also take the education role one step further and try to influence policy makers through lobbying. However, Keeling acknowledges *"[w]e can't do as much as we'd like to."* Other technology companies like search engines and telecommunication providers tend to have a lot more influence. The protection of copyright is an important issue for record labels in order to retain talents and creators, and thus it is vital to invest further in that protection.

4.3.1.2 The Role of Music Services

With the rise of digital music, it did not take long for entrepreneurs to create digital music services. As with the labels, music services assumed different roles in transforming the music industry. At first, they were paving the way for piracy, then for legal digital music consumption, and finally became an important marketing tool for artists and intelligence tool for record labels.

Music services and piracy – In the beginning of the last decade entrepreneurial efforts were concentrated on providing illegal services, such as Napster, eMule and BitTorrent. Sweden was one of the most affected countries, as downloading pirated music was not illegal until early 2009. All interviewees say that this is one of the reasons why illegal downloads became so popular in Sweden. This 'having all music available whenever I want' feeling on the consumer side made it difficult for record labels to compete in terms of price and convenience.

> *"Spotify showed the labels that there is a demand for streaming services."*
> *(Samuel Arvidsson, EMI Music Sweden)*

Music services and legal digital music consumption – When the IPRED law was passed (see section 4.4.1.5 for a detailed analysis), legal services became increasingly popular. However, it was not until Spotify launched that consumers adopted consuming digital music legally in a large scale. As mentioned earlier (see section 4.3), Spotify was the first service to offer a similar experience as pirating at a reasonable price, which made the service a pacemaker for legal music consumption. However, in the USA the situation looked different. Since downloading pirated music was illegal for many years already, consumers started using the then launched iTunes store, which offers a download option instead of streaming (McLaughlin).

Music services as educators – While artists get a quite large amount of money for a downloaded or purchased single or album, they get only a relatively small absolute amount per stream. Songwriter Seyffert even claims to have never received any payment from Spotify. As a result, some artists pulled their music from the catalogues. Thus, together with the labels, music services also assume the role of educators for artists. Hill argues that it is especially crucial to educate artists about a tipping point in user numbers that has yet to be reached in order to make streaming a globally viable business. He adds that, as of now, streaming is profitable only in Sweden.

Music services as marketers – Another touch point with artists is the marketing role that music services take. Hjelte points out that being available digitally is a big marketing tool for artists. Having their repertoire available for streaming, artists can reach a much higher number of consumers – all in the hope to *"[…] hit it big"*. Furthermore, digital music services allow the distribution of the long tail of the market. By offering a high degree of local content, music services can satisfy more consumers' needs than with a traditional CD distribution. At Spotify, for example, they are adding more than 20.000 songs per day to the catalogue (Kadir).

Music services as knowledge providers – Finally, digital music services serve as a business intelligence provider to record labels. According to Tengblad, Spotify enables labels to instantly see the success of certain artists in specific user groups. What took several days to weeks ten years ago, when data had to be tediously gathered from retailers, is now a matter of seconds. Furthermore, the level of detail is significantly higher, which again enables the record labels to brand and market their artists accordingly.

4.3.1.3 The Role of Artists

As the centerpiece of music production and delivery stand the artists. However, with the digitalized music industry, their role has been comparatively small to other mentioned players. If at all, some artists assume the role of the rebel in order to make their voice and concerns heard, and the role of being a brand to be sold to consumers.

Artists as rebels – As mentioned earlier, some well-known artists have previously pulled their content from streaming catalogues or delayed publication on them, e.g. Coldplay, The Black Keys and Adele (Seyffert). Some of them have done so because they feel unfairly treated, especially when it comes to payments (Dagens Nyheter, 2011). Seyffert said that they either did not get any payments at all, as the royalties are split up between many right holders and associations, or payments were insignificant. Label managers like Keeling counter that argument and say that it is the same free market online as it is offline: some artists sell 5.000 CDs, some sell 5.000.000. The same happens on streaming services: some get 5.000 streams, some get 5.000.000. Furthermore, Keeling states that artists get the same revenue share as they get for CDs with only the absolute amount per stream being significantly lower.

Artists as brands – While until the late 20th century major sales were made with records, artists are now earning their money from touring and merchandizing (Seyffert). Arvidsson mentions that it is becoming increasingly important to build an entire experience around an artist. Their brand awareness is increased through millions of streams on digital music services and the value is then captured on world tours. He adds that currently popular singers Ke$ha and Rihanna, for example, should not be measured on downloads but rather on brand reach – because this is what ultimately fills the stadiums, closes endorsement deals and gives the foundation of long term earning capacity. As an example, Justin Bieber's CDs grossed around $300 million in the last three years. In the same time, he grossed $150 million from concerts, his movie grossed $100 million, and his fragrance grossed $60 million in just six months (Forbes, 2012b).

4.3.1.4 The Role of Copyright and Royalty Collection Associations

Of all the actors involved in the music industry, copyright and royalty collection associations (CRCA) are the most controversially discussed. These CRCAs represent artists, songwriters and publishers, and collect fees for using their music in radio, live performances

and the Internet, for example. According to the interviewees, they assume two main roles: they are either innovation preventers or copyright protectors.

CRCAs as innovation preventers – When talking about the viability of digital music BMs, CRCAs are often quoted as major hindrances of innovation in this field. Most of the interviewed label managers said that in many countries these organizations hinder the rollout of legal digital music services. In Germany, for example, GEMA[7] asks for 0,006€ per started skippable stream (GEMA, 2012), whereas STIM[8] in Sweden demands for a significantly lower fee (Tengblad). Furthermore, interviewees pointed out that STIM has less restricting regulations in terms of laws. While GEMA's tariffs are strictly regulated, STIM issued beta licenses to Spotify to test its business. Farrant points out, that Swedish law requires CRCAs to act in a non-discriminatory way, a constellation that is rather unique. According to record label manager Hill, CRCAs are *"one of [his] biggest headaches"*. He says that they retain a small but very important part in the music industry, as any new service must be negotiated with them – in every single country. He sees their main problem in the uncommercial approach.

"One of my biggest headaches is how do we deal with publishing and collection society payments."
(Leon Hill, Universal Music Group)

CRCAs as copyright protectors – However, not all interviewees share this line of thought regarding CRCAs. Forsgren says *"[t]hey are both good and bad"*, protecting writers and performers alike while being a frustration for record labels. Elford raises an interesting point, stating that every organization is acting in favor of the people they are representing. This in turn means, that music services, which need to argue for lower tariffs in order to be viable, tend to blame CRCAs for the delayed launch in several countries. Kjellberg has a similar opinion on that issue, saying that CRCAs are needed to not overrun some parties within this fast-paced environment. He compares CRCAs to guilds, which historically seen have always been conservative towards change in order to secure running businesses.

"We are moving at a pace that has never been known to music."
(Francis Keeling, Universal Music Group)

Despite disagreeing on the role of CRCAs, all interviewees stressed the time factor. Keeling says *"[i]t's just time that is important here. Music is a fast-moving business [and] we are moving at a pace that has never been known to music."* Nyström argues in the same direction, stating that Sweden is ahead because STIM has

[7] "Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte", German society for musical performing and mechanical reproduction rights, www.gema.de.
[8] "Svenska Tonsättares Internationella Musikbyrå", Swedish performing rights society, www.stim.se.

already been dealing with digital music service for many years. He also states that if one spends a long time negotiating and establishing close relationships, work gets much easier.

4.3.1.5 The Role of Legislation

Contrary to CRCAs, all interviewees agree on the importance and early introduction of copyright law enforcement as one of the main success factors for Sweden being ahead of the market transition. In February 2009, the Swedish government passed the IPRED law, which technically made downloading music for free illegal. Some interviewees compared the IPRED and Spotify combination to the carrot and stick concept: while the law made people more conscious about illegal downloading, Spotify provided them with a legal alternative that they could use instead (Farrant; McLaughlin). Nyström takes it one step further and claims that the *"[…] main role was simply informing people that downloading was illegal."* Elford adds the educating element to the IPRED law. Apparently, for the first time for many young people it became apparent that music has an actual value and should not be taken for granted.

Summarizing, legislation played a direct role in transforming the industry; by passing the IPRED law, demand for legal digital music services grew tremendously which in turn increased the viability of the digital BMs. However, it has to be stated that compared to other major music markets, Sweden was not in the forefront of enforcing such copyrights – the USA, for example, have been the first major market in 2005 (McDonald & Wasko, 2008). There, the enforcement was even stronger than in Sweden, and legislators trialed single persons or pirating sites for multi-million dollar infringements; Dagens Nyheter (2012) reports, for example, that the US music industry sued P2P service LimeWire for $72 billion in 2012. As Seyffert puts it, *"everybody was imagining black suits knocking at your door one day."*

4.3.1.6 The Role of Other Actors

Along with the directly involved music industry actors, two other parties played an important role in making digital music a viable business: Telecommunication providers serving as marketers, and social media platforms acting as reach enhancers.

Some interviewees argue that Spotify would not have grown as fast if it were not for the telecommunication providers. Arvidsson says that Telia in Sweden brought out the Spotify brand by offering several months of premium membership to its subscribers. Not only does Spotify gain on this deal, but so do the telecommunication companies. Firstly, the churn rate

decreases and secondly, data usage increases significantly with Spotify, making higher charges possible. McLaughlin says that if anyone wants to contend Spotify in Sweden, it would only be feasible with the help of a major telecommunications provider.

4.3.2 Market Characteristics

Having explored the characteristics of the actors within a market, another theme that came up are certain market characteristics, especially regarding the size and representativeness within the music industry.

