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# 1 Introduction

In this chapter we will introduce the purpose of our study. We will start with a background for our study and through a problem discussion argue for why the subject chosen is of interest. To be able to keep the study focused we have delimited our study which we will discuss in the end of the introduction.

## 1.1 Background

The new Intellectual Property Rights Enforcement Directive (IPRED) law has made the question about illegal downloading more essential than ever.

For more than 10 years ago could anyone who wanted to listen to music chose between alternatives such as cassette tape or CD/LP discs. Since that time, the technological evolution has made it possible to consume music through easy downloading via Internet. The first global program called Napster gave the consumer the alternative to download music for free. The technique which Napster used was the so called anonymous peer-to-peer (P2P) which made you invisible while downloading music or such. This was in 1999 and ever since then there has been a desire of generating more improved ways of downloading (Chissick, 2002).

10 years later, in 2009, the alternative for downloading music is the BitTorrent. BitTorrent is one of the most common protocols for transferring large files, and it has been estimated that it accounts for approximately 27-55% of all Internet traffic today in Europe according to the German based company Ipoque's 2008/2009 Internet traffic report (IFPI). This has been observed by the Swedish government and the music companies. The music industry suffers a decrease in revenue due to the illegal downloading and the contradistinction from the artists and the companies just grows bigger. Pressure from the artists and the music companies have led to new legislations and new ways of thinking regarding the illegal downloading. In 2003 the first directives called (2004/48/EC) were presented by the European Union. It was a motion mainly based upon the big market, especially from Asia where fake goods sold in a devious purpose were common. The intentions were to prevent the product imitations, e.g. branded clothes and designer bags (Öhman, 2009).

A series of comprehensive legislative proposals were suggested with the focus of the copyright. The discussions came across imposed penalty for file sharing which some wanted to be 4 years, same length as rape, arson and aggravated assault. The EU nations could not agree to this and the imposed penalty was later mitigated. The motion was in 2004 reformulated for the possibility to request IP-addresses from different Internet providers. The Intellectual Property Rights Enforcement Directive was passed the same year and became known as IPRED. When the first case in 2008 was brought up in the EU court, disagreements among the involved parties led to a new arrangement where all

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the EU nations were responsible that the directive was followed. This is how the Swedish version of IPRED was proposed. The law was introduced 1st of April 2009. The law gives the movie and music companies the right to take legal action against illegal downloading. It provides the possibility to gain access to IP numbers which have downloaded any copyright protected material for no cost. The information will later be used to send admonitory letters and sue computer users (Swedish Ministry of Justice, 2010).

## **1.2 Problem Discussion**

In the last decade the music industry has been suffering since more and more people choose to download music illegally instead of buying the records in a store. It has been very hard for the music industry along with the traditional record-stores to compete with the illegal downloading. Most people do not choose to pay for a record when they can download it for free. But with the IPRED-law in affect and legal alternatives such as Spotify on the rise, the music industry has a huge potential in retrieving many of the illegal "downloaders". If the music industry can provide a legal alternative, illegal downloading might be decreased but it has to have good quality and a reasonable price. The last couple of years the music industry has been trying to find a way to prevent the illegal downloading, they have been going through a transition from a physical product, the traditional CD, to a digital product that will be available on the internet (Wikström, 2006).

With these thoughts in mind we have come up with some research questions that we believe are interesting and related to this subject.

- How has the music industry handled the transition of music from physical products to the digital media?
- Is there a possibility that the legal alternatives to illegal downloading (e.g. Spotify) will be successful or will the illegal downloading continue?
- What proactive methods against illegal downloading can be effective?

The time aspect concerning our two last research questions will be viewed from a 1-5 year perspective.

## **1.3 Purpose**

The purpose of our study is to find out if there are any proactive methods against illegal downloading that will work in practice, not just in theory and also how the music industry has handled the ongoing transition from the traditional CD sales to the digital media. We also believe that it would be interesting to see if the legal alternatives such as Spotify can be a long term solution for the music industry.

## **1.4 Positioning our study**

Since the topic of our study is fairly new there are not that many academic reports to base our research on. But there are some bachelor theses that cover the area to some extent. We want to position ourselves differently than those papers by looking into if there can be an effective proactive approach against illegal downloading. From what we have found there has not been much or even any research at all about this.

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## 1.5 Interested Parties

The topic of this thesis can be very interesting for several parties. Companies involved in the music industry along with researchers within the same field will find this thesis interesting because it will provide useful information that they can make use of. Since this topic has been widely debated in media, several other parties that do not have a specific connection to the music industry itself might find this thesis interesting.

## 1.6 Delimitations

We will delimit our thesis in the following ways;

- We have geographically delimited our thesis to Sweden and the effect IPRED carries
- We will not look deeply into the laws supporting IPRED.

## 1.7 Definitions

**Antipiratbyrån** - the "Swedish Anti-Piracy Bureau"

**File-sharing** - the practice of distributing or providing access to digitally stored information, such as computer programs, multi-media (audio, video), documents, or electronic books.

**Ifpi** - the International Federation of Phonogram and Videogram Producers

**iTunes** – is a digital media player application, used for playing and organizing digital music and video files.

**MySpace** - a social networking website

**Napster** - was an online music file sharing service

**Netnod** - the largest operator of Internet exchange points in Sweden

**Qtrax** - an advertiser-supported free music download service

**STIM** - Swedish Performing Rights Society. Oversees collection and payment of music royalties in Sweden

**SpiralFrog** - was a music download service

**Spotify** – See Appendix 1: Spotify

**The pirate bay** - a Swedish website that indexes Bit Torrent

**Vodder** - a commercial video-on-demand service

**YouTube** - a video-sharing website on which users can upload, share, and view videos.

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## 2 Method

In this paper we want to focus on the methods that can be viable for the music companies in order to adapt to the technology evolution. Our primary object is to investigate on what proactive methods against illegal downloading that can be effective. We would also like to see how the music industry has handled the transition of music from physical products to digital media. Furthermore, we will look in to the legal alternatives and the factors regarding marketing, technique and legislations which the current music companies struggle with today.

We want to see how our respondents look upon the state of the music industry today and how it will become in the upcoming future. In addition, investigate how much the IPRED-law has affected people's downloading habits.

### 2.1 Research Approach

Our research is a mix of descriptive, explorative and explanatory research since we used different ways in collecting our data and have research questions that require different types of research.

The design of the research strategy is of importance due that a well chosen strategy will benefit when answering the research question as well as meeting the objectives with the study (Saunders et al, 2007). There are two different types of studies that can be conducted: the quantitative study (data that can be numerated) and the qualitative study (data that is of non-numerated data, e.g. opinions). A qualitative research has almost every time a low degree of standardization and the respondent is allowed to answer with his/her own words (Patel & Davidson, 2003).

The qualitative method consisted of two interviews with different approach. Qualitative data range from a short list of responses to open-ended questions in an online interview (Saunders et al, 2007). Since our first respondent, Daniel Johansson was unable to schedule a meeting we sent him an online questionnaire in order to collect information. The information from our other respondent, Patrik Wikström, was collected through a personal meeting with standardized questions.

We believed that this was the best method to use in order to get satisfying data from our investigation. We wanted to receive well-formulated answers from the respondents in order to make our own interpretations.

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### 2.1.1 Inductively-based analytical procedures

There are two styles of reasoning to examine in order to accomplish a well-structured thesis work. The approaches are the deductive and the inductive reasoning styles. Inductive reasoning involves moving from a set of specific facts to a general conclusion. It uses premises from different objects that have in some way been examined and studied in order to establish a conclusion about an object that has *not* been examined. It is a form of theory building where specific facts are used to create a theory that explains the relationships between the facts. This creates and allows a prediction of future knowledge (Saunders et al, 2007).

The approach in this paper is mainly to create our own relationship and connections between parties involved in the technology development. The paper also takes a normative approach when we focus on how the music industry adapts to new technique. We have decided to go for the inductive approach which we found most suitable for our research (Yourdictionary.com, 2005).

### 2.1.2 Deductively-based analytical procedures

Deductive reasoning means that you investigate theories you believe are necessary for your research, and from those create a hypothesis and different statements in order to test these against the interviews and empirical data you collect throughout the empirical investigations (Saunders et al, 2007).

