

SONY MUSIC ENTERTAINMENT

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SONY & BMG
MUSIC ENTERTAINMENT

EXTERNAL ANALYSIS

- PESTEL Analysis
- The Five-Forces Model



P.E.S.T.L.E. ANALYSIS

- Political Factors
- Economic Factors
- Socio – Cultural Factors
- Technological Factors
- Legal Factors



POLITICAL FACTORS

- Sony Corporation's head quarters are based within Minato, Japan
- SME's corporation's polices are entirely different although it is considered a branch office
- Legislation
 - The Consumer Broadband & Digital Television Promotion Act
 - P2P Piracy Prevention Act
- Upon the agreement of the joint venture SME received the blessing of the European Union believing that the merger will drive growth, job creations, and innovation ¹

ECONOMIC FACTORS

- Success for music is determined by the taste of the people who listens to it.
- Incorporated as many labels (Public and Independent) as possible
- Invest in generally favored genres as they provide the safest investment.
- Decline in album sales and the rising costs of producing music.

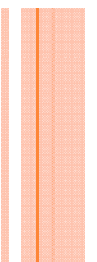
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- News
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Labels

International
COMPANY LINKS >>



SOCIO – CULTURAL FACTORS

- Marketing toward demographics
- Large enough to produce material for all genres, ages, and gender.
- Houses a number of popular artists on the Billboards.

The Billboard Hot 100



Billboard Celebrates 50 Years Of Hot 100 Hits.
Click Here to visit the special 50th Anniversary Section.

2	28		Beyonce <small>tm</small> FIND TICKETS	BUY	Peak: 2	Wks On: 6	
Single Ladies (Put A Ring On It) Listen							
AIRPLAY GAINER Music World DIGITAL Columbia							
3	3		Beyonce <small>tm</small> FIND TICKETS	BUY	Peak: 3	Wks On: 7	
If I Were A Boy Listen							
Music World DIGITAL Columbia RIAA ●							
12	7		Britney Spears <small>tm</small> FIND TICKETS	Womanizer Listen	BUY	Peak: 1	Wks On: 8
Jive DIGITAL Zomba							
18	17		Leona Lewis <small>tm</small> FIND TICKETS	Better In Time Listen	BUY	Peak: 11	Wks On: 20
SYCO/J DIGITAL RMG							
26	24		Christina Aguilera <small>tm</small> FIND TICKETS	Keeps Gettin' Better	BUY	Peak: 7	Wks On: 8
RCA DIGITAL RMG							
40	37		Chris Brown <small>tm</small> FIND TICKETS	Forever Listen	BUY	Peak: 2	Wks On: 31
Jive DIGITAL Zomba							



TECHNOLOGICAL FACTORS

- “Digital Rights Management “
- Investment in Mp3 technology
- First to offer DRM free songs
- Allow their music database to be available for download with 200,000 songs available at Amazon.
- “Extended Copy Protection” XCP and “Media Max”.
 - Invasion of Privacy



LEGAL FACTORS

- Known for actively violating consumer privacy
- “Extended Copy Protection” XCP and “Media Max”
 - Installation of software application without consent
 - Left Computer vulnerable to Viruses and Spyware
 - Patches criticized for masking files and installation of software that could not be removed



LEGAL FACTORS II

- Discovery led to a mass product recall
- Numerous lawsuits followed for the violation of privacy.
- States (Texas, California, Florida) all ruled that the applications installed were forms of spyware and immediately removed from all IP addresses from those respective states.

FIVE-FORCES MODEL



SUPPLIER POWER

- Supplier Power is stretched both ways
- Level of Influence and bargaining power over SME is determined by
 - Who the Artists are
 - How famous they are
 - How in demand they are
- However, due a massive pool of artists to choose from, SME lessens the power that artists have over them.