> *"In Sweden everybody knows everyone."*
> *Helen McLaughlin, Sony Music Sweden*

Market size – Many interviewees mentioned that launching new businesses and innovating in a rather small market is easier than in a big one. The specific influence of the market size on the network architecture is two-fold; it impacts both on the social and business level. Hjelte states that Sweden's small market size makes it relatively easy to negotiate deals, for instance. Important key persons can be reached easily and *"[e]verybody knows everyone"* (McLaughlin; Twetman). Kjellberg agrees and mentions the importance of personal relationships when negotiating breakthrough innovations. Sweden has a fairly small population, making it easier to build an influential network within a specific industry. Regarding the business level, Sweden's market size has been quoted as favorable towards introducing new technologies. For one, initial investments in infrastructure etc. are much lower than in other major markets, as Nyström says. Companies are also able to reach relatively more people with much less marketing expenses. Werner adds that this comparatively large reach enables developers and service providers to get relevant consumer data more easily. In line with this argumentation goes the element of risk; if investments are indeed lower, it might be more acceptable for shareholders to fail in a small market because the impact on the business will not be as severe (Twetman). Werner summarizes it as follows: *"This is probably the reason for why Spotify didn't start in the US – because it costs you billions of dollars to launch and if you fail there, you die as a company"*. However, not all interviewees agree on that point; Arvidsson, for instance, claims that big companies launch their best services in the major markets, such as USA, Japan or UK, e.g. iTunes only rolling out to minor markets now while being available in major markets for many years already. This contradiction could indicate that small services prefer to launch in smaller markets compared to big corporations with multi-billion dollar budgets.

> *"In the US it costs you billions of dollars to launch and if you fail there, you die as a company."*
> *(Ludvig Werner, IFPI Sweden)*

Representativeness of the Swedish music market – Taking into account the network's actors and market characteristics, interviewees have also shared their insights on how representative Sweden as a market actually is. The main line of argumentation is that the transformation strategy used for Sweden might have been the best one there, however, not in other countries. Hjelte, for example, says that it might not have worked in Germany, where CD sales are still quite high. Hill furthermore adds that music consumption and behavior are quite particular and could have benefitted digital streaming services; territories are indeed differing significantly in their population[9]. However, Hill states that one can see from the sheer success in Sweden *"[…] that there is obviously a demand for streaming."* Transferability of this streaming model to other markets is further discussed in chapter 5.2.

4.3.3 Management Characteristics

On the lowest and most individual level, the Network Architecture can be described by how people interact with each other. Here, two revolving themes were the openness to change within the industry and a prevailing start-up mentality.

Openness to change – Changing an incumbent way of doing business always involves risk. In Sweden particularly, these risks are perceived as relatively low, which might explain the rapid pace of industry transformation there. Hjelte points out that already in 2006 record label managers were open *"to get the digital ball rolling."* This observation is in line with the aforementioned desperation within the market itself; Sweden had lost 55 percent of its music business value in seven years time and managers had to do something, as Werner explains. However, not all interviewees think that this phenomenon is purely Swedish. Hill says that these days all managers within the media business need to be open to change as it is so rapidly moving.

Start-Up mentality – In recent years, many well-known technology and media start-ups were founded in Sweden including, for example Skype, The Pirate Bay, Kazaa, Rdio, SoundCloud and Spotify. Interviewees agree that there is a certain type of start-up mentality in Sweden, which is hard to find elsewhere (excluding the Silicon Valley in the USA, of course). McLaughlin says there has been a long history of high-tech companies in the country thanks to the high quality of education. And because of the social security system, people *"just do it"* (Nyström; Kjellberg). Keeling adds, that people in the Nordic countries

[9] See section 4.5 Consumers for a detailed analysis.

are more technology dependent than other markets and thus innovate more in that sector. Werner counters these arguments and claims that all of this sounds like a commercial for Sweden: *"We are so open and free. And new services, we love them instantly. Back to facts, please."* However, also media acclaim Sweden's start-up friendliness, claiming that Sweden is the most digitally connected country in the world and the right mindset for founding globally successful start-ups (Wired, 2011a). Twingly (2011) also brings forward that Sweden has relatively more internationally successful start-ups than any other country.

4.4 Technology

As one of the central pieces in changing the entire music industry, technology plays a two-fold part. On one hand, there were technological changes regarding music in general and music as a medium. On the other hand, there were changes in terms of hard- and software technology that allowed an entirely different use of music.

4.4.1 Changes in Production Technology

Once a privileged medium, music has turned into a mass phenomenon in the 20th century. Music has since developed further, and production and consumption seem to converge on a technological level.

Music production – With the rise of digital technology, music production has changed tremendously. In the middle of the 20th century, recording an album took several weeks and many sound engineers were required to grab, mix and master the songs. Digital technology has made many of these engineers obsolete and good music can today be produced by musicians themselves, using *"[…] a Mac and headphones"*, as Arvidsson points out. However, especially sound-savvy musicians and producers are against this trend, and there seems to be a "high quality" movement that tries to counter the self-made music production because *"[t]hat music is shit, it's just horrible"* (Seyffert). He gives an example of how much it actually costs to produce a record in a professional studio today – a number significantly lower than 30 years ago. According to him, a studio today charges about $150-200/h, studio musicians charge around $150/h each, and producers and sound engineers take a similar rate. Back in the 1970s, on the other hand, an hour in a professional studio cost close to $600, about four times as much (University of Texas, 2002, inflation-adjusted).

Music as a medium – With all those new digital technologies in place, not only music production has lost its physicality, but so did the medium when it became a digital music

file. Hill sums it up as follows: *"We started with reel-to-reel tapes, vinyl, cassettes, CDs, hard drives. It's getting smaller and smaller. We've come to a point where there's no physicality at all, nothing tangible at all"*. This new music format also spurred new ways of consuming it (see Figures 4 and 5 in the Introduction), a development that has been accelerated through other technological advancements, which will be outlined in the following sections.

4.4.2 Changes in Consumption Technology

Interviewees indicated that in Sweden, changes in consumption technology, e.g. introduction of computers, accessibility of broadband and usage of smartphones, were implemented 2-4 years ahead of other markets.

Computers – Back in the late 1990s and early 2000s, the major way of listening to digital music files was on the personal computer (PC). It was here, that Sweden was already technologically ahead of other markets in terms of PC penetration. Werner says that Sweden computerized at a quicker pace and people got used to accessing everything through their computers; statistics confirm this (see Appendix A-II).

Fixed broadband – In Sweden, the rising PC penetration was also accompanied by heavy investments in fixed broadband infrastructure. All Swedish interviewees point out that the Swedish government pushed the construction of high-speed glass fiber lines, which in turn were in place when music became digital. Kadir says that this is one of the major reasons for why Swedish people got used to listening to digital music so early. McLaughlin adds that even in the wireless age of the 21st century, the fixed broadband was one of the 'lifelines' for the streaming model to start. This can be exemplified when looking at different countries and their shares of broadband speeds in 2008 – the year that the Spotify service was launched in Sweden and the BMI ultimately was triggered. While in the UK and Germany only 6 and 19 percent respectively had access to a downstream speed of more than 10 Mbit/s, this number was as high as 33 percent in Sweden (see Appendix A-III and A-IV). It is interesting to note that even nowadays, when all developed countries have a theoretically high penetration of broadband, there are still significant differences in download speeds. While the average Swedish connection allows 22 Mbit/s, the UK has a mere 1,6 Mbit/s (Werner). This, of course, affects heavily how music is consumed, as high-quality music might not be streamable in the UK due to these download speed limitations. Other numbers confirm this general trend including, for example, fixed broadband penetration rates per

country, as well as households with broadband access and the percentage of fiber connections in each country (see Appendices A-V, A-VI and A-VII).

Mobile broadband – Hand in hand with fixed broadband went the development of mobile broadband. Sweden has been a leading innovator in that field thanks to companies like Ericsson (Datamonitor, 2010). Again, pushed by government efforts, Sweden has 100 percent UMTS/3G coverage, ranking number one in the world (see Appendix A-VIII). This mobile high-speed connection enables people to listen to music wirelessly on the go and sync the music every day, reflected, for instance, in the share of consumers using 3G networks for mobile broadband access. This number is relatively high in Sweden, indicating again the country's technological advance (see Appendix A-IX). Kadir says that these differences spurred also variances in music listening and obtaining behavior; while even basic services like YouTube have interrupted listening due to buffering in the US, Swedes can stream their high-quality music – even in the subway.

Smartphones – When Apple introduced the iPhone in 2007, nobody could foresee smartphones taking on becoming the major type of mobile phones being sold in 2011 (Google, 2011). Interestingly, however, Werner points out that contrary to other countries, in Sweden highly sophisticated smartphones were bought quite early on both by adults and young people in great amounts, which is supported by data that show Sweden as one of the countries on the forefront of current smartphone penetration (see Appendix A-X). Werner even thinks that the premium service of Spotify made people buy smartphones: without one, the premium service was not interesting, but everybody wanted to go premium for having the possibility to use their playlists on the move. Overall, many interviewees have praised the role of the smartphone. Kadir and Arvidsson argue that smartphones ease access not only to music, but also YouTube, eMail and many more services. For them the concept physical ownership has transformed into ownership through constant access.

> *"The smartphone is the single most important invention that made consuming digital music a mass phenomenon."*
> *(Leon Hill, Universal Music Group)*

4.5 Consumers

The role of consumers in the transformation of the Swedish music market is a vital one. In general, two unique themes seem have contributed to the transformation, namely music consumption patterns and general socio-economic factors.