#### Pattern matching

- Develop a conceptual framework to explain expected findings
- Seeking match for explanations in the conceptual framework

#### Explanation building

- Development of conceptual framework for explanation during analysis

### 2.1.3 Exploratory studies

Exploratory studies try to explore and ask questions about what is happening in the study. It is useful when not enough information is known about a phenomenon. This study approach may help to decide whether it is worth researching the issue or not. Saunders et al. (2007) suggest that exploratory studies can be conducted by;

- A search of the literature.
- Gathering information from experts within the field.
- Conducting focus group interviews.

Our research is mostly focused on the exploratory study since the major part of information is gathered from experts within the field.

### 2.1.4 Descriptive studies

The purpose of a descriptive study is to provide a picture of a phenomenon as it naturally occurs (Hedrick et al.1993). It may comprise a normative study, comparing data against some standard. This study aims to be of descriptive purpose to our problem, describing the downloading habits within the context of the new IPRED-law.

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## **Explanatory studies**

Some studies can also be correlative in nature, meaning that the emphasis is on discovering casual relationships between variables. The purpose is to determine the relationship between one variable and other variables (Gray, 2004). In our research we aim to explain the results from our questionnaire and how they are related to the purpose of our study.

### **2.1.5 Population**

Our study is of descriptive purpose to our problem, since it describes the illegal downloading in comparison to the IPRED law. It will be measured by a questionnaire with questions regarding downloading.

We have conducted a survey among the Swedish students within Jönköping University collecting information about the standpoint to the IPRED-law in order to expand the view of the approach on illegal downloading. The theoretical population is Swedish men and women in the age of 18-40 years which according to the Central Bureau of Statistics in Sweden was 2 782 163 the 31<sup>st</sup> of December 2009. Since we have geographical limitations to Jönköping our actual population is among students 18-40 years in Jönköping International Business School. Our choice of population is among the younger crowd since digital streaming and downloading is a rather new phenomena. One important aspect is to assure the respondents fully anonymity in order to collect valid data. We try to obtain a random number in our survey, in other words the amount of respondents should be equal according to gender.

The investigation is a good source, needed to see pattern and trends in the music industry.

#### **2.1.5.1 Non-responsiveness**

According to Bryman & Bell (2007) non-responsiveness is a source of non-sampling error that are likely to occur when collecting data from individuals. It is implied that this can happen for several reasons, such as people's unwillingness to cooperate, inability to be reached or other problematic circumstances. The only form of non-responsiveness that we encountered occurred when we were conducting our survey. There were several people that did not want to participate due to different reasons, one of them being not having the time.

#### **2.1.5.2 Data Collection**

The data collection can be either through primary data or secondary data. **Primary data** is data collected for the first time, by the researcher him- or herself and to be used specifically for the study's purpose. **Secondary data** is collected by someone else than the researcher and can be used by others (Saunders et al, 2007). Our research consists of both primary data and secondary data since we gather information from questionnaires, interviews and literature.

#### **2.1.5.3 Pilot study**

We conducted a pilot study to confirm that the questionnaire could be used and easy to understand for the respondents. Our pilot study consisted of 10 students from Höskolan för Lärande och Kommunikation (HLK) in Jönköping University. We based our choice of people who had no relationship to us or the topic we investigated in order to evaluate how easy the questionnaire was to answer. We wanted to have people



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involved in the pilot study with a different background than ourselves and therefore we included the students from HLK who have not read courses within computer science. The results of the pilot study were that 100 percent found it easy to understand on how to fill in the questionnaire. We also checked the time it took to fill in the questionnaire, which was approximately about 1 minute.

### **2.1.6 Sample**

Our sample consists of two interviews with people who have done research in the same topic as our paper. We believe that these two interviews would be enough to provide us with the empirical data needed. This brings additional knowledge in our field of topic. We also received 50 responses from our questionnaire that will help provide us with statistics. In our case the technique for data collection is a questionnaire with six questions to be able to rank our data, and two semi-structured interviews in order to get more in-depth perspective of the changes in the music industry. Ultimately, our report is based on both quantitative and qualitative research. We conducted our survey by standing in Jönköping University for one day and handing out our questionnaire to people passing by.

## **2.2 Research Quality**

### **2.2.1 Reliability**

The reliability concept refers to the consistency of a measure of a concept (Bryman & Bell, 2007). When conducting an own questionnaire as in our study, our chances tend to be smaller in order to secure reliability in advance. The importance lies in the representation of the survey and how the audience experiences it. We have designed our questionnaire and our questions in a way that people with no experience in the field would understand. To secure the formulations of the questions, we conducted a pilot study on the questionnaire on a random sample of people that gave us the input we needed to complete the survey.

### **2.2.2 Validity**

To be able to know that we are measuring what we intend to measure, we have to secure the validity of the study. We strive to obtain validity and because of that we discussed our research questions with our supervisor prior to the investigation. The validity concept is related to the important criterion of integrity of the conclusions generated from the data. Each of our questions in our survey measure one or several factors mentioned in our theory.

We have also conducted something called “face validity” where the researcher(s) develop a new measure that reflects the content of the concept in a question (Bryman & Bell, 2007). The face validity might be established by asking people possibly with experience or expertise in a field as we did in our qualitative data collection. They act as judges to determine whether or not on the face of it the measure seems to reflect the concept concerned. Both Patrik Wikström and Daniel Johansson increased the validity in our study.

### **2.2.3 Generalization**

Since our sample is only 50 respondents, it can be argued that the number of respondents is considered too small which makes it difficult to draw conclusions. We believe that our response rate is enough to make some assumptions about illegal downloading

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habits after the IPRED-law. However our sample was only from Jönköping and the school in Jönköping, we cannot claim our findings to be statistically generalized. The results are not to be disregarded, since there is no substantial difference from people in other towns and schools. It means that the research might be applicable since it points in one direction and show a result not far from a fully generalized research. The fact is that a generalization is impossible but the result is most likely pointing at the same direction as it would in a wider perspective.

### 2.3 Description of respondent

**Daniel Johansson** (industrial PHD candidate in Computer Science) conducts research on how the music industry changes of the new technology coming out on the market, mostly concentrated on the distribution processes. He is involved in the European research project P2P-Next and CEO for Trendmaze which is an IT company analyzing music and media online. He is also employed by Musiclink, which provide services, products, education and research within IT and digital media. Beyond this he writes for the music business news media Musikindustrin.se ([www.danieljohansson.se](http://www.danieljohansson.se)).

**Patrik Wikström** is a scholar at the Media Management and Transformation Centre at Jönköping International Business School. He pursues research on media firms' innovative and adaptive behavior. He is also the author of *Reluctantly Virtual: Modelling Copyright Industry Dynamics* (2006) ([www.patrikwikstrom.com](http://www.patrikwikstrom.com)).

We did not put focus on international researchers which gave us a better insight on the Swedish technology evolution.

### 2.4 Development of our interview questions

When we developed our interview questions we asked ourselves what questions we wanted to find out the answers to. It was also important that the questions we asked would provide us with the empirical data to answer our research question. This is why we developed our interview questions with our research questions in mind. Some of our interview questions are directly linked to our research questions, e.g. the research question on how the music industry has handled the transition from physical products to the digital media was reformulated into how the respondent perceived how the music industry had handled the transition from physical products to the digital media.

Validity is an important factor that we took in to consideration when developing our questions. Saunders et al. (2007) refer to the term validity as if whether the findings are really about what they appear to be about.

#### 2.4.1 Carrying out the interviews

We decided to record the interview with Patrik Wikström. We used a digital recording device to capture the sound. Afterwards we listened and sorted out what we believed was most relevant to our study. Our second interview was done through an e-mail since Daniel Johansson lived in another geographical area than us and was also unable to schedule a meeting. The questions were exactly the same as we asked Patrik Wikström.

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### 3 Theoretical Framework

In this section we will present theories that for this study are relevant, when defining and measuring our research questions. These theories will then be used when analyzing the collected empirical data for our case, and as support when making conclusions. Every part in this theoretical framework can be related to the proactive methods such as a legal alternative to file sharing as Spotify. Each part has an impact on the legal alternatives. This can be seen in figure 3.1 below.



*Figure 3.1 Impacts on legal alternatives to file sharing*

#### 3.1 Proactiveness

The organization's view on recognizing new opportunities is known as proactiveness. The music industry is in a phase where seizing new possibilities are essential for survival in the business (Wiklund et al, 2006).

