

Assignment 1 (Part B)

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Programme: e-MBA

Module: Digital Entrepreneurship (BMMB7002D)

Assignment Title: Systematic analysis of Universal Music Group

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1. Executive summary

Many organisations are experiencing deep changes in their business environment for the last two decades due to technological advances. Universal music group is a world leading music company that aims to shape culture through the power of artistry, therefore, the company had developed unique robust entrepreneurial ecosystem around music and digital media.

(Universal Music Group, 2021). Digital entrepreneurship ecosystem refers to capturing opportunities in a vast interdependent internet networks so to create innovative products and services.

Universal music group has a good track record of partnering with promising entrepreneurs and to connect to the wider music business industry, therefore, the company acts as matchmaker. (Evans and Schmalensee 2016, p.1-3). Universal music group encourages entrepreneurs who established their business out of their community, and as such, “61% of universal music group revenue comes from local artist” (Ingham, July 17, 2020)

2. Introduction

Organisations have been affected by the rapid advances of technology in their businesses and market environment, therefore, many organisations adopted a new business model that is technology-led and can thrive in the era of e-business. This report examines the evolution of music industry into digital space and the impact of disruptive technology in the music business. The report will assess the opportunities and threats of e-business as well as shed a light on the consumer wants. In modern and digital age, customers co-create values and develop brand fans in social media platforms, therefore, it is critical that organisations offer the customers an authentic value proposition and place them in the centre of business designing process. The report assesses the market position of Universal Music Group, one of the largest music organisations in the world. The goal of the company is to nurture the next

generation of music-related start ups and developed a culture of risk taking to pursue promising entrepreneurs in the music business. The report will also assess digital marketing by using PEST and SWOT analysis to understand more about Political, Social Technological, etc of e-business environment as well as, the strength, weakness, opportunity and threats that the company faces. Finally, the report will assess consumer needs in the digital age so that Universal Music Group (UMG) can adopt customer centric business strategy to stay competitive in a vast changing and demanding music business industry.

3. Market position of Universal Music Group

Universal Music Group (UMG) was established in 1995, when Music Entertainment Group, merged with Universal Studios Inc to form overall entertainment brand. Universal music group is a global leading music company that is home to popular labels as well as recording studios that possess cutting-edge technology and artistry. UMG has the biggest global market share that is approximately 34% and focuses on emerging markets such as China and Brazil. To stay competitive in the age of digitalisation of the music space, the company pushed for digital innovation initiatives such as the Universal Music Group's Accelerator Engagement Network, Capitol360 Innovation Centre, in-house incubator Abbey Road RED, and Digital Innovation Licenses. (Universal Music Group, 2021). UMG embraces the value of innovation in order to increase company's chances to react to a fast-changing business environment and to explore new opportunities. The digital disruption of the 21st century in the music business was profound and emergence of the internet that possess capacity of sharing files had dramatically changed how consumers engage with music. (Tschmuck, 2006). New streaming services gained greater access to the market such as Napster, iTunes, Pandora, Spotify, MySpace and Youtube, hence, changed the way in which music fans interact with music. UMG agreed partnership with Spotify to further the evolution of digitalising of the music industry. Moreover, there is steep digital sales of UMG and subsequent decline of physical

sales for the past seven years. The financial data of the years 2019 to 2020 is summarised in table 1:

Table 1: Revenue and EBITA of UMG, 2019- 2020, Million Euro

<i>in euro millions</i>	2019	2020	Δ organic (%)*
Revenues	7,159	7,432	+4.7%
Recorded music	5,634	5,967	+6.7%
<i>Streaming and subscriptions</i>	3,325	3,833	+16.2%
<i>Other digital sales (mainly downloads)</i>	428	413	-3.6%
<i>Physical sales</i>	1,011	945	-6.0%
<i>License and Other</i>	870	776	-9.9%
Music Publishing	1,052	1,186	+14.4%
Merchandising & Other	489	292	-39.6%
Intercompany Elimination	(16)	(13)	
EBITDA	1,267	1,487	+19.0%
<i>EBITDA margin</i>	17.7%	20.0%	
EBITA	1,124	1,329	+20.1%
<i>EBITA margin</i>	15.7%	17.9%	
CFFO	704	50	
<i>of which net content spent** and catalog acquisitions</i>	(465)	(1,517)	
<i>capex</i>	(73)	(65)	

Source: (Vivandi, Full year 2020 results, 2020).