4.5.1 Music Consumption Patterns

Music consumption patterns revolve around the question of how consumers in Sweden differ in terms of how they consume music and how these patterns evolved over time. Here, piracy plays a central role in the development.

A country of pirates – Swedish consumers were confronted quite early with the opportunities of downloading music illegally, became used to accessing music illegally, and embraced it (Werner), making Sweden the *"home of the pirates"* (Kjellberg). As Hill states, in terms of music consumption, Sweden cannot be taken as a typical example. There are differences in the context that make the Swedish consumers different, e.g. how consumers access or how they engage with music. Thus, since the opportunities presented to the Swedish consumers were different, they became different as well and developed different consumption patterns, which in turn were served best by piracy (Kjellberg). However, when laws like the IPRED were enforced in Sweden people became *"[…] more cautious towards piracy and realiz[ed] that they had to give something"* (Hjelte).

> *"Sweden is home of the pirates."*
> *(Hans Kjellberg, SSE)*

Access vs. Ownership – There is consensus that a general shift away from ownership of a physical copy towards an emphasis on accessibility to music can be observed. Kjellberg supports this view and points out that this shift is *"a core of this issue"*, e.g. the change of consumption patterns in general, and with it a transformation of the Swedish music industry's BM. Werner adds that the current generation of consumers does not understand the concept of ownership in music in a first place. He puts forth his daughter as an example – that *"music is sort of an ownership thing, she does not understand that. […] Because to her this [shows an iPhone] is ownership"*. This is in line with Kadir who also believes that the observable shift can be explained by consumers having a different perception of ownership today. While before, ownership meant actually possessing a copy of something, ownership nowadays is rather having access in itself. And even though some interviewees mention that ownership in a sentimental or nostalgic way still plays a role for some consumers (Elford; Forsgren), McLaughlin points out *"Why do you need to download [or buy] something? It's just the mindset that people are having problems with […]. 'I want my own copy.' But why? It just clutters up space"*. This statement summarizes the general impression that the majority of consumers nowadays see a greater value in access than in ownership.

> *"Why do you need to download or buy something? It just clutters up space."*
> *(Helen McLaughlin, Sony Music Sweden)*

Consumer Expectations – When taking the previously mentioned factors into consideration it becomes obvious that consumers in Sweden, based on their background and changed patterns in consumption, developed certain expectations towards a possible legal service if it was to replace illegal file sharing. Werner, for instance, states that the streaming model *"[…] was something the Swedish music audience was expecting and waiting for."* Hjelte supports this view and mentions that Spotify with its revolutionary model had the correct answer at the correct point in time. As Arvidsson puts it, the consumers have already voted for a solution like Spotify and the implications for the industry that come along with it, e.g. a radical change of the entire industry's BM.

> *"Streaming services are something the Swedish audience was waiting for."*
> *(Ludvig Werner, IFPI Sweden)*

4.5.2 Socio-Economic Factors

Besides music consumption patterns, socio-economic factors contributed to the unique development in Sweden. They comprise purchasing power, tech savvy-ness and sense of belonging.

Purchasing Power – A factor that was emphasized during the information gathering was the purchasing power of Swedish consumers. In terms of income per capita, The World Bank (2011) ranks Sweden on #13, before the United States (#17), Germany (#25) or the UK (#31). Hjelte believes that in Sweden even the highest monthly fee that Spotify charges its customers could almost be seen as sort of a music tax that everyone could afford. This is in line with Werner who states that for the consumers it is not really a risk to pay SEK99 per month whereas for someone in other countries that is a lot more money. Thus, it can be stated that the Swedish market – due to its consumers and their high purchasing power – was prone to be a country in which the Spotify model could be established.

Tech-savvyness – The tech-savvyness of Scandinavian consumers in general and Swedes in particular was one aspect also frequently referred to. Forsgren, for example, mentions that they prefer consuming digitally, be it music or film. This is in line with other interviewees, e.g. Keeling, to whom Swedish consumers have a rather high ability to get comfortable with technology since it is part of their education and lifestyle. Elford states that Swedish consumers simply are different than others because they *"have always been quite early adopters of new things."*

> *"Swedish consumers have always been early adopters of new things."*
> *(Martin Elford, SAMI)*

Sense of Belonging – A factor that, among others, Forsgren points out is Spotify's launching strategy. As she states, the *"[i]ssue with the invites when some people could get it and some could not, that was clever. Everyone wanted to be part of it and was like 'can I please have an invite'. That was definitely part of the success."* Nyström also believes that if such a trend starts, e.g. if 'the cool people' are using the service, it will ultimately spill over to other segments. Thus, the publicity that Spotify generated in the beginning via the beta invites can be seen as very beneficial. As Werner mentions, *"[e]verybody wanted [to use the service] but you had to get an invite, which was almost like a trading commodity during the fall of 2008."* It can therefore be stated that Spotify skillfully played with the consumers' need to belong to a certain group of people. In a later stage the company took this approach one step further and implemented social media deeply into its service by enabling users to share playlists via social networks. This can be seen as a smart strategic move on the background that many experts simply put forward the argument that music in itself is interaction and that *"[i]f you believe in social media, music is the fuel"* (Sundin). According to Werner this move had a major impact on the success of Spotify because when consumers *"[s]aw that their friends were using Spotify on Facebook and Twitter […] and started to refer to good music to 'what they heard on Spotify' […] you created almost a must have because if you couldn't access your friend communities discussion on music you were sort of left alone."*

"If you believe in Social Media, music is the fuel."
(Per Sundin, Universal Music Sweden)

5 ANALYSIS

In this part of the thesis the authors will provide an analysis of the transition of the Swedish music industry based on the empirical findings above and link this analysis back to the theoretical background on BMs and their innovation presented earlier. The analysis will be guided by the previously generated research questions of how the transformation was implemented and if transformation transferability is given.

5.1 The Successful Transformation of the Swedish Music Market

Given the data presented in the introduction and the findings outlined in the empirical part, the success of the Swedish music industry is undeniable. Not only was the market – as opposed to most other international markets for music – able to stop the trend of drastically declining revenues. But in some cases, e.g. Universal Music Sweden, it was even managed to turn the trend around and create growth through the implementation of a new industry-wide BM lead by the streaming solution introduced by Spotify. The following sections will provide insights and investigation of how the industry was transformed, which aspects played major roles and which key success factors can be identified.

5.1.1 The Coincidence Factor

As indicated by most sources, the time around 2008 and 2009 was a turning point in the development of the music industry in Sweden. Several major factors came together (see Figure19 below) during that period and laid the base for the transition that followed.

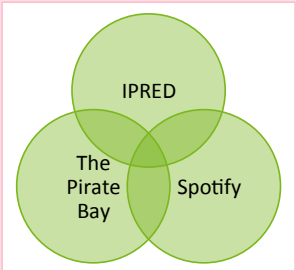

Figure 19. Factors initiating the business model transformation. Source: Authors' work.

The Pirate Bay – The first factor was the popularity of The Pirate Bay in general and piracy and illegal file sharing in particular, which was on an all-time high with revenues in the Swedish market drastically declining as a result. This lead to increased understanding within the industry that something had to be done in order to stop this trend – no other option was feasible since the survival of the music industry was at stake. Thus, industry

leaders were aware that new solutions had to be found, which was favorable for the second major factor.

Spotify – The launch of Spotify in 2008 suddenly opened up new and unexpected opportunities for an industry at risk. Even though nobody within the industry could foresee if this service – and with it a whole new BM – was to be successful, the industry decided to take the risk.

IPRED – The third factor was the law enforcement that was put forth by Swedish legislation. The introduction of the IPRED law, for the first time ever, made the actual download of music files illegal, which resulted in Swedish consumers being increasingly alert and developing a sense of unjust behavior, which set the base for a potential legal solution.

The outcome of the combination of these three factors is straightforward, namely the before mentioned innovation of the BM. And while the overall opinion seems to be that the industry was simply lucky, the authors identified grounded reasons for the events and the transformation of the BM that came with them (see Figure 20 below). These reasons are rooted deep within the configuration of the market and the main areas introduced before – *Market Offering, Network Architecture, Technology and Consumers.*

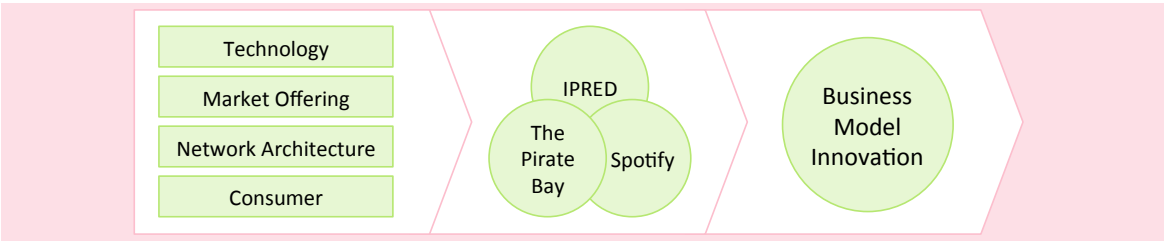

Figure 20. The process of the innovation of the business model in Sweden. Source: Authors' work.

5.1.2 Specific Factors

An evaluation of the gathered data leads to the conclusion that the specific configuration of the Swedish market and its unique characteristics was the base for the innovation of the established BM of the music industry. As stated before, four main areas can be identified.

Market offering – The market offering that Spotify as a streaming service brought to the table clearly outperformed offerings from existing services of music consumption. The combination of, for instance, the extensive music catalogue and the free access in the

beginning of the service made it the trigger that should change a whole industry's BM. Table 3 gives an overview of the most important findings.