#### 3.2 Risk-Taking

Risk-taking is a classic concept that relates to entrepreneurship (Wiklund et al, 2006). It is vital for organizations to be competent to take on higher risk alternatives than only focusing on the past. It is sometimes the only way to consider in order to be successful throughout entrepreneurship. Moreover, risk taking is the degree to which managers are willing to make costlier and riskier resource commitments than usual, which have reasonable results of failure. The music companies have struggled for over 10 years with new conditions regarding legislations and new technique, consequently force them to be more risk takers than before.

#### 3.3 Innovativeness

Innovativeness can be conceptualized at an individual level and the level of the innovation implementation (Klein & Sorra, 1996). There is a positive correlation between innovation and performance and the relation between innovativeness, risk-taking and proactiveness is significant. Innovativeness could be described as one of the

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most imperative components within the entrepreneurial approach since it carries out creativeness and experimentation in order to discover new patterns and opportunities for the organization.

The music companies would gain from being innovative; however there are also risks since all investments might not always result in a positive way.

### **3.4 Legislation**

According to David Lammy, responsible for implementation of intellectual property system in UK, no one should need legal training to surf the web. This is not the reality today since new legislations have invaded the electronic society. The newest law which was introduced in Sweden in April 1<sup>st</sup> 2009 is called the IPRED-law. The law gives the music companies the right to take legal action against illegal downloading. It provides the possibility to get access to IP numbers which have downloaded any copyright protected material and this for no cost. The government constantly follows the development in new technology and thus trying to stop the illegal alternatives with new legislations. The information gained could be used to put charges against the person being prosecuted (Swedish Ministry of Justice, 2010).

According to statistics gathered by Netnod, the internet traffic decreased immediately with approximately 44% in their own hubs, although Netnod themselves did not want to speculate if this was true since Swedish internet traffic can pass through different hubs. The 3<sup>rd</sup> of April, The Pirate Bay announced that they had only noticed a decrease of 3.5% compared to the previous week. Henrik Pontèn, the representative of Antipiratbyrå, said in an interview with Metro that most of the internet traffic is file sharing and that this was the reason for this big decrease of the Swedish internet traffic. This decrease did not last for long. In June the same year, the internet traffic was back at the same numbers as it had been in September 2008 (Stiernstedt et al, 2009).

### **3.5 Technique evolution**

With the rapid development of technique over the last ten to fifteen years there has been several different ways to download music, movies, software etc. from the internet. Music has always been the most popular material to download because of the digital music format MP3 (MPEG-1 Layer 3) which allows people to compress the music files without affecting the sound quality. The compressed music files were smaller in size compared to other file formats which resulted in a faster download time (Gordon, 2005).

#### **3.5.1 BitTorrent**

BitTorrent is a protocol for peer-to-peer file sharing and is used for distributing large amounts of data. The BitTorrent protocol lets the user both download and upload (share it with others) at the same time. Today BitTorrent has become one of the most common ways of transferring files over the internet.

The advantage with BitTorrent compared to other techniques is that the downloading time is heavily reduced since the user is downloading the file from several other users at the same time (Gordon, 2005).

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### **3.5.2 Peer-to-peer file sharing**

In 1999 the way of downloading music was revolutionized with the creation of Napster. Napster was created by the 19 year old college student Shawn Fanning. Napster was a program that let the users share their music. This kind of file sharing is called peer-to-peer (p2p) file sharing. The peer-to-peer technology lets two or more computers to share files and information through the internet. Users of peer-to-peer networks can request information, provide information or both. The user who requests the information is called a client and the user who provides the information is called a server. The user that both requests and provides information is called a "servent" which is a mix of the names server and client.

Peer-to-peer file sharing grew enormously with the help of Napster and in February 2001 Napster announced that they had an average of 1.57 million simultaneous users per day. Napster later filed for bankruptcy.

The peer-to-peer technology does not only allow users to share music but other information such as movies, software and so on. The amount of options for file sharing is increasing with the popularity of the peer-to-peer technology. Peer-to-peer file sharing can be divided into three different types of networks:

- Centralized network
- Decentralized network
- Controlled decentralized network

How each user finds the files they are searching for is determined by these three types of networks (Gordon, 2005).

#### **3.5.2.1 Centralized P2P network**

In a centralized peer-to-peer network there is a central server that handles and directs the traffic on network. The central server keeps track on which shared files are stored on each connected computer (node) and every time a new user logs on the list of shared files is updated. For example, when you log on to centralized P2P network the list of available files is updated to include your shared files and when you log off the list is updated again to remove your files. When a client places a request for a certain file is done, the central server compares the request with the list of available files and if there is a match the client is connected to the peer/node (the computer with the requested file) to download the file. The file itself is never stored on the central server. A centralized peer-to-peer network handles the search for files very quick and efficient (Gordon, 2005).

#### **3.5.2.2 Decentralized P2P network**

In a decentralized peer-to-peer network there is no central server. Instead every node has equal status and acts as both a client and a server, in other words a "servent". Every node in the network tries to keep from four to eight connections to other peers. The connected nodes transfer the communication (request and answers to requests) through the network. To be able to share files every user needs to have the same file-sharing program (Gordon, 2005).

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A decentralized network can be both larger and stronger than a centralized network since it does not have a central server. But the downside with this is that search times can be longer and a request for a certain file might have to go through several thousands of users before a match is found (Gordon, 2005).

### **3.5.2.3 Controlled Decentralized P2P network**

The controlled decentralized peer-to-peer network can be described as a mix of both the centralized and decentralized network. Within this network some nodes selected to be “super nodes”. The super nodes are often the powerful computers with a fast internet connection and they are selected by the system to run the network. Every client then keeps a small amount of connections open and a connection to a super node. The super nodes allow requests to be handled fast and it also receives a list of shared files from the connected nodes (Gordon, 2005).

## **3.6 Marketing Mix**

In this section we will present different marketing factors that are related to the music industry and the sales of music.

### **3.6.1 Place**

Focusing on the location where a product can be purchased, related to as the distribution channel. The music industry mostly focuses on how widely their product should be distributed and how much that is possible. Another aspect to consider is whether the distribution should be restricted to a few specialized outlets or not. Every decision is related to delivering the product to their target customers. Distribution decisions consist of channel member selection, market coverage, logistics and levels of service. When discussing *place* in the marketing mix context, storage such as physical store or virtual stores on the internet are important factors to consider (Internet Center for Management and Business Administration, 2007).

### **3.6.2 Promotion and Communication**

It focuses on providing information to target markets. There are different forms of promotions but the major forms are personal selling, advertising, sales promotions and public relations. The important aspect is to convey the product/service benefits and features to the potential customer (Internet Center for Management and Business Administration, 2007).

Marketing communications is a management process through which an organization tries to engage with its various audiences. The important task of marketing communications is to differentiate one brand from another and position them so that consumers develop positive attitudes and make potential purchasing decisions. Another important aspect is to reinforce, in order not losing current customers. Key terms are to remind and to reassure which help retain customers and improve profitability. It is a cost effective approach when not constantly striving to gain new customers. The most important and most common form of marketing communications is to inform and make potential customers aware of the features and benefits the organization is offering. New technique and new business ideas must in most cases be explained and educated to the audience, to show them how to use the product/service (Baines et al, 2008).

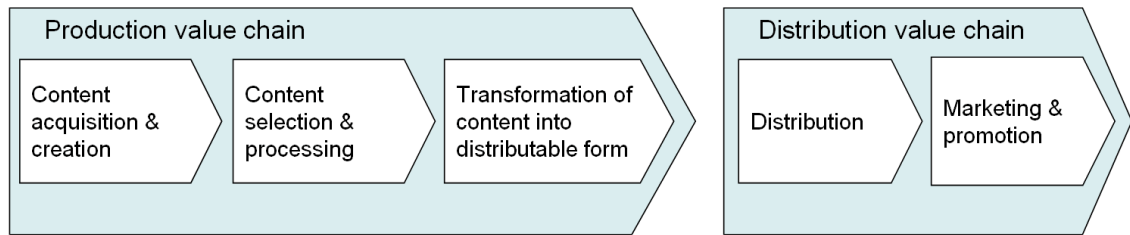


Figure 4.2: Copyright firm value chains. Adapted from Picard (2002: 34)

### 3.6.3 Product

As a part of marketing's 4Ps, product is what the consumer keeps after their purchase. It is important that the product meets the customer's need or else the product will not survive in the market. When talking about meeting the customer's need, there are different areas that are included in the product. The quality of the product is a big part, quality is one of the deciding factors for customers when it comes to buying the product or not. The product includes other important parts such as packaging and labeling. The purpose with packaging is to attract customers. Products that are packaged in a nice and appealing way will most likely attract more customers. While a product with poor packaging will most likely not attract as many customers as a nicely packaged product even if the quality might be a little better. The way you label your products will also play a part in attracting customers (Baines et al, 2008).