BUYER POWER

- Consumers have a lot of buyer power.
- May not necessarily need or want to buy it
- Digital music era
 - Illegal Downloading
 - Peer-to-Peer
 - File Sharing
 - Streaming Free Music Online
- Consumers may ultimately affect the company and the music industry itself reflected by the three-year decline in album sales

DEGREE OF RIVALRY

- Significant factors such as
 - Brand identity
 - Product differentiation
- Main competition derived from the Big Four —
 - Universal Music Group
 - Warner Music Group
 - EMI Group
- Uniqueness and branding sets SME apart and gives it the strength to be ahead of the competition.

THREAT OF NEW ENTRANTS

- Barriers to entry are high.
- The power of influence and competition by Big Four provide difficulty for small labels to survive.
- Not an easy feat to accumulate “a roster of current artists that includes a broad array of both local artists and international superstars”
- It would require a lot of capital and a great deal of time and expertise to build the “largest, oldest, and most diverse catalog of musical recordings in the world”

THREAT OF SUBSTITUTES

- Substitution is easy and viable
- Online Entertainment
 - Download or stream music (legally or illegally)
 - Mp3 vs. Physical CDs



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INTERNAL ANALYSIS

SME Value Chain and VRINE



*Inbound
Logistics*

Operations

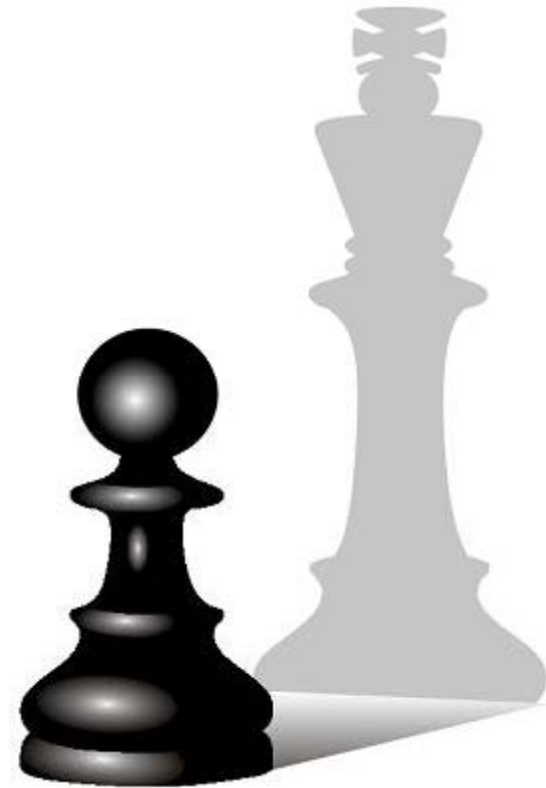
*Outbound
Logistics*

*Marketing
& Sales*

Service

SME FIRM STRATEGY

- Diversified revenue portfolio
- Digital distribution strategy
- Innovate mp3 formats
 - FLAC or Mp4
- Limit acts of Piracy
- Legitimate alternatives to P2P Networks
- Legislation



SOLUTIONS AND RECOMMENDATIONS

- Ease licensing restrictions
- Develop digital copy protections for music
- Invest more in online subscription services
- Focus on long-term potential instead of short-term losses
- CD pricing change (added-value)
- Embrace MP3s as another retail form
- Adoption of SACD & DVD-Audio (higher quality)



SONY & BMG
MUSIC ENTERTAINMENT

Sony Music Entertainment Company Analysis



MANA 124

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Introduction

Sony Music Entertainment began as a corporate joint venture between SME and Bertelsmann Music Group in August 2004. In agreement with the terms established both companies owned 50 percent of all labels acquired beforehand. Soon after the merger SME and BMG Sony BMG became the largest distributor of music and labels in the world second only to Universal "UMG".

