
# Another one bites the dust ?!

## - threats and opportunities of digitization in the record industry

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**Abstract**

Literature points out that digitization can be devastating for the record industry. This is why many authors promote alternative business strategies, such as the sale of complements, live concert tickets or vinyl records, to make record companies sustainable in the digital era. This indicates that these digital times do not only pose threats, they also bring opportunities for record companies. However, the topic of how and why the (Dutch) record industry uses these new digital possibilities of the digital era to find new ways towards profitability is still understudied. This is why the current study digs into this 'research gap' by conducting a quantitative analysis of the use of new digital possibilities on the websites of Dutch record companies and using this data to be able to find out how possible differences in the use of these digital possibilities might be explained. The results of the study indicate that record companies are already implementing these new digital possibilities, but a lot can still be gained. The results also indicate that differences in the use of these possibilities correlates with the competitiveness of the sector, the age of the record company and the genre of music the record company produces.

**Keywords:** Cultural industries, record industry, digitization, alternative business models

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## 1. *Introduction*

This thesis is about digitization and its threats and opportunities for the record industry. Digitization has had a major impact on the music industry. The sale of physical music albums decreases, while digital downloading of music increases (Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Mortimer, Nosko & Sorensen, 2010). Singers and bands that used to have competition only from their fellow singers and bands now get competition from just anyone who starts to produce and distribute his or her work online (Bockstedt, Kauffman, & Riggins, 2006). Next to that, concerns have been raised about the increase of music piracy, or people that illegally download and distribute music of increasingly good quality (Bourreau, Gensollen & Moreau, 2008; Cameron, 2011). But most of all, record companies increasingly struggle to keep their sales figures up in the digital era as they are often still using a traditional business model which is based on the production, distribution and sale of physical recordings (Bourreau, Gensollen, & Moreau, 2008; Leyshon, Webb, French, Thrift & Crewe, 2005). This is why in the digital era, an era in which musical recordings are increasingly put into a digital format, most companies face the necessity to find alternative business models and strategies to keep up with the changes within the industry: or else another record company might bite the dust (e.g. Bockstedt, Kauffman & Riggins, 2006; Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Curien & Moreau, 2009; Kretschmer, Klimis & Wallis, 2001; Leyshon et al., 2005; Masnick, 2009; Varian, 2005).

Therefore, although it seems reasonable to consider digitization a threat to the record companies, it might at the same time give the record companies new, digital possibilities and alternative ways of doing business. Therefore, the aim of this study is to find out how record companies in the Netherlands use the opportunities of digitization. Academic literature into this topic does pay attention to alternative business strategies to sustain the profitability of the record industry (e.g. Cameron, 2011; Cooper, 2005; Masnick, 2009; Varian, 2005). Unfortunately, most studies fail to analyze to what extent record companies actually use such new digital possibilities (e.g. Bourreau, Gensollen & Moreau, 2008; Leyshon, et al., 2005; Sapsed, Garcia, Adams & Neely, 2008; Varian, 2005). This is why this research takes a closer look at how record companies in one specific country, the Netherlands, cope with digitization by focusing on the question how they use these new digital possibilities or alternative strategies. But although digitization brings about these opportunities, it does not mean that record companies actually implement these opportunities. This is why the second aim of this study is to take a closer look at how possible differences in this use of websites might be explained. Studies have already indicated organizational characteristics that might explain this uptake (e.g. Acs & Audretsch, 1988; Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002). However, studies about the influence of these characteristics on the implementation of innovative business strategies in the record industry are scarce (e.g. Alexander, 1994; Peterson & Berger, 1975; Sapsed, Garcia, Adams & Neely, 2008). Therefore, a quantitative content analysis of record companies' websites will be made to find out to what extent record companies in the Netherlands use new digital possibilities and how this use can be explained.

I believe this will be an interesting study for me as, for some time now, I have been interested in the uses and effects of digitization, especially within the cultural industries. This is also why I focused in my bachelor thesis on the use of digitization by museums. In this bachelor thesis I was not only interested in the topic but also in the challenge to find suitable ways to measure the use of digitization by museums. For my master thesis within the master program Cultural Economics & Entrepreneurship I did not only want to extent my knowledge on this topic and the research method, but I also wanted to contribute to the discussion of the threats and opportunities of digitization within the cultural industries: a discussion much more pronounced in record industry than in the museum sector because of the direct threat digitization poses to the traditional business model of the record industry. This is why I selected this industry for my master thesis.

In the next few chapters, these arguments will be discussed more extensively. First, the next chapter will present the theoretical framework of this study. This literature discussion will cover the threats and opportunities of digitization for record companies, in which a focus will be laid on the opportunities digitization can bring for the implementation of alternative business strategies to sustain the profitability of the record industry. The literature discussion will also cover literature that might explain differences in this implementation. The next chapter discusses the methodology of the study. In this chapter the method, the operationalization and the data collected and analyzed will be discussed and explained. Next, the results of the analysis and correlations will be presented, after which the final conclusions will be drawn in the final chapter. The limitations of this study as well as the suggestions for further research will also be discussed in this last chapter.