Market Offering	
Music Catalogue	*Whatever consumers want:* Access to over 18 million songs - 100 years worth of music.
Pricing	*Affordability:* Payments as a music tax.
One-Click-Consumption	*Whenever consumers want:* Elimination of the need to purchase a song.
Ultimate Access	*Wherever consumers want:* Access on all devices.

Table 3. Overview of the main findings within Market Offering.

Network architecture – The Network Architecture, including, for instance, network structure and relations, market and management characteristics have been described as quite unique by almost all interviewees. All those factors were favorable towards a significant shift in the industry's BM by enabling all participating actors to adapt to the new situation the industry faced with the emergence of illegal file sharing. Table 4 summarizes the most important findings.

Network Architecture	
Network Structure	*All actors assume industry-changing roles:* Record labels as innovators, educators; Music services as marketers, etc.
Market Characteristics	*The Swedish market is a fertile ground for launching new services:* Lower absolute investments for new technologies with comparably high reach, key people can be reached quickly.
Management Characteristics	*A start-up mentality and forward-thinking managers accelerate transformation:* Sweden as a hub for technology start-ups, change-focused management style.

Table 4. Overview of the main findings within Network Architecture.

Technology – The technological prerequisites the Swedish market offered when the transition of the industry began and still offers today can only be matched by a handful of other countries (see, for example, Appendix A-XI for the ITU ICT Development Index, indicating Sweden to be at the forefront of worldwide technological development). This holds true for almost every fundamental area, be it, for instance, smartphone penetration, mobile as well as stationary Internet access or others. Thus, it can be stated that these prerequisites had a significant influence on the BMI the industry underwent. The most important findings are shown in Table 5 below.

Technology	
Music Production	*Ease of creation:* Production of music is significantly easier due to technical developments.
Music as a medium	*Loss of physicality:* The medium changes its format towards bits and bytes.
Computers	*Familiarity with technology:* High computerization early on.
Fixed broadband	*High speed at home:* Comparably fast internet connections as a standard.
Mobile broadband	*High speed on the go:* Extensive network coverage.
Smartphones	*Gadget country:* Early adoption of mobile streaming devices.

Table 5. Overview of the main findings within Technology.

Consumers – Consumers played a vital part in the transformation of the Swedish music industry. Besides, for instance, a general observable tech-savvyness, which seems to be rather unique, the fact that pirating and with it a certain way of consuming music played an important part in Swedish consumers' lives significantly contributed to the changes the market underwent. Thus, specific consumer characteristics in the Swedish market were favorable for a service like Spotify to first of all set foot in and in a later stage transform a whole industry (see Table 6 below).

> *"For Spotify you have the ideal audience in Sweden: an established pattern of consumption and a relatively strong purchasing power."*
> *(Robin Hjelte, XLENT Strategy)*

Consumers	
Country of Pirates	*Unique consumption patterns:* Piracy set the foundation for streaming services as a solution.
Access vs. Ownership	*Shift from ownership towards access:* Owning the content is of minor importance.
Consumer Expectations	*The role of the past for the future:* Background influenced expectations towards a possible legal solution.
Purchasing Power	*Different living standards:* In Sweden SEK100 are seen as an affordable price.
Tech Savvyness	*Technology as part of the daily lives:* General openness towards technology that sets new standards.
Sense of Belonging	*Must have feeling:* Invites and social network implementation created a demand among consumers.

Table 6. Overview of the main findings within Consumers.

All four areas in their own ways strongly differ compared to similar markets. This difference enabled and triggered the Swedish music industry to undergo a significant transformation of its BM and lead to the unique market configuration that exists today. However, the individual roles each area plays (as seen below in Figure 21) are crucial in understanding the development of the Swedish music industry.

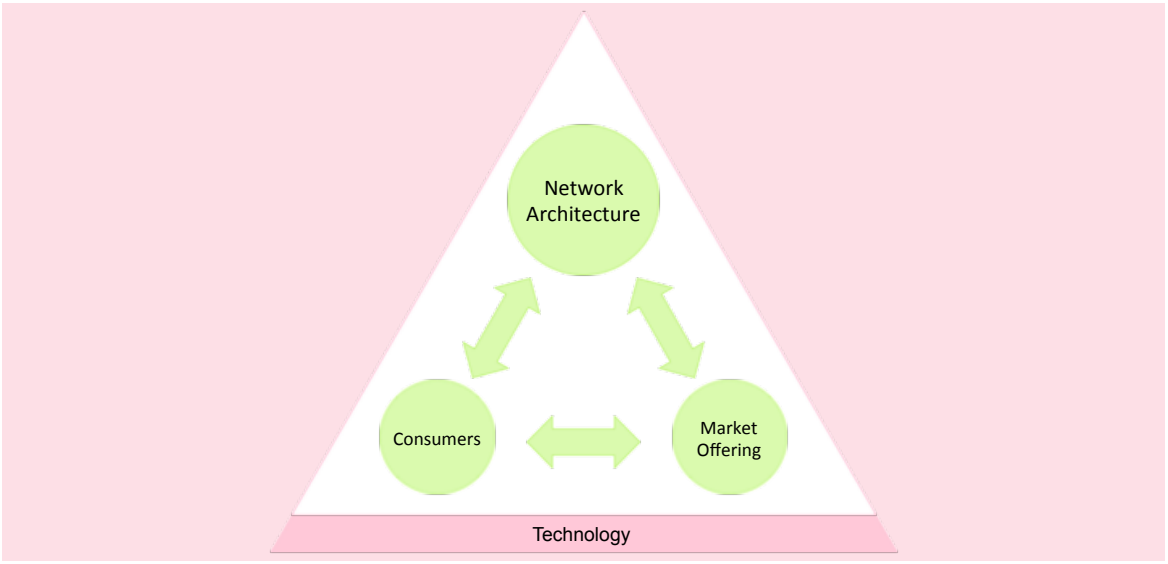

Figure 21. Areas setting the foundation for the Swedish market transition, circle size indicates relative importance Source: Authors' work.

The authors identify an observable interplay – in the sense of bidirectional influences – between the areas of Network Architecture, Market Offering and Consumers, with Technology as the base – in the sense that the developments and prerequisites in the Technology area lay the foundation of the undergone innovation and have an effect on the interplay of the remaining three areas and each individual area itself.

As stated, Sweden is generally around two to four years ahead in terms of technological development. Due to this unique setting and configuration of the market, all other areas were able to develop and benefit in a way that was not possible in other markets, e.g. unique consumer consumption patterns, which are rooted in the technical possibilities they have at hand. Similarly, the market offering that was available in the Swedish market was highly different from offerings in other markets – also due to the technological base that was at disposal.

When it comes to the interplay of the remaining areas and the individual weighted importance of each, the authors identify Network Architecture to be the single most important area. While all areas played a role in the transition, Network Architecture seems

to be a crucial factor. For example, the market characteristics like market size on both social and business level were named as a main factor by a majority of sources. Also, network structure and actor relations were mentioned overwhelmingly often.

However, it has to be kept in mind that each area has an influence on the others and in turn is influenced by them, which results in a dynamic market setting in which all areas have high significance and it is not possible to disregard one specific part.

5.1.3 Key Success Factors

Having identified and analyzed general factors that can be seen as a reason for the innovation of the Swedish music industry's BM, the question at hand is which of those are the most important ones – also with regard to the question of potential transferability of the BM to other markets. The authors believe that with the previously done analysis and gathered data at hand as a base of examination the following seven factors emerge as key success factors:

1. *Technological Foundation,*
2. *Favorable Market Size,*
3. *Willingness to Change,*
4. *Beta Licenses,*
5. *Anticipative Solution,*
6. *Emancipated Consumers and*
7. *Fast-Adopting Consumers.*

These factors ultimately lead to the innovation of the business model from a traditional model with physical and/or digital distribution with a focus on ownership of music to a streaming-dominated model with a focus on access (see Table 7 below for a detailed overview of the factors).

Key Success Factor	Area	Description
Technological Foundation	**Technology**	At the time of the transformation, as well as still today, Sweden possessed a technological environment that can be seen as highly developed. Within all examined areas Sweden was among the leading countries in the world being two to four years ahead of other markets, which enabled a technologically high-end service like Spotify to set foot and flourish and influenced all other areas.
Favorable Market Size	**Network Architecture**	The market size played a critical role in the transformation. First, on a social level, the network of key people is rather dense. This has a major impact on personal relationships and eases negotiating breakthrough innovations. Second, on a business level, the absolute size of the market is favorable towards introducing new technologies. Initial investments in infrastructure, for instance, are relatively lower than in other major markets. Additionally, companies are able to reach relatively more people with less marketing expenses. Ultimately, the element of risk is more predictable than in other markets.
Willingness to Change	**Network Architecture**	The willingness to change within the Swedish market was rather high. All actors within the network – due to previous drastic revenue decreases – were aware that an innovation of the existing model was necessary. Furthermore, all actors were keen to develop the business model into the same direction. Thus, the resistance towards change within the market can be seen as relatively low.
Beta Licenses	**Network Architecture**	Beta licenses played an important role in the success of the innovation of the Swedish industry business model. Spotify, as a new service, was able to get a license for beta testing rather quickly due to the non-discriminatory manner of the market. This eases the introduction of innovations significantly – especially compared to other countries in which this process is considerably slowed down through bureaucratic obstacles.
Anticipative Solution	**Market Offering**	The market offering that Spotify proposed to the consumers within the Swedish market was – while obvious to the company itself – not a logical next step in the evolution of the market to most other players. Spotify managed to uncover consumers' latent needs and expectations towards a legal solution, ignoring and overthrowing existing ones.
Emancipated Consumers	**Consumers**	Consumers overthrew the established model (ownership) by not settling for existing solutions and choosing piracy instead. Ultimately, they demanded new ways of music consumption (access) leading to a rather bottom-up BMI - consumers ultimately triggered the innovation of the business model in the Swedish music industry.
Fast-Adopting Consumers	**Consumers**	Consumers in the Swedish market possess a high degree of technological knowledge and purchasing power and can be classified as fast adopters. This significantly eased the introduction of the Spotify service and with it the innovation of the industry business model.