The table shows that physical sales declined while digital sales (particularly, revenue from streaming and subscriptions) had increased substantially and resulted 20.1% increase of UMG's earnings before interest, taxes, and amortization (EBITA).

4. Digital disruptions of the music market industry

According to Christensen “Disruptive Innovation describes a process by which a product or service initially takes root in simple applications at the bottom of a market—typically by being less expensive and more accessible—and then relentlessly moves upmarket, eventually displacing established competitors”. (Christensen Institute, 2021). Digital disruption in the music industry had offered an opportunity of rapid growth for digital entrepreneurs recently. There is shift of music consumer wants as people can download any song they want from the

internet and through file-sharing platforms for free. The digital disruption has been a challenge for the music industry; however, the era had been an opportunity for emerging artists who might otherwise never have a chance to succeed. In 1999, Napster was released and changed how we engage and listen in music for ever. Napster vision was that the future of music is through internet and not in cassettes or CDs. Some commentators claim that Napster inspired the introduction of Apple iTunes, Youtube, Spotify and other social media to thrive, all of which dominate how we consume music today. The music industry initially struggled how to profit from the internet, however, the music industry after decade of low growth had figured out how to profit from online. The lengthy waiting period almost destroyed the business, until streaming came to the rescue years later. (Dowling, 2019).

4.1. Digital marketing opportunities and threats in the Music industry

Digital marketing is described as marketing activities of goods and services by using digital technologies to engage with potential consumers and turn into prospects and future customers. (Kotler et al, 2020. p23, 519-521). The consumer love for digital technology makes it attractive platform for marketers trying to engage with customers, therefore, it is no surprise that the internet and digital technology taken the marketing world by storm. In the 1990s, people can only buy an album and might only be interested in one song, therefore, the practice was unattractive and expensive for consumers. Digital marketing entrepreneurs had long understood the value of co-existing with the customer needs, hence, customer feedback become the centre of product making process. Advantages of digital music marketing is that it is cheaper and offers higher return on investment. Another advantage of digital marketing is the masses outreach with ease; therefore, brand coverages and junior music entrepreneurs can be viral by using social media. On the other hand, the digital music can be subject to fraudulent trade practices, hackers, and spam issues, which can prevent consumers from using online. Moreover, brands are sensitive to poor review and feedbacks, thus, poor social

media rating can be a challenge. Also, the initial set up of streaming channel or online music business can be expensive for start-ups.

4.1.1. PEST and SWOT analysis in digital marketing

PEST and SWOT are effective methods to analyse the business planning ahead as well as to understand company's marketplace. PEST refers to Political, Economic, Social and technology analysis to understand the environment that a business operates. Releasing some western songs can be a challenge in some countries, for example, in middle eastern countries, therefore, digital entrepreneurs should understand the geo-politics and social aspect of a particular region. On the other hand, technology and music streaming had recently skyrocketed and UMC expanded its licences to companies like Boomplay in Africa with the potential of 50 million active users. (Universal Music Group, 2021).

SWOT which is abbreviated for Strength, Weakness, Opportunity and Threat can be effective analysis tool for any project in the music business. Many entrepreneurs have good ideas but fail at their projects like a record release because they did not plan well. It is important that entrepreneurs to understand where strength or weakness stems from. For example, strength and weakness can be internal and within the project, whereas opportunities and threats can be from external environment such as competitors or legal aspect of the business. (Probst, 2020).

5. Consumer wants and dynamics in the digital age

There is a new type of digital music consumers that can exploit internet platforms and can experience unlimited digital inventories of digital music (Anderson, 2008). Customers want music that can be accessed instantly at relatively cheaper cost than buying a whole album.

In modern digital music service, customers can co-create values and can co-produce the content he/she consumes, therefore, customer are more important than the content of the digital music. (Goggin and Spurgeon, 2007).

6. Conclusion

The report analyses shed a light on the impact of technological advances in the music industry. Universal Music Group had introduced number of digital innovations to stay competitive in the music industry. The report assesses UMC's marketplace and finds that UMC is a global leading digital music company with a whopping global share of 34%. The report analysed the impact of disruptive technology in the industry and how the music industry struggled in the early digital boom days. To understand the business environment, the report proposed brief analysis of PEST and SWOT that are effective methods to plan business ahead. Finally, the report assessed modern consumer wants and the importance of engaging more with the customers instead of just focusing on contents.

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