Differentiation is also an important part of the product. You want your product to stand out against your competitor's products. Differentiating your product is way to attract customers to buy your product instead of your competitors' products.

When it comes to the music industry, the products are the songs made and the albums released by the artists. It is important that the songs and albums made are good enough for people to buy. An artist can have a great song on an album but if the rest of the songs are bad, then the album will probably not be as appreciated by the fans. Album covers and music videos can also play an important role when it comes to attracting buyers.

Figure 4.3 describes the process of how an artist becomes successful in the music industry. The artist must first be discovered by producers in order to record and release their music. Some artists release their music on the internet-medias like YouTube and MySpace in order to be discovered. When an artist has been discovered and a record has been recorded it is time to release it. But to maximize sales there is a need for advertising and this can be done by employing advertising agencies. It is important for sales that the latest song is played on the radio since it is a perfect way of promoting the artist and his songs.

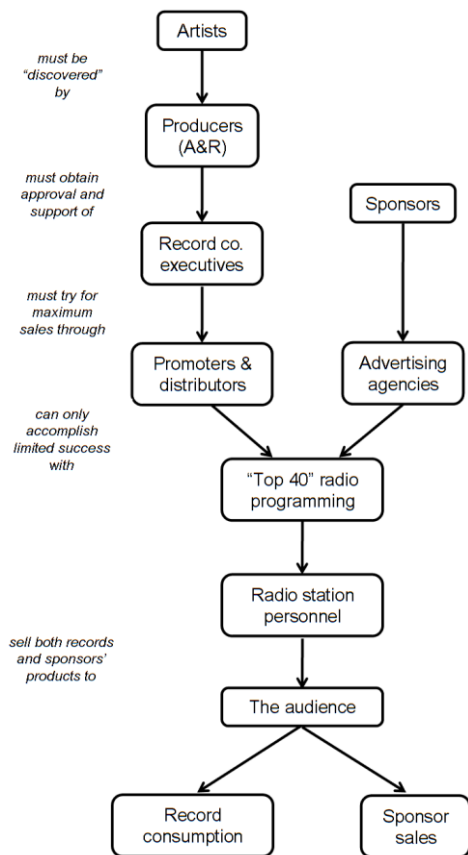


Figure 4.3: *The Organization of the Pop Music Industry (Hirsch 1970: 17A).*

### 3.6.4 Price

Price is another important decision factor for customers. The price can be set differently depending on the product or strategy. If a company is new on the market it might be a good idea to set a lower price to penetrate the market and attract customers from competitors. After a while when the company is more established on the market it can raise the price to a more suitable price level compared to its competitors and to maximize profits. The price will also vary for the same product depending on what brand the manufacturer is. For some products you end up paying a little more because of the brand (Baines et al, 2008).

The most important thing when it comes to price is that the customer feels that he is willing to pay the amount and feels it is a fair price. Every customer has a perceived value of the product which determines if the product is good buy for them or not.

The price in the music business does not differ much. The price of CDs does not differ much depending on the artist. It is almost the same for every CD. The difference can be if a CD contains extra material, then the price might be higher. The same principle is used when it comes to the singles released. There is almost always a fixed price for one song.



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### **3.7 Extended Marketing Mix for Services: The 7Ps**

Since the traditional 4Ps approach of marketing planning is based on physical products, e.g. CDs, Toys, Food, it did not prove useful when it came to service offerings. It was not even very useful for physical products with a strong service component e.g. laptops with extended warranties. This is why the two American scholars, Bernard H. Booms and Mary J. Bitner, incorporated the 3Ps into the marketing mix (Baines et al, 2008).

#### **3.7.1 Physical Evidence**

Physical evidence covers the tangible parts of the service. It emphasizes that these parts are strategically important for the customers since they use these parts to make up their mind on how good the quality of the service might be. An example is that future university students might choose whether or not to attend a university or a certain course depending on the brochures offered and the course outlines or by visiting the campus (Baines et al, 2008).

#### **3.7.2 Process**

Process is included because the service delivery cannot be separated from the customer consumption. Process includes managing the customer expectations, interaction and satisfaction. Standardized processes make it easier to handle the customer's expectations. Transfer companies have several standardized service offerings that the customer can choose from (Baines et al, 2008).

#### **3.7.3 People**

People include that the services are delivered by customer service personnel, which interact with the customer and sometimes in a more intimate manner (e.g. spa treatments and healthcare). These people are often experts in that certain field, like a doctor or a masseuse. How these people interact and treat their customers is also a direct result in the overall satisfaction with the service. This is why it is important to have service minded personnel that treat the customers in a nice way (Baines et al, 2008).

#### **3.7.4 Service in the music industry**

When it comes to the music industry there are now several services available. If we take Spotify as an example and relate it to these 3Ps, they have to provide the physical evidence of the service, the process and the people. In Spotify's case the physical evidence is the music that they have to offer. They also have a relatively standardized process whereas if you want to become a user you can either pay a fee (monthly or all at once) or you can be invited and become a free user that has fewer privileges. The people in Spotify's case are the service people that you have contact with if you have questions or problems. It is important that Spotify takes these 3Ps along with the original 4Ps and have them in mind when developing their service (Appendix 1: Spotify).

### **3.8 Summary of the Theoretical Framework**

The theoretical framework focuses on the different aspects the music industry has to consider in order to be successful. We have discovered three major areas that have an impact on the music industry. These areas are marketing, technical aspects and legislation.

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The legislation has played an enormous part in the fight against illegal downloading. With the introduction of the IPRED-law the music industry has the right to take legal action on people they believe are downloading music illegally. This will give the legal alternatives a boost.

The technical evolution is still providing new ways of breaking the law in order or Internet users to download material that is copyright protected. It does also allow the legal alternatives to offer better services with new technical features.

Marketing serves as a major impact since it is through this the legal alternatives can reach out to the public and maybe attract several people to stop downloading copyright protected material and use their product or service instead without the risk of being prosecuted for file sharing.

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## 4 Empirical findings

### 4.1 Compilation of interviews

This section will summarize our interviews with Patrik Wikström and Daniel Johansson.

#### 4.1.1 Compilation of the interview with Patrik Wikström

Over the last couple of years there has been a serious growth of music being available on the internet and other digital media. With this development in mind it is interesting to see how this has affected the music industry and how they have dealt with this.

##### 4.1.1.1 The four stages of transition

Patrik Wikström, author of *Reluctantly Virtual: Modelling Copyright Industry Dynamics* (2006), believes that the music industry, especially the record labels have managed this transition in a very bad way. According to Wikström the music industry has gone through four different phases with the beginning 10 years ago with the introduction of Napster, a new way for people to find and share mp3 files.

- The **first phase** was denial; the music industry did not want to acknowledge Napster as a threat.
- In the **second phase**, the music industry decided to go after the ones responsible.
- In the **third phase**, the music industry believed that they would go under
- In the **fourth phase**, were they are now; they are trying to turn this into something positive.

*“These phases are natural if you look at the history”* says Wikström.

During these years the sales of CD’s have gone down by several percent and many record labels have gone bankrupt. Wikström has an idea on why it took so long for the record labels to start adapting:

*“It is easy to say that the record labels should have acted differently in the beginning when the problem first arose now that you know how it all turned out but to drop everything they have been doing so far and start doing things differently is not that easy”* says Wikström.

##### 4.1.1.2 Music industry - a change in progress

Wikström is also of the opinion that the music industry has been doing very well if you compare it with other industries. Wikström continues by saying that the music industry is open to taking risks when it comes to music. An example of this is when several record labels decide to buy shares in Spotify and make their music available. Several record labels even launched their own online music service called Rhapsody but it did not go as well as expected.

The music industry is seen as very slow and inflexible but the reason for this that there are several contracts that needs to be re-negotiated before changes can happen. Some artists might not want to change their lucrative contracts and Wikström is of the opinion that the artists are slow and unwilling to change. Some artists have requested to be

removed from Spotify's library since it can be seen as a huge risk. For example, if people decide to listen to the artist on Spotify instead of buying the record that artist will lose income. Spotify also has a separate contract with the music labels and does not follow the directives of STIM. Instead Spotify, the music labels and the artists all share the income from paying users and the income from commercial.