Table 7. The Key Success Factors of the Swedish business model innovation.

5.2 Transferability

With the success of the Swedish music industry at hand, the question of transferability to other music markets and thus, if the achievements of the Swedish market can serve as a blueprint, is a natural one.

In the following paragraphs, the authors will provide an overview of the specific key success factors derived in the previous section and determine their transferability to other music markets. This assessment is based on information the authors got from the Swedish as well as other markets – both from interviews and secondary data.

5.2.1 Transferability of Key Success Factors

To simplify the assessment, the authors classify the key success factor into three categories: transferable, partly transferable and not transferable.

Technological Foundation – The technological foundation can be classified as transferable. Even though, according to the analysis, Sweden is constantly two to four years ahead of major music markets, these markets ultimately will catch up and reach a level of development suitable to employ the same technologies and business models as those in place in Sweden today. The flipside, however, is that by that time Sweden is expected to be at a different, further, stage of development again, staying ahead of other markets.

Favorable Market Size – This key success factor can be classified as partly transferable. On the one hand, the market size of the Swedish market is naturally not reproducible with regards to absolute investments, for example. However, the dense network of key people can be influenced and in turn is transferable. Interviewees indicated that other markets, if willing, should be able to create closer networks of relevant actors. Taking the Swedish market as an example, all players in the market, e.g. record labels, rights organizations and artists, should work more closely together in order to be more efficient in terms of decision-making and innovating the market.

Willingness to Change – The authors classify this factor to be transferable. As with the previous factor, the overall willingness to change – while not appearing to be present in most other markets right now – can be influenced and in turn be transferred by a joint corporate culture, for example, as Hill points out. Again, the relevant actors would need to change their opinion towards established settings and be willing to innovate the existing model. For instance, the analysis indicates that especially rights organizations in other

markets in general are rather unwilling to change existing ways of doing business. Thus, they would have to realize that the new model as established in Sweden is set to be the one dominating the future.

Beta Licenses – Since beta licenses require "only" the intervention of the CRCAs in other markets, the authors evaluate this factor as transferable. The big obstacle that needs to be overcome by other CRCAs is that they need to change their mindset towards embracing change rather than following uncommercial approaches (Hill). Beta licenses help new services like Spotify in Sweden to set foot and give them the opportunity to test their offering with a significant number of consumers.

Anticipative Solution – The authors see this key success factor as transferable. Due to the before-mentioned unique market setting within the Swedish market it will be difficult for other markets to actually create an own new anticipative solution as done in Sweden. However, they could nonetheless simply transfer and implement the Swedish solution itself.

Emancipated Consumers – The BMI in the Swedish market can be classified as rather bottom-up; consumers demanded a new solution because they were not satisfied with the (legal) solutions at hand. This specific consumer characteristic is not directly transferable since behaviors and other cultural characteristics develop over many decades. However, the authors believe that a similar BMI can be adopted using a top-down approach. Instead of the consumers overthrowing the existing model, the respective professional network in each market should impose new solutions onto its consumers and educate them about their benefits. Thus, to transfer this key success factor to other markets it would need to be modified and then, in turn, would be partly transferrable.

Fast-Adopting Consumers – Swedish consumers can be classified as unique in terms of, for instance, purchasing power and high degree of technological knowledge. Since these are characteristics that developed over a long time period and are rather distinct for this consumer group they are unlikely to be reproducible. Therefore, the key success factor of fast-adopting consumers is classified as not transferable.

An overview of all key success factors and their respective classification of transferability can be seen in Table 8 below.

Key Success Factor	Transferability
Technological Foundation	Transferable
Favorable Market Size	Party transferable
Willingness to Change	Transferable
Beta Licenses	Transferable
Anticipative Solution	Partly Transferable
Emancipated Consumers	Partly Transferable
Fast-Adopting Consumers	Not transferable

Table 8. Overview of the transferability of key success factors.

5.2.2 Transferability of the Swedish Model

When taking the analysis so far into account, it becomes obvious that the Swedish model with streaming as the dominant solution is set to be the future within the music industry. This view is supported by a majority of interviewees and other sources (cf. Werner; McLaughlin; Hill; Keeling). Nonetheless, ad hoc transferability of the BM to other markets is highly unlikely. This is due to the fact that in Sweden a variety of complex and interrelated factors played a role in the innovation of the business model. Even though in the case of the Swedish market the innovation was implemented at a rather fast pace as outlined in the introduction of this thesis, the overall process did not only start with the introduction of Spotify in 2008. Instead, the foundations were laid via continuous development and evolution of the market, resulting in the before-mentioned "coincidence" taking place around 2008/2009.

However, the authors argue that a transfer of the Swedish model is in fact imaginable taking a certain time horizon and a likely co-existence of different models in the beginning of the transformation of the respective market into consideration. This co-existence could take the form of a streaming model steadily being built up while a downloading model exists at the same time, for instance. Specific reasons for that are, for instance, long time-to-market, established processes, higher bureaucracy, and established ways of thinking and doing business in other markets as identified by the authors. The authors further believe that this transferability is only given for a specific class of other markets, e.g. markets that are able to build the necessary technological prerequisites since these are identified to be the foundation of the BMI within the Swedish market.

5.3 Link Back to Literature

Having analyzed the key success factors and transferability for Sweden's music industry transformation, it is of interest to link the general findings back to existing literature on BMs and BMI. After a general discussion, the link between literature and practice will be made both from a company and an industry-wide perspective.

5.3.1 Company Focus

Although the majority of the literature body on BMI focuses on companies, one can transfer several characteristics that appear valid for companies to an industry-wide BMI. Casadesus-Masanell and Ricart (2010), for example, state that the fastest growing firms are the ones that take advantage of structural changes and adapt their BM. In Sweden, all network actors embraced the change and the structural changes the fastest and enabled the turnaround.

Linking to the question of when to innovate a company's BM, Johnson et al. (2008) state that such an innovation becomes necessary when significant changes are required for all elements of the existing BM. These findings were also true for the Swedish music industry, where none of the existing models granted future revenues – a change had to come. Johnson et al. (ibid) also showed five concrete situations when companies need to innovate – four of these were also true for the Swedish music industry, mostly related to piracy. First, the existing solutions were too complicated (bad consumer experience). Second, another company (Spotify) capitalized on new technology, successfully wrapped a BM around it, and thus forced other players to follow their lead. Third, piracy as a low-end disruptor needed to be fought. Finally, there was a shift in competition with piracy taking over the music market, and the industry's players needed to fight that shift together.

Zott et al. (2010) also point out that companies need to innovate when their main business partners are changing. In the Swedish case, there were two main "business" partners that emerged in the last years. First, there was piracy, challenging the existing ways of doing business in an illegal way, and second, there was Spotify that required a shift in the legal ways of doing business.

Wirtz et al. (2010) say that companies need to constantly innovate their BM. However, if an entire industry were to renew itself continuously, no stable networks and procedures could ever be established. For an industry to undergo a transformation, it requires the majority of

the players to go into one direction rather than different ones. In Sweden, all players needed to take their time to finally accept and develop into the digital and CD-less direction.

Similarly to companies, where during a transition phase several BMs can co-exist (Chesborough, 2010), the Swedish music industry has shown that legal downloads and streaming can co-exist for a while without cannibalizing each other. However, one business model will eventually prevail; the findings of this study suggest that in the near future there will only be business in streaming music in Sweden. Linking back to Giesen et al.'s (2010) Three-A model, streaming, as opposed to downloading, is aligned with customer value perception in Sweden. Thus, already one of their mentioned success factors is fulfilled.

5.3.2 Industry Focus

Several of the case findings can be related back to the small body of literature with an industry-wide focus. Giesen et al. (2010), for example, point out that industry transformation occurs more often these days than in past decades. A similar development can be seen in the music industry, where there were only three major shifts in media type within one century and not a single one in terms of distribution. With the advent of digital technology and the Internet, the music industry is going through constant change in terms of media used and distribution channels.

In these ever-changing industries, the key to success is to shift the focus to creating entirely new systems instead of particular technologies (Johnson and Suskewicz, 2009). Thus, BMI is rather a framework for systematic change with four independents components, all of which were found to have worked in favor in the case of the Swedish music industry. First, there was an enabling technology in the form of a music streaming software and catalogue. Second, Spotify introduced an innovative BM, which has not been seen so far in the industry. Third, all actors pursued a careful market adoption strategy by not *"putting all eggs into one basked"* (Hill), but testing out different BMs. Finally, favorable government policy in Sweden enabled Spotify to test its product with the consumers quickly (beta licenses).

In terms of which type of BMI was employed, there are links to Giesen et al.'s (2007) categorization into industry model innovation, revenue model innovation and enterprise model innovation. The case with the Swedish music industry has shown that actually all three types of BMI were present.

First, the industry model was completely innovated, with a new value chain taking its place and a re-defined industry landscape. The best illustration is to look at the revenue sources, where the digital share is growing rapidly and physical sales are rapidly declining (refer back to Figure 18). Second, through Spotify and other digital music services, there was revenue model innovation within the industry. Finally, all actors had to change the way they operate due to the two aforementioned innovations. Record labels, for example, are not pure CD-selling businesses anymore but in some cases regard themselves now as *"360 degrees media houses"* (Tengblad).