On August 2008 Sony Corporation of America agreed to buy Bertelsmann's 50% stake in the music company for \$1.2 billion to \$1.5 billion. The newly bought corporation was renamed Sony Music Entertainment Inc. to reflect of the revival of SME prior to the merger in 2004. Headquartered at New York City, the corporation has continued to thrive as a wholly owned subsidiary of Sony Corporation of America.

I

External Analysis

This section will analyze SME as a large record label company by using both the PESTEL Analysis and the Five-Forces Model. The PESTEL Analysis will examine the political, economic, socio-cultural, technological, environmental, and legal forces impacting this industry. The Five-Forces Model will consider how supplier power, buyer power, degree of rivalry, threat of new entrants, and threat of substitutes affect record labels.

Pestle Analysis

Political Factors

Concerning the Political Policies of SME it should not be confused with the policies of its parent company Sony Corporation. Due to the fact that Sony Corporation's head quarters are based within Minato, Japan, the corporation's policies are entirely different from that of the US. Before the merger Sony Music Entertainment was a label controlled by the Sony Corporation of America and BMG was a division of Bertelsmann based in the European Union. Upon the agreement of the joint venture SME received the blessing of the European Union believing that the merger will drive growth, job creations, and innovation (NYPost).

Economic Factors

As the success of music is determined by the taste of the people who listens to it, it is very difficult for SME to determine who will become an A list celebrity and who will not. To counter this, SME has adopted as many labels both public and independent as possible in attempt to broaden their variety and range of music. In order to follow the economic trends of music a majority of artists who are with SME are involved in Rock, Pop, Hip Hop, and R&B. These genres are typically the most widely accepted and provide the safest investment. As music trends shift and market cycles change, the major record labels invest heavily in finding new talent and creating pools of unused material. This enables the artists to draw upon and

quickly produce new material if they prove to be popular with the public. As with Universal Music Group, SME is a product oriented business. With the massive decline in album sales and the rising costs of producing music, Sony has adopted new measures to invest in. One such measure includes publicly shared Mp3s available for direct download that can be individually sold online via iTunes or Rhapsody.

Socio-Cultural Factors

As for marketing toward demographics, SME is a business large enough to produce sufficient material for every genre to appeal to any age regardless of gender or education. Based solely on their popular artists, they number in the 100's spanning every genre. As for other social aspects such as Ethical issues, Health, or Occupations, they do not directly affect or impact how well an artist will perform. Artists make money based on sales or endorsements of their music, and the attendance and demand to see them live for concerts.

Technological Factors

As mentioned before, SME is a product oriented company; therefore, staying on top of technology determines whether the company will continue to flourish or face continued receding profits. Typically revolving around technology help thwart purchasers from successfully ripping their CDs; SME had always been strict about their "Digital Rights Management ". In later 2005 and early 2006, people discovered that after purchasing BMG products, Sony spearheaded a plan that installed software to disrupt the Operating System (Root). It prevents the users from successfully ripping the CDs and ultimately left the computer more vulnerable to viruses and illegal tracking IP addresses.

After the scandal, SME began to invest in Mp3 technology and in February 2008 came to an agreement with Amazon.com to allow their music database to be available on Amazon with nearly 200,000 songs available within the first month. This was the first online music store to offer DRM free songs from all of the four major labels (Wired). Later that month, Steve Jobs announced that music published under the SME label would also be available from iTunes.

Environmental Factors

Environmental issues are the least of SME's concerns. All products published under the label are intellectual property and is increasingly becoming more Mp3 based format rather than CD based formats. If SME becomes completely internet based, then the company would be even more environmentally friendly as it would give off no excess waste that could be harmful to the environment.