Spiralfrog and Qtrax, competitors to Spotify, have another contract with the music industry. The two online music services both paid a large amount of money in advance to get access to the music, which is not as big a risk as the Spotify agreement.

Spotify has become an alternative to buy records but Spotify themselves claim that this is not the case. Spotify claim to be a form of promotion, where you listen to music and then buy the records that you like. Wikström believes that this is just a way of not making the record labels feeling threatened but it is obvious that Spotify has become an alternative to the traditional way of buying records. The income from online music is a small part of the total revenue, but the music industry must find a way to increase this because online music is increasing and the traditional record sales are decreasing for every year. In a couple of years, the traditional records will be gone, and the music industry must find a new way to make money.

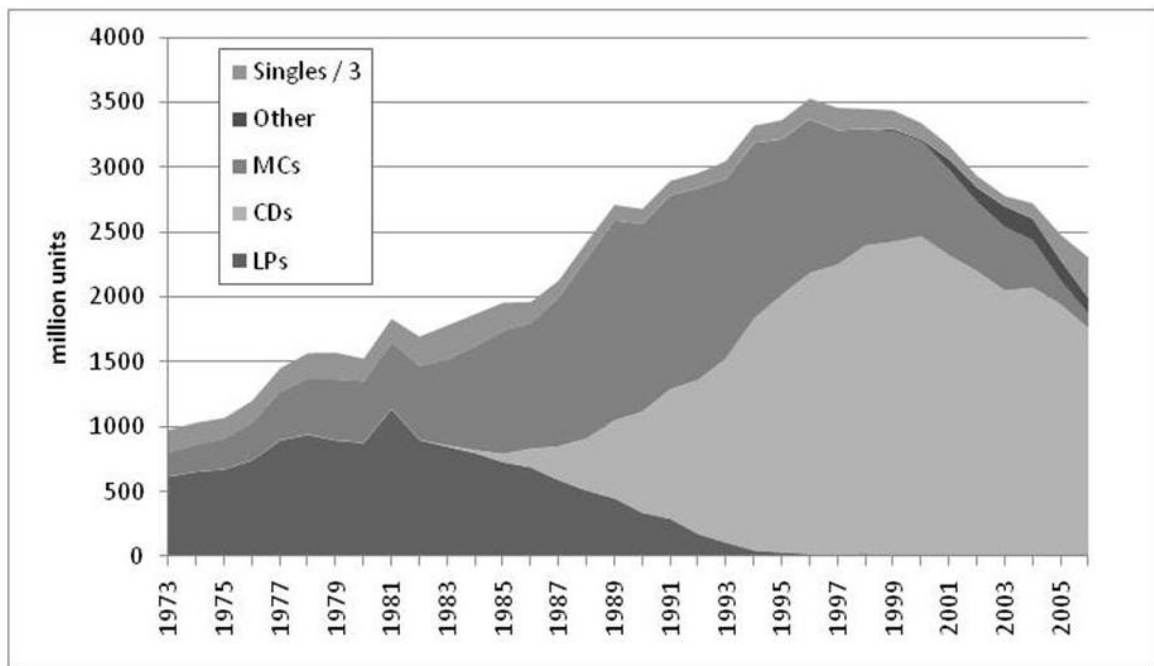


Figure 4.1: Wikström, P. (2009). *The Music Industry: Music in the Cloud*. Cambridge: Polity Press

Figure 4.1 shows the lifespan of different formats, which clearly points out that the units of the traditional CD is steadily decreasing. The music industry is well aware of this and is already planning for the future. There might also be changes in how music is recorded in the future. The music industry along with Wikström believes that only a couple of songs will be recorded at once and that the consumers will only buy the songs they like from an artist instead of buying an entire album. This will put more pressure on songwriters and artists to deliver good music.

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#### 4.1.1.3 A future with new technique and regulations

With the newly introduced IPRED-law in Sweden, legal alternatives to illegal downloading such as Spotify might get a boost. According to Wikström the IPRED-law has had a positive influence on the music industry because it has forced the record labels to change to survive. Wikström also states that Spotify or similar services should have been introduced earlier but the music industry might have had negative attitude towards this kind of technology a few years ago.

Wikström has a positive view on the IPRED-law:

*“If the IPRED-law helps the music industry on the way to provide online music services that give the artists and songwriters a little money for their work, I think it is good”* says Wikström.

Wikström also speculates that if Spotify and other legal alternatives are good enough then maybe people will choose them instead of taking the risks that come with illegal downloading. He continues by saying that there will always be a part that will keep on downloading copyright protected material but it is impossible to say how big this part will be. It is important for the music industry to find a way of making money even with piracy and Wikström speculates that if a sum of money can be added to the monthly fee for broadband that could give them the access of the music library. He clearly states that something needs to be done.

It is crucial for the medium sized record labels to find a new way of making money to survive. According to Wikström the most important thing is to be noticed otherwise it will be impossible to make money. The big record labels have the money to make themselves noticed and the smallest record labels, almost amateur level, can be noticed through websites as MySpace and YouTube. Therefore it is important for the medium sized record labels to find a way of reaching out to the audience and to do this they might need an external sponsor to help them with funding.

#### 4.1.2 Compilation of the interview with Daniel Johansson

According to Daniel Johansson, industrial PHD candidate in Computer Science, the music industry can be divided in to two different parts;

- The first part handles the live acts.
- The second part handles the recorded music. It consists of record labels, publishing and copyright organizations.

Each part has reacted differently to the transition of the digital media, depending what their business models are built upon. Those who have had the most difficulties adapting are the ones who have built their model for income around physical sales, in other words the record labels. The reason for this is that the digital techniques make it very easy for users to copy music and then distribute it in a decentralized way.

Furthermore, the music industry must have a positive attitude towards the new legal alternatives to illegal downloading and Spotify is one example of that. According to Johansson this depends on which part of the music industry you look at and in which part of the world you are. Generally speaking, Sweden has a positive attitude towards Spotify since it is in fact the first music service that has attracted people from free illegal usage to a legal alternative, but since the income levels are low, hence this results

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in low payouts for the songwriters and artists. There is a negative attitude towards Spotify but not to the service itself but to the low payouts.

#### **4.1.2.1 From product to service**

According to Johansson there are several theories on that the music industry is going from a product based business to a service based business. Johansson continues by saying that Spotify has a model that in long term will lead to more and more consumers choosing Spotify instead of buying the records. Johansson points out that according to statistics provided by IFPI the income from digital media has increased with more than 57% under the first six months of 2009. One reason for this increase might be the newly introduced IPRED-law. For the music industry the IPRED-law has had positive effect and according to Johansson there are studies that show this. Spotify is one of those that have profited most with the introduction of the IPRED-law (Johansson, 2009).

Several music companies are also involved in the development of new solutions and Universal, Warner and Sony have been active partners in several technology companies.

With the IPRED-law introduced and Spotify doing very well there might be a chance that the illegal downloading will decrease. Johansson believes that together with the development of streaming-on-demand services such as Spotify, and the soon to be released Rdio and Wimp, and to find a way of legalizing the decentralized distribution of music on the web and file sharing networks because this will not disappear. Johansson continues by saying that millions of music-files are put on the web which can be picked up by a new generation of indexing-services, such as Songza, PlayAudioVideo, and Seeqpod etc.

#### **4.1.2.2 A difficult transition for smaller companies**

The ongoing transition from a more physical product to the digital media might be more difficult for smaller and medium-sized companies in the music industry. Johansson believes that some of the smaller/medium-sized companies will do fine while others will not, this depends on which part of the music industry they are operating in. Johansson also believes that the revenues within music industry will gradually start increasing again when the new ecosystem is in place and the collection and distribution of income has been structured in a better way.

#### **4.1.2.3 The future of Spotify**

Spotify is one way of providing the music online. Johansson believes that the future of Spotify is unclear since it is a service that requires great volumes of users. Today Spotify has 6 million users of which 90% are using it for free. It is when Spotify has been introduced to the American and Asian market that we can see if it has long term potential. Another key factor according to Johansson is that all the music catalogues are available. This can easily lead to a catch 22, a low volume of premium-users lead to low income which results in a hesitation from the record labels to release their catalogues on Spotify which will lead to less people becoming premium-users. Johansson hopes that the music industry along with investors will look at this in a long term perspective, another 2-3 years, to test if this form of income can become a base for a new industrial music structure.