Taking Kim and Mauborgne's (2004) blue ocean strategy into consideration, one could think of the Swedish music industry's transformation as a blue ocean. The existing market with piracy taking over the legal CD market was a red ocean – doing business there became increasingly difficult and new solutions had to be found. The music industry thus had to alter the boundaries and re-define what the industry actually is. By accepting the demise of the CD and transforming towards a digital era, Sweden managed to transform the red ocean into a blue one and stop the decline in industry revenues.

Finally, there are links to Mason and Spring (2011), who point out that BMI should not be focused on companies alone but take also into account the network within the industry. As seen several times throughout the case, no actor alone could have innovated sustainably: Spotify would not have been able to grow so quickly without the support of the record labels, the record labels would never have recovered from the declining CD sales without Spotify, STIM would not have been able to pay out royalties to the artists without the labels' and Spotify's efforts, and so on.

6 CONCLUSION

The purpose of this thesis was to close a gap in literature on industry-wide BMI by analyzing the case of the successful transformation of the Swedish music industry.

In recent years, the entire Swedish music industry managed to innovate the incumbent business model and transformed into a profitable market again. The authors thus deemed this case worth a deeper investigation and aimed at answering the following two research questions:

RQ1: The Success of the Swedish Music Market

- How was the Swedish music industry transformed?
  What are the key factors that enabled the Swedish recorded music industry to transform its business model and become one of the most successful markets for digital music?

Analyzing the Swedish music industry, the authors found that the purported "lucky situation" in 2008/09, which triggered the transformation, was a result of a market structure with four distinct and intertwined areas. Technology turned out to be the base of all change – without it, digital music business models would not have worked. On top of that base, the highly connected areas of Network Architecture, Consumers and Market Offering actively drove the change; here, the network of actors in Sweden is believed to be the most important asset in the change. Within these four areas, seven key success factors were identified (see Figure 22).

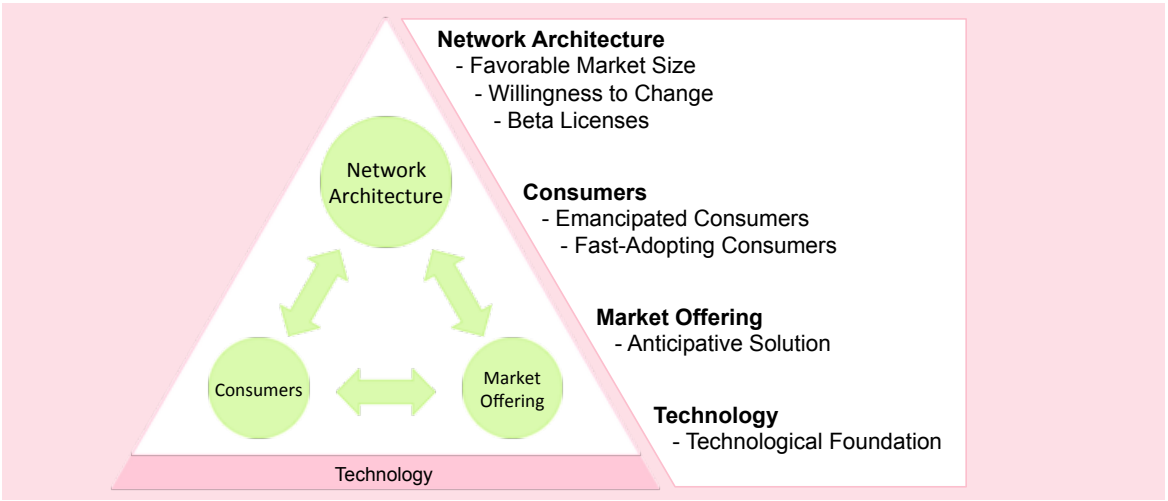

Figure 22. Overview of the framework areas and resulting key success factors. Source: Authors' work.

RQ2: Transferability

- Can the learnings be transferred to other markets for music?
  Can other markets for music undergo a similar transformation with using the learnings from the Swedish market as a blueprint?

While some of the key success factors, such as technological foundation and openness to change, were found to be transferrable to other music markets, some were relatively unique and not or only partly transferrable (e.g. fast-adopting consumers). Thus, the authors conclude that Sweden's prevailing new business model is only partly transferrable to other markets, and Sweden cannot be used as a 100 percent blueprint. However, there are constellations in which managers can use Sweden's uniqueness to drive the music industry forward globally (see the following section).

7 DISCUSSION

7.1 Managerial Implications

Throughout the thesis, the authors have proven that the Swedish music market is constantly ahead of other major music markets in every respect. This in turn gives rise to the question of how managers within this industry can use this to their advantage. How can companies leverage this "aheadness" to spur further industry transformation?

The authors believe that the establishing of a music innovation lab (MIL) in Stockholm could enable the music industry – both Sweden's and the global one – to be at par with the consumers, understand them, and develop new sustainable business models for all network actors (cf. O'Reilly & Tushman, 2004). The MIL would serve as a feeder lab for upcoming trends, innovative start-ups, and business models. While this MIL is a theoretical concept, it will guide this section as it contains managerial implications from a multitude of business perspectives. The section is divided into tasks, integration and people of the MIL.

7.1.1 Music Innovation Lab – Tasks

As discussed earlier in the thesis, the social and interactive part of the music industry is one of the major drivers for industry transformation. Recognizing this importance, the three main tasks of the MIL would be to focus on the consumers, the business itself, and the network.

Understanding the consumers – Twetman said, "*[n]obody can fool the consumer anymore*", and as this thesis has shown, the music industry – and the direction it is going – is in fact ruled by the consumers. Thus, it becomes crucial that all actors within the industry understand consumers' needs and demands. Not only should they better understand present needs, but also discover latent ones by employing techniques such as shadowing, observation, focus groups, and so on to stay in contact with consumers. The authors believe that by being close to the customers, all actors within the industry would be able to cater to their needs through newly developed solutions (cf. Dell'Era & Verganti, 2009).

Finding new business opportunities – With the advent of the MP3 file format and the resulting piracy, most of the actors within the music industry moved towards a condemnation strategy. While this helped in the short run, it put them in a bad position in

the following years because other income sources were not developed. The MIL, however, could change this by following a three-step approach.

First, the researchers need to spot and evaluate promising concepts, services and start-ups. Established players in the industry tend to rely on established income sources while small, flexible and open-minded start-ups are highly consumer-focused and develop new services.

Having identified these innovations the MIL should then, secondly, investigate possible business models behind them. This identification process should be free of any barriers prevalent in the big players' organizations, and all means of generating income and delivering value to the consumer should be considered.

Finally, the MIL needs to invest into worthwhile innovations, either by developing the idea on their own, or by co-investing and jointly developing start-ups. Especially in the second case the authors believe that a stake in a start-up increases the involvement of established players.

Building and maintaining the industry network – Social interaction within an industry is of utmost importance. As shown in the network architecture section (see section 4.2), Sweden's music industry network is rather dense. This advantage should be leveraged and developed in the future through the help of the MIL. Not only should key people meet informally on a regular base to exchange the newest trends, but also should a common ground be built. During the last decade, many actors within the industry had to align their visions in order to make Sweden a profitable music market. With upcoming innovations, further alignment might be needed, and a MIL could accelerate this process – both in Sweden and internationally. Together with building the network comes the integration of up-and-coming players. Often they are treated as a threat rather an opportunity for the market to evolve. With the help of the MIL, these new players could be integrated into the network, and greater mutual understanding would be achieved.

7.1.2 Music Innovation Lab – Integration

With all the possible tasks the MIL could have, the questions of ownership and integration arise. In today's free markets, there are three possible ownership structures that need to be considered: shared MIL, integrated MIL and independent MIL.

Shared MIL – A shared MIL would be co-owned by the industry's players and would act as a joint research lab in order to bring the entire industry forward. However, the authors

believe that the feasibility is limited for two reasons. First, the question of funding is difficult and is an ever-present issue in any industry association or jointly run venture. Second, it is difficult to determine how the outcomes, i.e. revenues from innovations, should be split among the participating parties.

Integrated MIL – The second option would be an integrated MIL, which would be part of a company, e.g. a major record label. This option would mean that all funding, coordination, investments and outcomes would be from/for a single company. This becomes especially important when one thinks of competitive advantages that this company might achieve by running an efficient MIL. Although this option might seem favorable in terms of operational feasibility and ownership, it requires a relatively much higher commitment from the single company that decides to run an MIL.

Independent MIL – Finally, one or several entrepreneurs could run an independent MIL, marketing its innovations on its own or selling them to interested companies. It would also function as an innovation feeder to the industry; however, service and product concepts/patents would be sold to interested parties at the highest bid. Since it would run independently, there might be a higher profit pressure from investors or the entrepreneurs, hindering creative innovation.

7.1.3 Music Innovation Lab – People

In general, the 'heart and soul' of any innovation unit are the people that are running it (cf. Amabile, 1998). This is especially true for the music industry because there a vast number of different actors and interest groups are present. Therefore, the authors conclude that for a potential MIL people with specific different skill sets are needed in order for the project to be successful. Ideally, besides regular staff with business backgrounds, the MIL's staff should contain employees that are well connected within the music and related scenes such as the tech scene, for instance. These could comprise bloggers or professional journalists who are well connected and have an independent picture of current and future trends. This would benefit the goal of staying as close as possible to the consumer and latent needs. Additionally, musicians could be part of the MIL since they could represent the artist side and give insights into musicians' demands and opinions.