Legal Factors

Known in 2005 for actively violating consumer privacy, SME included copies of “Extended Copy Protection” XCP and Media Max. The software installed programs to a consumer’s computer without their consent and prevented them from successfully ripping the music. Moreover, it left the computer more prone to virus attacks. Mark Russinovich was one of the first computer users to notice the problem and demanded that something be done about it. SME quickly released a patch to delete these files from user’s computers. However, upon further inspection it was discovered that the patches merely unmasked the hidden files and installed additional software that could not be removed. This discovery led to a mass product recall for a majority of SME based products and eventually lead to numerous lawsuits from the states against SME for the violation of privacy. States such as Texas, California, and Florida all deemed that the additional programs installed were forms of spyware and should be removed immediately from all IP addresses from those respective states.

Five-Forces Model

Supplier Power

Supplier power is stretched both ways. Depending on who the artists are, how famous, and in demand they are will determine their level of influence and bargaining power over SME. Artists like Beyonce and Usher have talents that are unique; their services are in demand. For this reason they would have more strength and control to influence and impact SME than someone who is relatively new like Jordan Sparks. On the other hand, SME have a massive pool of artists to choose from, therefore lessening the power that artists have over them. If one artist does not work, then the cost to switch to another would be relatively low.

Buyer Power

Consumers have a lot of buyer power. Although they can like the music albums provided, they do not necessarily need to or want to buy it. With the digital music era comes illegal downloading, pier-to-pier file sharing, and free music online. What consumers decide to do can ultimately affect the company and the music industry itself; hence the three-year-long decline in album sales (Hoovers).

Degree of Rivalry

Like other competitive industries, factors such as brand identity and product differentiation are significant to record labels like SME. Behind Universal Music Group, SME is the 2nd largest music business in the world. Although there are various independent labels, SME’s main competition comes from three main companies—Universal Music Group, Warner Music Group, and EMI Group, that with SME make up the Big Four. Even though each competitor offers equally attractive products and services (artists), it is the *uniqueness* and

branding of each artist that SME offers that sets the company apart and gives it the strength to be ahead of the competition. For example, there will only be one and only one Elvis Presley—who happens to be under SME. It is this artist ‘branding’ that gives SME a competitive edge.

Threat of New Entrants

Considering the tangible *and* non-tangible asset-intensive nature of record labels, the barriers to entry are high. However, that is not to say, new competition can not enter; it is just the matter of being able to *survive* within the market when the power of influence and competition from the Big Four are so great and intense. After all, it is not an easy feat to accumulate “a roster of current artists that includes a broad array of both local artists and international superstars” as is the case with SME (Indeed). The company has artists from every letter of the alphabet except for Z, who are discovered from all different parts of the world. It would take a lot of capital and a great deal of time and expertise to build the “largest, oldest, and most diverse catalog of musical recordings in the world” (Thinkmap).

Threat of Substitutes

With substitution being easy and viable, it weakens SME’s power both to compete and over its customers. Due to the digital revolution, consumers do not need to rely solely on music albums and services provided by record labels to get their music. Instead of going to Target or the mall to buy CDs, consumers can simply go online to download music (legally or illegally), or just listen to music directly online provided by sites like Imeem or YouTube.

Internal Analysis

Internally a company is about its resources and capabilities. SME has many resources in the form of its wealth of artists and record catalogs. The company relies on inbound logistics based on its ability to continuously contract new talent. Utilizing the great amount of record labels and diverse pool of human-capital (artists) it holds, SME has created value that other record label companies has difficulty matching. In addition to its wide variety of music selections and labels, SME also have many independent labels that it distributes to enable the company to remain strong.

Value Chain

SME also has many capabilities as described by the Value Chain [See Appendix A]. SME’s strongest capability is its diversified roster of local and international artists. The company has a wide array of music genres ranging anywhere from Hip-Hop to Pop or R&B, Rap, Classical etc. With the nature of this industry being highly human-capital intensive and thriving on the demand for what its artists produce; it is essential to maintain a good relationship with both its artists and audiences (consumers). The purpose is to be able to gauge what the audience wants, and provide them with the right people and music from their massive pool of talents.