## 4.2 Questionnaire answers

We got a total of 50 answers from our questionnaire and 35 of those were male and 15 were female.

When we asked how the IPRED-law had affected their downloading habits, nine people answered that they do not download anything at all and six of these were female and three male. 14 males and four females answered that they are downloading less as a result of the IPRED-law. In total 18 people answered that they are downloading less. 22 people in total answered that they have not changed their downloading habits at all. There were 17 male answers and five female answers. Only one male answered that he had increased his downloading habits after the introduction of the IPRED-law. This can be seen in figure 4.2.

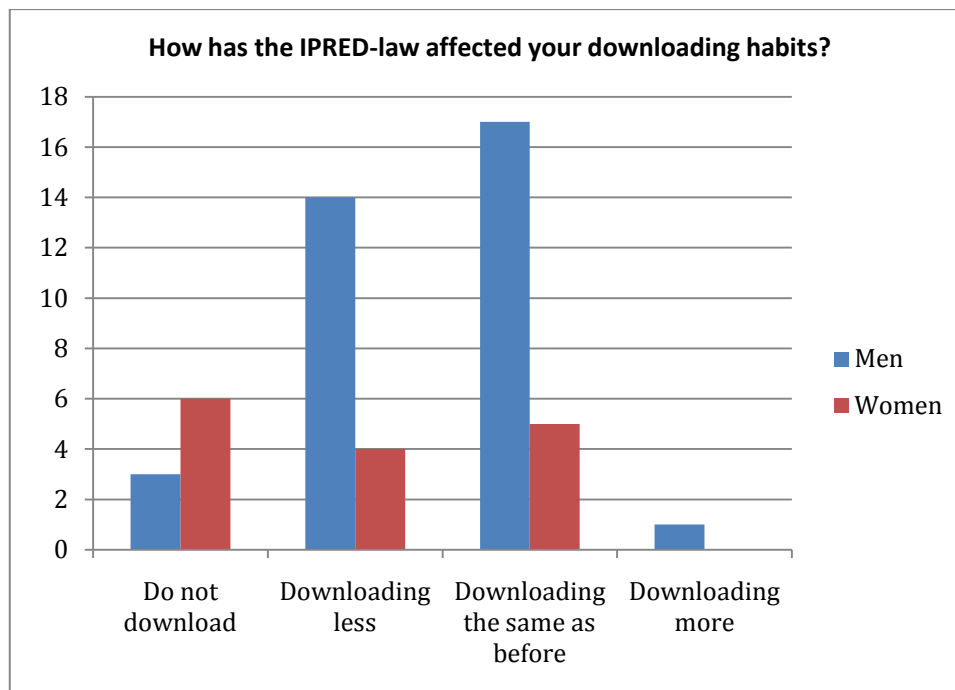


Figure 4.2: Result from questionnaire

In our third question we wanted to know if the respondents were afraid of being arrested because of the IPRED-law. Four people answered yes, two male and two female. 37 people were not afraid of being arrested, 30 male and seven female. In this question we excluded the nine people that did not download at all.

In the next question we asked if our respondents were users of Spotify/Voddler or other similar services. 42 people answered that they were users of Spotify/Voddler or similar services, 30 were male and twelve female. Eight people were, at the time we conducted the questionnaire, not users of these services, five male and three female.

In our fifth question, shown in figure 4.3, we excluded the eight people that did not use Spotify/Voddler because the question considered whether or not their usage of these services had increased after the introduction of the IPRED-law. 27 males and ten females answered that their usage had in fact increased while three males and two females had not increased their usage of Spotify or similar services. In total 37 people had increased their usage and five people had not increased their usage.

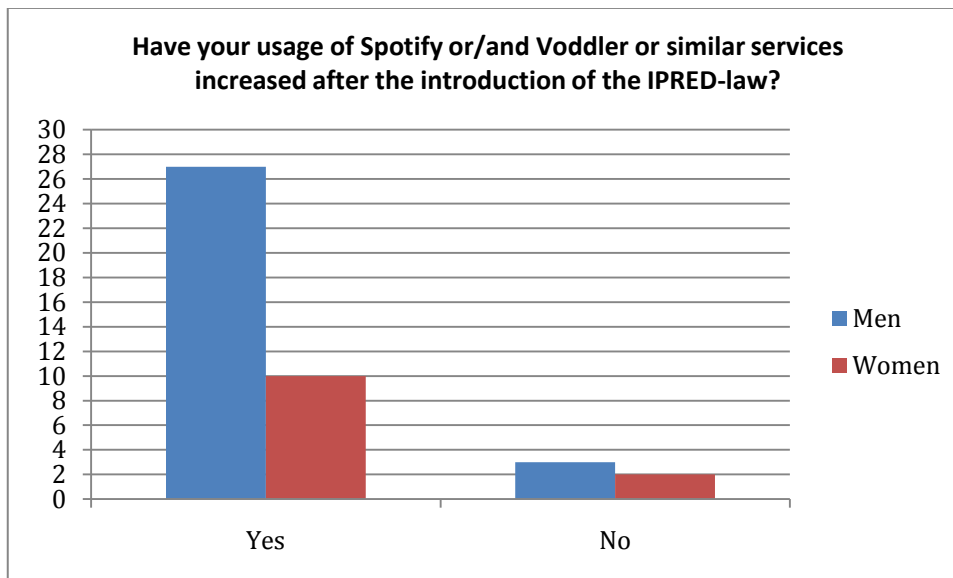


Figure 4.3: Result from questionnaire

In the last question we wanted to know if the respondents were willing to pay for on demand streaming services such as Spotify and Voddler. Eleven males and four females answered that they would consider paying for such services. 24 males and eleven females answered that they would not consider paying. 15 people in total would consider paying and 35 would not consider paying.



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## 5 Analysis

### 5.1 How has the music industry handled the transition from physical products to the digital media?

The Internet has revolutionized the way music is being consumed, from a consumption of physical CD's to a downloading of digital music files. This change has affected the music industry in a very negative way. Patrik Wikström, author of *Reluctantly Virtual: Modelling Copyright Industry Dynamics* (2006) believes that the music industry in general and the record labels in particular have managed this change in a very bad way. Daniel Johansson, industrial PHD candidate in Computer Science, explains that the part of the music industry that has had most difficulties adapting are the record labels since they have built their business models on a physical product, the CD. The digital techniques today make it so easy for users to copy music and then distribute it in a decentralized way.

Wikström describes the different phases that the music industry went and is going through since the beginning of the downloading of music:

- The first phase was denial and it occurred ten years ago with the release of Napster. The music industry and the record labels did not acknowledge Napster as a threat.
- In the second phase, the music industry finally realized the threat and decided to take legal action against Napster and other similar companies.
- The third phase was a difficult time for the music industry; they were convinced that they were going under.
- In the fourth phase, where they are now, the music industry is trying to use the technology and turn it in to something positive.

The fourth phase is shown in recent investments in companies like Spotify. This can be seen as a form of risk-taking, innovativeness and proactiveness that we talked about in our theoretical framework. Several record labels decided to take the risk and by shares in Spotify and allow access to their music library. The record labels have also made a deal with Spiralfrog and Qtrax, which can be seen as competitors to Spotify. The attitude towards Spotify differs and according to Johansson it depends on which part of the music industry you look at and in which part of the world. Johansson continues by saying that generally speaking, Sweden has a positive attitude towards Spotify since it is in fact the first music service that has attracted people from illegal usage to a legal alternative. The negative attitudes towards Spotify derive from the low income Spotify has, which result in low payouts for the artists and songwriters.

The record sales have been decreasing for several years and the music industry has to find another way to make money. Spotify can be seen as one alternative, but the income from online music is just a small part of the total revenue. Spotify has in fact become an alternative to buy the physical records. Spotify themselves state that they are just a form of promotion where people can listen to music and find out what they like and then buy the records. Wikström believes that this is what Spotify is claiming to calm the record labels because it is obvious that Spotify has become an alternative to the traditional way

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of buying records. Johansson believes that Spotify has a business model that in long term will lead to consumers choosing Spotify instead of buying records.