7.2 Suggestions for Future Research

Studying the issue of industry-wide business model innovation, the authors wanted to understand how entire industries change the overarching business model over time. However, there are several areas of interest that could be investigated further: the Swedish music industry itself, other international markets for music and other media industries as well as non-related industries.

Related to the focal area of this thesis, the first suggested area of future research concerns one specific group within the Swedish network – the consumers. While mentioned in this thesis, the authors had to rely on data from industry experts to identify certain consumer patterns. It is thus suggested to confirm their findings by generating consumer insights through primary research aimed directly at Swedish consumers.

The second suggested area is other international markets for music. The authors delimited the scope of this study to the Swedish music industry and as a result, even though international managers were interviewed, comparison to other countries was not in-depth. Thus, the authors suggest such in-depth analyses for other major music markets, e.g. USA, Germany, UK, France, South Korea or Japan, since they seem to have similar configurations as the Swedish one.

The third suggested area concerns other industries. According to the authors' research, related media industries like the publishing and movie industry seem to be a logical next focus in the area of industry-wide BMI. One of the general findings of this thesis is, for instance, that consumers value ultimate access. An example is the TV series "Game of Thrones" which at the time of the writing of this thesis was on its way to becoming the number one pirated show in America (Forbes, 2012c). This is most likely due to outdated BM of the movie industry, i.e. consumers do not want to wait until the official release or prefer other channels and as a result pirate the content. Thus, the authors suggest similar research as done in this thesis within those industries.

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9 APPENDIX A

I. Interview guide sample questions

Is Sweden the most successful country for digital music and if so (not), why (not)?

Product

1. *What is your opinion on* **"Streaming vs. Downloading"**? *Which concept will prevail*?
2. *What is your opinion on* **"Access vs. Ownership"**?
3. *Do people really need access to 15m songs* **("ultimate access")**?
4. *People's* **behavior has changed to playlist/single-listening**, *the classical album plays a smaller role today. For you this must be* **a bad thing**, *isn't it? (they make less money per single than per album).*
5. *Which do you think is the* **best digital music** *service a) in Sweden b) any country X that you have contact with c) globally?*
6. **Spotify** *thinks it offers people an additional way of listening music, claiming that they do* **not cannibalize** *digital downloads. What do you think?*
7. *Is the* **CD dead**?

Technology

1. *What* **role** *does* **technology** *play in this whole transition? Which* **inventions/technologies** *are the most important?*
2. *Where do you see* **Sweden in terms of technological advancement** *compared to other countries, (smartphone users, mobile broadband)? Where do you see (insert country that the interviewee has a connection with)? If possible ask about USA, UK, FR, DE, …*
3. *What do you think is the* **role of other actors** *like Telco providers, smartphone producers, software developers?*

Consumer

1. *How will people listen to music* **in ten years**? *How do they do it* **now**? *Why have they changed so much in the last years?*
2. *Why do you think people* **like iTunes**? *Why do you think they* **like Spotify**? *Is one-click consumption one of the main drivers here?*
3. **Why didn't they like other services** *like Zunepass and the new Napster, which have similar offerings?*
4. *Why didn't people jump on the streaming wagon in* **other countries**? *Could there be* **cultural differences** *that have lead to different developments?*
5. *Do people prefer* **"national" offerings** *(Wimp in Norway, Deezer in France, Simfy in Germany)? What could be the reasons behind that?*

Legislation

1. *What role did the* **legislation** *play in the development of the digital music market? Carrot and stick…*
2. *What role did* **piracy** *play in developing the digital music market?*
3. *How do you as* **record labels influence legislation**? *Do you think there has been already enough effort? Which countries do you see as forerunners in the copyright legislation? Where do you see Sweden, (other countries)?*
4. *What is your opinion on performance right organizations like* **STIM and GEMA**? *Do they hinder the transition to digital music?*
5. *Will* **piracy ever be completely fought** *in developed countries?*
6. **How** *would you* **deal with emerging countries**, *where 90+% is pirated, e.g. China?*

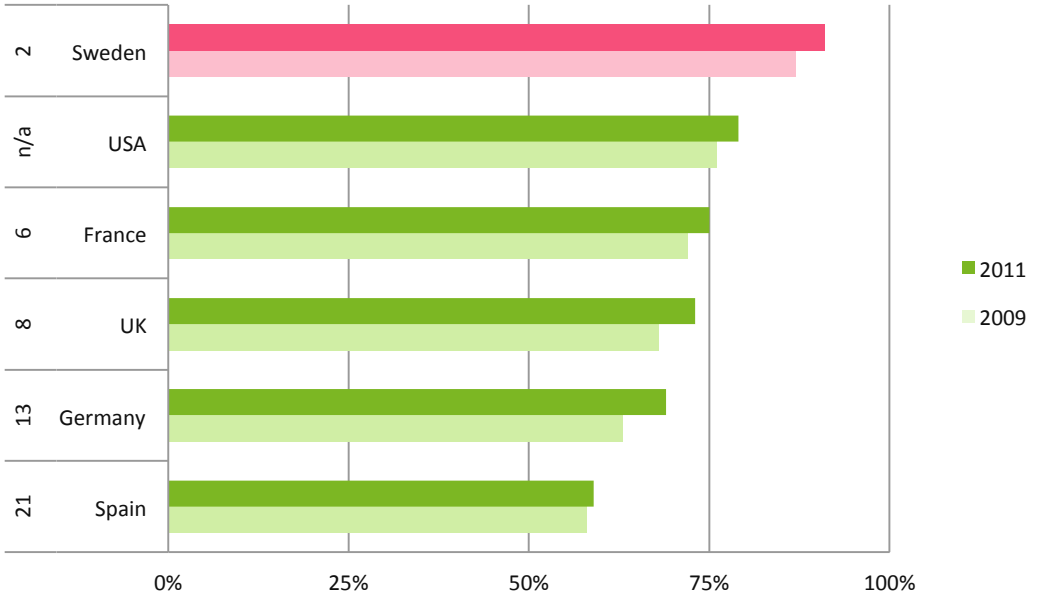
Management

1. *What is the* **role of culture on managerial decisions** *in the recorded music industry? Are there more risk-averse managers than others? Is the entrepreneurial spirit different in the countries? (Tell about Universal and how they send Americans to get trained by the Swedes).*
2. **What is digital music to you** – *in terms of business and money? A nuisance or a new opportunity?*
3. *Which* **country** *do you think has undergone the* **switch to digital music the most successful**? *Could this country be a* **blueprint** *for other countries in order to drive digital sales there? Where do you see Sweden in this comparison?* **How is the development in Sweden different from other countries, e.g. UK, USA, DE, FR, SK?**
4. *Are there any* **other factors** *that made Sweden so good, e.g. market size?*
5. *How will you* **make money in 2020**? *How will the* **industry look like then**? *Who will be the* **most important actors**?
6. *Artists complain that they don't see the money from streaming services. On the other hand the streaming services say that they make the deal with the labels. Do we get that right that the* **payment decision to the artists is up to the label**? *Blunt questions: what percentage (if he likes you: how many cents) do you give to the artists?*
7. *What is your* **opinion on delaying digital (streaming) releases** *to increase other (CD, iTunes) sales?*
8. *How open are other actors in the industry to changes?*

Follow-Up: Stay in touch, Data for us, Contacts for us

II. Share of households with access to at least one personal computer 2009/2010, selected countries incl. worldwide ranking.

Source: European Commission (2011), Economics and Statistics Administration (2011).



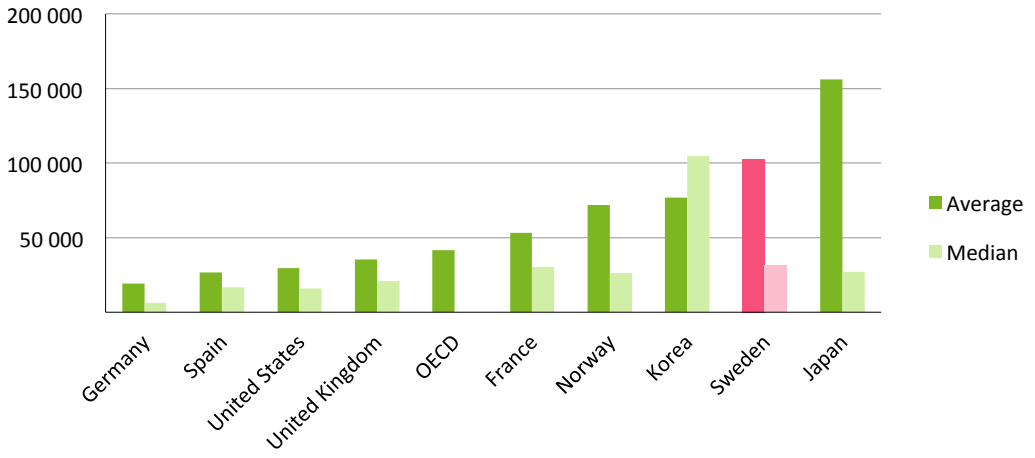
III. Shares of different broadband connections (downstream speed), 2008, selected countries.

Source: European Commission (2009).

	144 Kbit/s to 2 Mbit/s	2 Mbit/s to 10 Mbit/s	More than 10 Mbit/s
Sweden	21%	46%	33%
Portugal	5%	74%	21%
Germany	17%	64%	19%
Europe	25%	62%	13%
Spain	16%	75%	10%
Italy	39%	52%	9%
UK	11%	83%	6%

IV. Average advertised broadband download speed, Kbit/s, September 2011, selected countries.

Source: OECD (2012a).