Some of SME's support activities include the size of the company and its human resources. The continuous search, acquisition, and endorsement of talents support the company's growth and recognition while the acquisitions and mergers enable the company to grow and be as large as it is today. Originally SME was recognized as Sony BMG because it was a joint venture between Sony and Bertelsmann BMG in 2004. The large merger created a music giant that was able to propel Sony BMG into the number two position past EMI. Nevertheless, on October 1st 2008, Sony bought out the other 50% of Bertelsmann's holding in the venture for \$1.2 billion in cash and took full control of the company. The buyout was beneficial since it ended a partnership that was often times turbulent between Sony Music Entertainment and BMG Entertainment (Hoovers).

Despite continuously bringing in fresh new talent and expanding the company, SME still was a victim to music piracy of both physical CDs and online digital music. After several failed attempts of using sometimes illegal means of technology to stop music piracy, SME opted for a more preventive rather than reactive approach. They finally realized it was better to appease the very people who are the main contributors to their revenue stream, rather than fight them. Therefore, as slow as SME were to adapting and embracing digital music, when they did made the switch, they launched a service with a proprietary encoding system that required no specific support in its players to accommodate the typical MP3 format (MobileCast). In addition, the company dropped the old and cumbersome mainframe license IS and went for Sybase technology to enhance its services in the extremely competitive market (Sybase). The technology enables SME to develop a flexible and powerful system providing much more clarity and efficiency throughout the company.

VRINE

SME's extensive roster of artists attracts and appeases customers from diverse demographics and regions all over the world (See Appendix A). Applying the VRINE model, SME's ability to provide an array of musical talents and genres is what gives the company such high value for consumers. Furthermore, the model also indicates that the distinct pool of talents is SME's core competence. No other competitors have the exact same artists under them that SME has. It is the unique branding and recognition attained by the artists that boosts their popularity and demand which makes it difficult to imitate. The difficulty and expense of searching for talent and making that talent uniquely a hit has given SME a rare advantage that is nonsubstitutable. When peer-to-peer file sharing and digital music came to the music industry taking business from the record labels, it was difficult for SME to exploit its product and services. But now as they are quickly adapting to the new digital music era and attacking the online music market with a vengeance, SME is able to once again offer competitively priced services and products (music).

Firm Strategy

For one company so large, it is not surprising that it would have more than one strategy to tackle. According to NewsBlaze, SME will "aggressively pursue its digital distribution strategy and exploit new opportunities in packaged media from formats such as UMD and Blu-ray disc". The goal was synergy. They want to link all the segmented digital music efforts such as in the hardware, online sales,

and software units to assist the company in creating a more user-friendly digital music system (Williams). By working closely together, it will make it easier and more efficient to innovate MP3 formats. In addition, pursuing the digital distribution method will also help SME cut down on its manufacturing costs.

At the same time, the company also aims to take full advantage of its core competence and exploit its wealth of unique artists to the audiences—the differentiation strategy. By creating a large pool of in-demand and irreplaceable performers, it will secure SME's place within the industry and make it harder for competitors to follow suit. To be different is good, but to be different *and* good at what you do is even better. Consumers would be more willing to spend money on something if they deem it more worthy of their time and money than some other average thing. So the point is to have artists who are good, unique, and popular enough to drive and sustain demand.

SME also endeavor to keep on expanding the size of the company and diversifying its revenue portfolio in the form of royalties and music licenses within the various entertainment industries. On Oct 9, 2006, the company signed a contract with Google to make their “expansive music video collection available for online streaming” that costs nothing for users (Press). While offering the music video catalog for free, revenue is generated through Google's advertisers. Early last year, the company announced its investment in ACCESS China Media Solutions to “develop and distribute world-class solutions for delivering mobile music and multimedia entertainment to wireless customers throughout China and other Asia Pacific” market sectors (ACCESS). These solutions will provide music experiences in the highest quality with user-friendly interfaces and features on mobile platforms. It will be economically viable for SME to distribute their products and services in the China market and throughout the rest of the world.