There will come a time when the CD will no longer exist and the music industry is well aware of that and is preparing for a change in how business will be done. Johansson states that there are several theories on that the music industry is moving from a product based business to a service based business. One change that might occur is the way music is recorded. Instead of recording a whole album, Wikström believes that only a few songs will be recorded and sold. This would put more pressure on the artist and songwriters to deliver good music.

## **5.2 Is there a possibility that the legal alternatives to illegal downloading will be successful or will the illegal downloading continue?**

Spotify has been given a boost with the introduction of the IPRED-law. This is shown in our questionnaire where 37 people have increased their usage of Spotify while only five people are still using Spotify as they did before the IPRED-law. Johansson points out that the income from digital media has increased with more than 57% according to statistics provided by IFPI. The IPRED-law can surely be seen as one of the major reasons for this. According to the answers we got in our questionnaire 18 people of 50 have decreased their downloading since the introduction of the IPRED-law and nine of those 50 do not download at all. Wikström believes that the IPRED-law has had a positive effect on the record labels since it has forced them to change their ways of doing business in order to survive. Wikström also states that Spotify should have been released several years ago but since the music industry had a negative attitude towards this technology it was not released. It is only in the recent years that the music industry has realized that something needs to be done to counteract the illegal downloading.

The future of Spotify is still unclear according to Johansson, even though the company is doing very well. The reason for this is that it is a service that requires great volumes of users and Johansson estimates that roughly 90% of today's 6 million users are using Spotify for free. It is when Spotify has been introduced to the American and Asian market that the long term potential will be seen. Another key factor for Spotify's success is to make all music catalogues available. According to Johansson this can easily lead to a catch 22, a low volume of premium-users lead to low income which results in a hesitation from the record labels to release their catalogues on Spotify which will lead to less people becoming premium-users. For services like Spotify to be successful they must be good enough for people to choose them instead of illegal downloading and the risks that come with it. The risk of being convicted for downloading copyrighted material is today very small. Since the introduction of the IPRED-law in April 2009, a little bit more than one year ago, there has not been a single conviction that has not been appealed (Svärd, 2010). Our questionnaire points out that 23 people of 50 do not believe that there is a big risk, 22 people of those 23 are downloading as much as they did before the introduction of the IPRED-law and one person has increased his downloading. When asked if they were afraid of being arrested for downloading illegally only four people answered yes.

Spotify and similar services must offer benefits that outweigh the benefits of illegal downloading. Wikström still believes that there will always be a group of people that will continue downloading copyright protected material but it is impossible to say how large this group will be. The music industry must still find a new way to make money

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even with the illegal downloading that occurs. It is still unclear if Spotify can be that new source of income for the music industry. When asked if they are willing to pay for a service like Spotify, 15 of 50 respondents of our questionnaire answered yes. According to Johansson it will be shown in the upcoming 2-3 years if this form of income can become the base for a new industrial music structure.

### **5.3 What proactive methods against illegal downloading can be effective?**

The information gained during the interviews and survey throughout the project show us the impact different factors have on illegal downloading. Based on our survey, people are not afraid of the newly introduced IPRED-law. It seems like the IPRED-law had a temporarily impact and did not contribute to the deceleration to illegal downloading (Ottosson, 2009). An important fact is that there has not been one single conviction since the introduction of IPRED (Swärd, 2010). For the different proactive methods to be effective such as the IPRED-law, the government must allocate more resources to police and authorities in order to prosecute illegal downloaders. Those resources do not exist today, hence continued downloading. Furthermore, the illegal downloading is today back on the same level as prior to the IPRED-law.

There is a change of trend when talking about illegal downloading. Both Johansson and Wikström have discussed the transition of music from physical products to digital media and how the music industry has handled that. We have seen that the transition focuses on new services such as iTunes, YouTube and especially Spotify. The new phenomenon Spotify shows one way of many on how illegal downloading can be discouraged. Based from our survey, people tend to turn to Spotify and similar services instead of illegal downloading. There are many reasons such as more advertisements on the internet, TV and radio. According to Baines et al. (2008) it is important to consider the extended marketing mix (7Ps) when advertising services like Spotify.

We believe that Spotify will take over within limits based on the data collected from our survey. The technical evolution cannot be stopped and new services such as Spotify and Voddler will always be introduced and refined. The music industry has lost a great deal of money from the transition from physical products to digital products but it was essential for survival. Different factors that decrease the record sales are increased usage of Spotify and continued illegal downloading. People will not pay if they can get it for free. However, it is important that music companies and artists advertise their product through new technique since the old way is outdated. The responsibility is mostly on the music companies, and for them be able to find new ways to reach out to the customer. We believe the new way is services like Spotify and we base this decision on our survey. However, Spotify is not fully developed and do not offer people the benefits worth paying for.

It is difficult to estimate how many people who will be downloading illegal material and how many of those people leaning towards the legal alternatives. We believe that there are many factors that will decide the outcome. The technical progress will both aid the fight against file sharing as well as providing new ways for people to download copyright protected material illegally.

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These are the major factors that will determine the future prospects and what choice the users will make;

- The resources allocated to enforce the IPRED-law
- The quality and benefits of the legal alternatives
- Better marketing on legal alternatives

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## 6 Conclusion

In this section we present our outcome and trying to answer our research questions.

### 6.1 How has the music industry handled the transition from physical products to the digital media?

- The music industry has handled the transition from physical products to digital media in a bad way.
- The music industry has been going through four different phases.
- Investments in companies like Spotify have been made to find new ways of generating income.
- Wikström believes that Spotify has become an alternative to buying CDs.

### 6.2 Is there a possibility that the legal alternatives to illegal downloading will be successful or will the illegal downloading continue?

- According to Johansson Spotify also has a business model that will lead to fewer people buying records.
- After the IPRED-law was introduced in Sweden more and more people have started to use Spotify. This is shown in our questionnaire.
- Wikström also believes that the IPRED-law has had a positive effect on the record labels since it has forced them to change.
- Even though Spotify is doing very well the future is still unclear. According to Johansson this is because Spotify requires very large amount of users and it is not until it has been released in the American and Asian market that the long term potential will be shown.
- For Spotify to be successful it must make all the music catalogues available and be good enough so that people will choose them instead of downloading music illegally.

### 6.3 What proactive methods against illegal downloading can be effective?

- According to Wikström there will always be people who download music illegally but how big that group of people will be is impossible to say.
- People are not afraid of the newly introduced IPRED-law, it only had a temporarily impact.
- The government must allocate more resources for the IPRED-law to be effective.
- The illegal downloading is today back on the same level as before the introduction of the IPRED-law.
- For legal alternatives to be successful there are several factors the will play a key role.



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- We believe that three factors in particular will have more influence than others:
    1. The resources allocated to enforce the IPRED-law
    2. The quality and benefits of the legal alternatives
    3. Better marketing on legal alternatives

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## 7 Reflections

During the time of our research we have encountered things that were good and things that we would like to have done differently. Among the things that were good during our research we have gained insight and knowledge on a subject that is very up-to-date. We also had the good fortune of interviewing Patrik Wikström and Daniel Johansson who have a great insight in this topic. These two interviews provided us with a lot of knowledge and were essential for our research. Still it would have been beneficial to interview at least one more expert to see if he is of the same opinion as our other two experts. It would also have been interesting to do an interview with representatives from one or more companies involved in the music industry to get their point of view.

There are things that we believe were not so good and would have liked to change if we could. We would have liked to get more respondents on our questionnaire. If the time and resources were available we would also have liked to go to another city and hand out our questionnaire in order to compare these results with the results we got in Jönköping.

Since this topic is very up-to-date we had difficulties in finding literature that could act as secondary data. This would have added more credibility to our research. However we tried to utilize the resources available, both internet sources and the few books that covered our specific area.

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## 8 Future Research

Our research can serve as a knowledge base on this topic and we recommend that future research within this topic can focus more on the IPRED-law itself and other laws concerning illegal downloading of music, movies, etc. It would be interesting to see a more in depth research concerning the IPRED-law and how it can and has served as a way of preventing the illegal downloading.

It would also be interesting to see a follow up on Spotify and other legal alternatives. Are they generating enough income to be a solution for the music industry or is the music industry forced to develop new ways of doing business? Since one of our interviewed experts, Daniel Johansson, stated that the future of Spotify was still unclear, it would be interesting to do a follow up on this and research if this is still the case in a couple of years.