V. Historical fixed (wired) broadband penetration rates, 2002/Q4-2011/Q2, selected countries.

Source: OECD (2012b).

	2002/Q4	2003/Q4	2004/Q4	2005/Q4	2006/Q4	2007/Q4	2008/Q4	2009/Q4	2010/Q4	2011/Q2
Sweden	8%	11%	15%	21%	26%	31%	32%	31%	32%	32%
France	3%	6%	10%	15%	20%	25%	28%	31%	33%	34%
Germany	4%	6%	8%	13%	18%	24%	27%	30%	32%	33%
Spain	3%	5%	8%	11%	15%	18%	20%	21%	23%	24%
UK	2%	5%	10%	16%	21%	26%	28%	30%	32%	33%
US	7%	9%	13%	16%	20%	23%	25%	25%	27%	27%
OECD	5%	7%	10%	13%	17%	20%	22%	23%	25%	25%

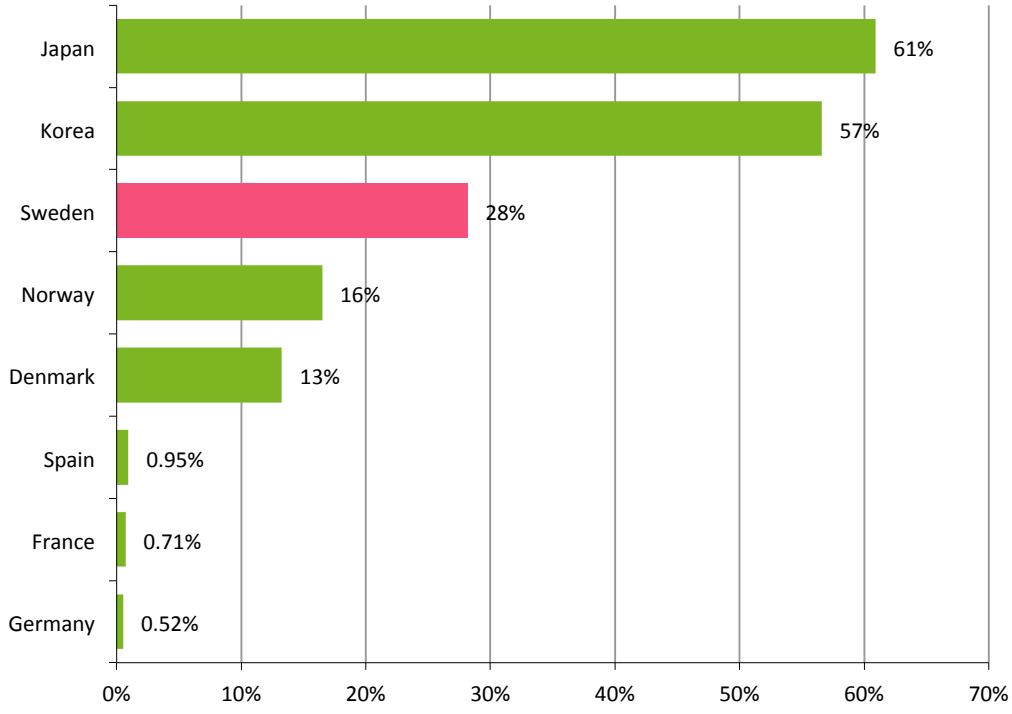
VI. Households with broadband access, 2000-2010, selected countries.

Source: OECD (2012c).

	2003	2004	2005	2006	2007	2008	2009	2010
Korea	66%	86%	91%	94%	94%	94%	96%	97%
Sweden	N/A	N/A	40%	51%	67%	71%	79%	83%
Germany	9%	18%	23%	34%	50%	55%	65%	75%
UK	11%	16%	32%	44%	57%	62%	70%	N/A
US	20%	N/A	N/A	N/A	51%	N/A	64%	68%
France	N/A	N/A	N/A	30%	43%	57%	57%	67%
EU27	N/A	15%	23%	30%	42%	49%	56%	61%

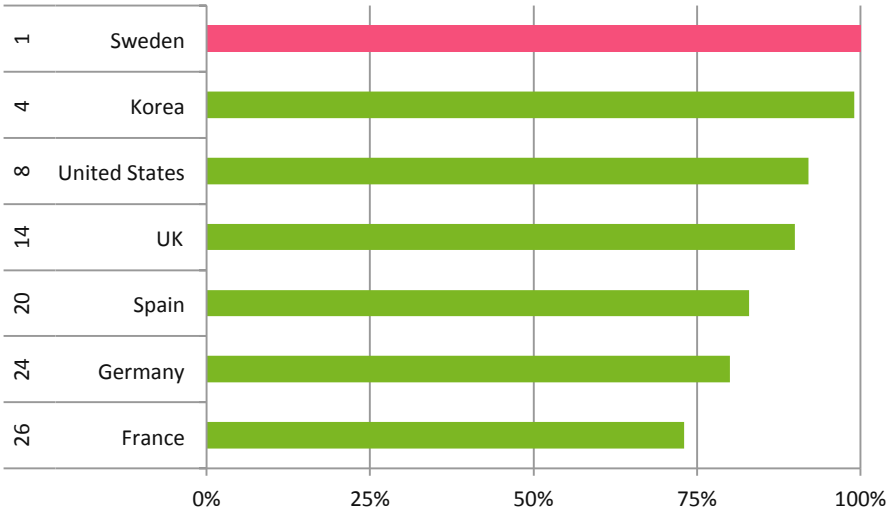
VII. Percentage of fiber connections in total broadband among countries reporting fiber subscribers, June 2011, selected countries.

Source: OECD (2012d).



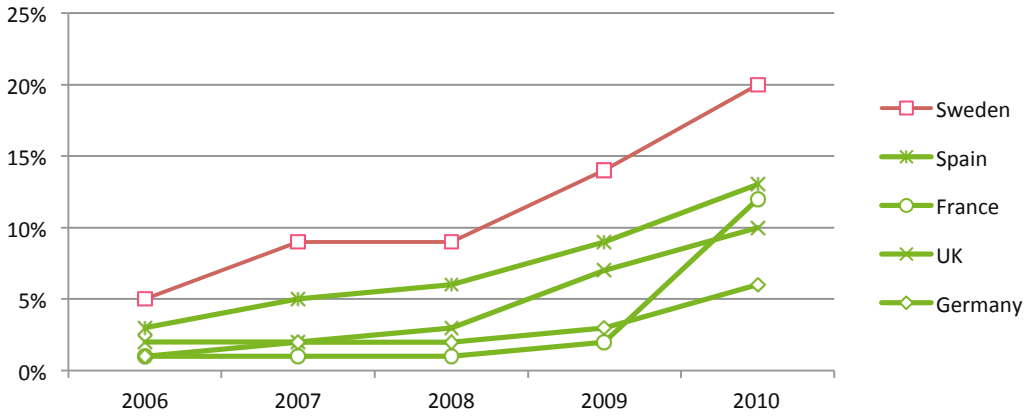
VIII. 3G population coverage, 2009, selected countries incl. worldwide ranking.

Source: OECD (2012e).



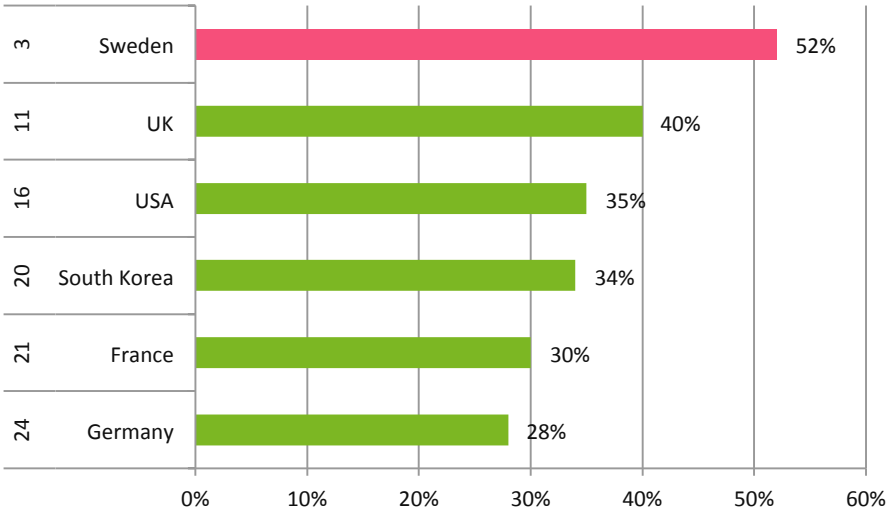
IX. Share of consumers using 3G networks for mobile broadband access, 2006-2010, selected countries.

Source: Eurostat (2012).



X. Smartphone penetration, 2011, selected countries incl. worldwide ranking.

Source: Wired (2012).



XI. ITU ICT Development Index (IDI), 2011, top five per region, selected countries.

Source: ITU (2012).

Regional IDI Rank	Europe	IDI Rank	Asia & Pacific	IDI Rank	Americas	IDI Rank
1	Sweden	2	Korea (Rep.)	1	US	17
2	Iceland	3	HK, China	6	Canada	26
3	Denmark	4	New Zealand	12	Barbados	41
4	Finland	5	Japan	13	Uruguay	54
5	Luxembourg	7	Australia	14	Chile	55

10 APPENDIX B

Appendix B provides transcripts to all interviews conducted for the purpose of the thesis. Please note that for confidentiality reasons these transcripts are not intended to be published or made available to the broad public outside of the Stockholm School of Economics. Thus, they are not part of the main thesis and only available in a separate file.