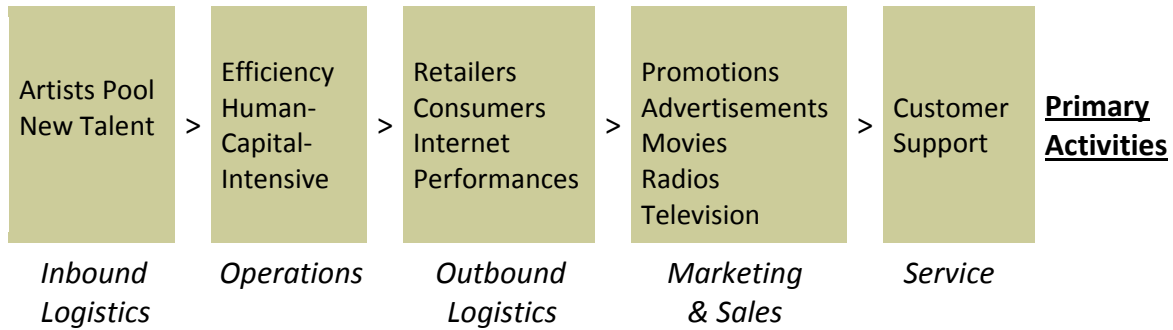
As for addressing the problems with music piracy, SME has taken measures similar to those of other major record labels. Litigations and legislations were filed and enforced. Copy protection and preventive steps such as data encryption, water marking, and spoofing were implemented. However, the main focus was to promote legitimate alternatives to P2P networks while at the same time, discourage the practice of illegal downloading. When SME was still Sony BMG, the two giant created PressPlay as a subscription-based download service in attempt to limit illegal downloading. Later, SME started offering Platinum MusicPass; a new downloading service where the MP3 format is free from protection schemes.

Conclusion - Solutions & Recommendations

Imposing fear upon the consumers through litigations and legislations will only help SME to a certain extent. What SME should do is focus more on long-term potential gains rather than on short-term losses. The company should learn to embrace the technological changes that come along instead of resisting it. While they can continue to develop digital copy protections for their music, they can also invest more time and money in online subscription services. Furthermore, since the sales of CDs have been gradually declining, it would be wise to market CDs that has added-value (i.e. free poster, deluxe

box set, coupons, discounts etc.) The added-value will give the consumers more incentive to buy the CDs, because it will give them the feeling of getting their money's worth and more. Moreover, SME could also start embracing MP3s as another form of retail rather than just CDs alone. And for those consumers who enjoy high quality music, SME can focus on adapting the usage of SACD & DVD-Audios to reach them and further expand their revenue stream.

Appendix A SME Value Chain



Firm Infrastructure

- Hierarchical
- Cost Cutting

Human Resources

- Diverse workforce (various kinds and types of artists)
- Continuous talent search

Technology Development

- Sybase Technology
- Platinum MusicPass
- DRM

Procurement

- Many Acquisitions
- Size of Company
- Merger

Support Activities

The Billboard Hot 100



Billboard Celebrates 50 Years Of Hot 100 Hits.
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Rank	Change	Artist	Track	Label	Peak	Wks On
2	28	Beyoncé	Single Ladies (Put A Ring On It)	Music World DIGITAL Columbia	2	6
3	3	Beyoncé	If I Were A Boy	Music World DIGITAL Columbia	3	7
12	7	Britney Spears	Womanizer	Jive DIGITAL Zomba	1	8
40	37	Chris Brown	Forever	Jive DIGITAL Zomba	2	31

18	17	Leona Lewis	tm FIND TICKETS	Better In Time	Listen	BUY	Peak: 11	Wks On: 20
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26	24	Christina Aguilera	tm FIND TICKETS	Keeps Gettin' Better		BUY	Peak: 7	Wks On: 8
		RCA	DIGITAL	RMG				

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