There is a lot of research to be done within this area and research done now might be outdated in only a few years from now. That is why we have set a time limit from 1-5 years in our research for two of our research questions. Maybe a similar research can be done in a couple of years to investigate if there has been a change in file sharing and methods preventing this.



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### **9.3 Interviews**

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Wikström, Patrik, Jönköping International Business School (Jönköping, November 3<sup>rd</sup>, 2009)

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## 10 Appendices

### Appendix 1: Spotify

Spotify is an online music service. The unique technology used in Spotify will allow the users to stream their selected music whenever they want. All that is needed is a computer with either Windows XP (or newer) or Mac OS 10.4 (or newer) and internet access.

Spotify is currently available for people living in Sweden, Norway, Finland, the UK, France and Spain. Spotify hope that they can launch the service in other countries in the future.

Spotify offers their users three different types of usage for Spotify:

- Free
- Day pass
- Premium

You can choose to use Spotify as a free application, which means that you do not have to pay anything but together with the music you will have to listen to advertisements now and then. A day pass will let you use Spotify without any advertisements for 24 hours. With a premium subscription to Spotify there will be no advertisements, the sound quality is better, and you can make your playlists available offline for the times when you do not have internet access. As a premium user you will also be able to use Spotify on an iPhone or an Android device and you will get travel access which will let you use Spotify anywhere in the world.

#### Company history

In April 2006 Daniel Ek (former CTO of Stardoll, founder of Advertigo and Evertigo among others) and Martin Lorentzon (co-founder of Tradedoubler, the largest European online affiliate advertising company) founded a company called Spotify. The name Spotify is a combination of spot and identify, which also is the idea with Spotify. Daniel Ek and Martin Lorentzon founded Spotify with the dream to collect all the music in the world and make it accessible to everyone. The belief is that Spotify to help you to spot and identify the favorites you forgot about and the favorites you did not know you had.

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## **Appendix 2: Our interview questions**

1. How do you think that the music industry has handled the ongoing transition to the digital media?
2. What attitude does the music industry have towards technologies such as Spotify?
3. Can services such as Spotify be an alternative to the traditional sales of records for the music industry?
4. Are music companies such as Sony, Universal, and Warner etc involved in the development of new technique?
5. What effect has the IPRED-law had?
6. Will legal alternatives have a chance of competing with the illegal downloading?
7. How do you think smaller music companies will manage the transition to the digital media?
8. What do you think of the future of Spotify?

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## Appendix 3: Our questionnaire



We are two students from Jönköping International Business School, currently writing our Bachelor Thesis in Informatics. Our research focuses on proactive methods against illegal downloading that could be established and implemented in our computer society.

We would appreciate if you took the time to fill in your answers in this questionnaire.  
*All answers are anonymous!*

### 1. Gender?

- Man  
 Women

### 2. How has the IPRED-law affected your downloading habits?

- Do not download (*go to question 4*)  
 Downloading less  
 Downloading the same as before  
 Downloading more

### 3. Are you afraid of getting arrested because of the IPRED-law?

- Yes  
 No

### 4. Are you a user of Spotify or/and Voddler or similar services?

- Yes  
 No

### 5. (If "Yes" on Question 4, else go to question 6) Have your usage of Spotify or/and Voddler or similar services increased after the introduction of the IPRED-law?

- Yes  
 No

### 6. Would you consider paying for on demand streaming services such as Spotify or/and Voddler?

- Yes  
 No

**Thank You!**

## Appendix 4: Ifpi sales statistics



Grammofonleverantörernas Förening

### GLF:s försäljningsstatistik 1998-2008

1998	Units	% of LY	Sales	% of LY
Single	4 402 291		82 168 903	
Album	22 140 331		1 455 726 162	
Video	114 184		7 733 449	
Digital				
<b>Summa</b>	<b>26 656 806</b>		<b>1 545 628 514</b>	

1999	Units	% of LY	Sales	% of LY
Single	5 393 751	22,5%	97 088 429	18,2%
Album	22 039 222	-0,5%	1 505 105 052	3,4%
Video	61 809	-45,9%	4 908 841	-36,5%
Digital				
<b>Summa</b>	<b>27 494 782</b>	<b>3,1%</b>	<b>1 607 102 322</b>	<b>4,0%</b>

2000	Units	% of LY	Sales	% of LY
Single	5 109 638	-5,3%	88 730 813	-8,6%
Album	23 838 427	8,2%	1 558 241 726	3,5%
Video	90 368	46,2%	7 486 112	52,5%
Digital				
<b>Summa</b>	<b>29 038 433</b>	<b>5,6%</b>	<b>1 654 458 651</b>	<b>2,9%</b>

2001	Units	% of LY	Sales	% of LY
Single	3 956 325	-22,6%	65 156 411	-26,6%
Album	24 020 921	0,8%	1 569 817 663	0,7%
Video	120 561	33,4%	13 538 738	80,9%
Digital				
<b>Summa</b>	<b>28 097 807</b>	<b>-3,2%</b>	<b>1 648 512 812</b>	<b>-0,4%</b>

<b>2002</b>	<b>Units</b>	<b>% of LY</b>	<b>Sales</b>	<b>% of LY</b>
Single	3 376 289	-14,7%	54 576 797	-16,2%
Album	24 258 584	1,0%	1 469 660 705	-6,4%
Video	285 796	137,1%	29 819 544	120,3%
Digital	0		0	
<b>Summa</b>	<b>27 920 669</b>	<b>-0,6%</b>	<b>1 554 057 046</b>	<b>-5,7%</b>

<b>2003</b>	<b>Units</b>	<b>% of LY</b>	<b>Sales</b>	<b>% of LY</b>
Single	2 045 690	-39,4%	29 957 159	-45,1%
Album	21 670 694	-10,7%	1 221 709 310	-16,9%
Video	860 029	200,9%	74 417 707	149,6%
Digital				
<b>Summa</b>	<b>24 576 413</b>	<b>-12,0%</b>	<b>1 326 084 176</b>	<b>-14,7%</b>

0

<b>2004</b>	<b>Units</b>	<b>% of LY</b>	<b>Sales</b>	<b>% of LY</b>
Single	1 275 619	-37,6%	18 795 409	-37,3%
Album	17 961 980	-17,1%	1 013 152 933	-17,1%
Video	765 426	-11,0%	62 804 598	-15,6%
Digital	0			
<b>Summa</b>	<b>20 003 025</b>	<b>-18,6%</b>	<b>1 094 752 940</b>	<b>-17,4%</b>

<b>2005</b>	<b>Units</b>	<b>% of LY</b>	<b>Sales</b>	<b>% of LY</b>
Single	1 092 007	-14,4%	17 103 513	-9,0%
Album	16 923 999	-5,8%	914 938 258	-9,7%
Video	563 372	-26,4%	43 287 104	8,0%
Digital				
<b>Summa</b>	<b>18 579 378</b>	<b>-7,1%</b>	<b>975 328 875</b>	<b>-10,9%</b>



2006	Units	% of LY	Sales	% of LY
Single	930 429	-14,8%	12 539 756	-26,7%
Album	16 476 032	-2,6%	825 486 518	-9,8%
Video	590 303	4,8%	41 576 362	8,0%
Digital			61 898 477	
<b>Summa</b>			<b>941 501 113</b>	<b>-3,5%</b>

2007	Units	% of LY	Sales	% of LY
Single	854 081	-8,2%	11 281 076	-10,0%
Album	15 034 806	-8,7%	724 437 377	-12,2%
Video	572 361	-3,0%	38 463 979	8,0%
Digital			67 883 314	9,7%
<b>Summa</b>			<b>842 065 746</b>	<b>-10,6%</b>

2008	Units	% of LY	Sales	% of LY
Single	793 051	-7,1%	6 776 243	-39,9%
Album	14 725 637	-1,5%	678 435 128	-6,1%
Video	386 112	-32,5%	25 959 357	-32,5%
Digital			70 758 812	4,2%
<b>Summa</b>			<b>781 929 540</b>	<b>-7,1%</b>

2009	Units	% of LY	Sales	% of LY
Single	366 529	-53,8	2 868 904	-57,7
Album	15 841 327	7,6	691 122 938	1,9
Video	382 098	-1,3	26 944 447	3,8
Digital - streaming			64 808 544	438
Digital - övrigt			75 688 502	28
<b>Summa</b>			<b>861 433 335</b>	<b>10,2</b>