## 2. Literature review

*Record industry and digitization*

The production of goods and services in the cultural industries, where record companies belong to, is impeded by the fact that within the cultural industries not only production costs tend to be very high, also demand for specific products and services tends to be highly uncertain. This is a precarious situation for a record company to be in as it means that the record company has to invest in the production of a CD while it is not known beforehand whether consumers will actually like and therefore buy the release (Bustamente, 2003; Caves, 2000; Landes, 2003; Towse, Handke & Stepan, 2008). It often turns out that only a small amount of releases are successful enough to cover the high production and marketing costs, let alone be profitable. This means that the successful records must be used to cover the costs of the unsuccessful albums. Especially since the marginal costs to produce an extra unit are rather low, high profits can be made when a certain record turns out to be commercially successful (Burnett, 1996; Caves, 2000; Towse, 2003; Towse, Handke & Stepan, 2008).

Next to these high production costs and high levels of uncertainty, which make investments in musical recordings a risky undertaking, the revenue of initial creators is also threatened by the relatively easy and cheap duplication of a cultural good. Because of the relatively low duplication costs, copies almost immediately surface. Therefore, copyright protection is paramount to prevent immediate market failures of new releases. Copyright law is a kind of public intervention through regulations which establishes property rights. It indicates the original owner of a cultural good. As such copyright protects the creators of cultural products such as books, movies or music through a prohibition of unauthorized copying (Landes, 2003; Towse, Handke & Stepan, 2008). By such means copyright also ensures the possibility of creators to make a profit out of the creation, production and reproduction of cultural goods, because it grants the owner of a copyrighted work the sole right to commercially exploit a cultural good. Therefore, copyright protection can be considered as a complementary payment, also used as an incentive for creative production and innovation (Towse, 2003). Because of the importance of copyright law for the cultural industries and the record industry in particular, it is in the industries own interest to efficiently manage copyright exploitation and to act against copyright infringement in order to secure profit (Varian, 2005). After all, the record industry, the most important sector within the wider music industry, is an industry traditionally specialized in the production, distribution and sale of sounds recordings of music (Cameron, 2011; Hooff, 2007). The record companies therefore own the copyrights of the music they produce, which enables them to make a profit out of these recordings, as a kind of complementary payment (Towse, 2003).

However, this business model is currently challenged by the advent of digitization, which challenges copyright protection (Cameron, 2011). Digitization is the process of transferring information, or musical recordings for that matter, into binary codes to give it a digital format. This way, a physical CD can for example be transferred into a digital format. When this digital version of the musical recording is combined with the internet, such digital information can be stored, transmitted and retrieved instantly by many people at the same time, without any costs (Einhorn, 2003; Kung, Picard & Towse, 2008; Rochelandet, 2003).In such a digital world it is hard to efficiently manage copyright exploitation and punish copyright infringement. For record companies this implies that it will be even harder to reach a break-even point between the costs and revenues of a production, thereby reducing the incentive for record companies to invest in the production of musical recordings (Leyshon et al., 2005). Or, to put things differently, the advent of digitization threatens the traditional business model of record companies, and at the same time provides an incentive to come up with adequate, adaptive and flexible alternative business models (Curien & Moreau, 2009; Hooff, 2007; Hull, 2004; Leyshon et al., 2005; Masnick, 2009; Sapsed, Garcia, Adams & Neely, 2008; Varian, 2005). This development therefore seems to have two implications, namely (1) the threats posted on the traditional business models of record companies and (2) the new opportunities in the form of alternative strategies that these threats give rise to at the same time. The next paragraphs will therefore discuss these two implications.

*Digitization and the record industry: threatening the traditional business model*

Firstly, the immediate access to almost any type of information or reproducible creative content online makes it possible to copy and distribute any cultural good digitally available. For the record industry, this means that the sale of physical music records will get competition from the often illegal digital versions of the same music. What is more, the previous copyright laws, designed to protect the intellectual property rights of creators and their works, are hard to maintain in this online, open access world, where digital copies of musical recordings are made and digital music files distributed on a large scale without the permission from or the compensation to the copyright holders (Leyshon et al., 2005; Kretschmer, Klimis & Wallis, 2001; Mortimer, Nosko & Sorensen, 2010; Premkumar, 2003). Record companies claim that such illegal copying and transferring of music over the internet should be considered as a substitute of sales and therefore has an offsetting effect on demand which could reduce the traditional inflow of revenues (Leyshon et al., 2005; Mortimer, Nosko & Sorenson, 2010). Due to those missed earnings from copyrights and demand for physical CDs, a decrease in average turnover from the sale of music records has occurred in the record industry (Einhorn, 2003; Hull, 2004; Leyshon et al., 2005; Rochelandet, 2003; Towse, Handke & Stepan, 2008). Impala (2012b), the independent music companies association, has gathered information about global sales revenues in the record industry (see table 1). Looking at the global sales revenues in the record industry the decreasing demand for physical music becomes immediately evident; even though physical sales still account for the majority of the revenues in the record industry (70%), this revenue is decreasing rapidly. In comparison, revenues from digital sales are increasing over time (Impala, 2012b).

**Table 1: Global Record Industry: Sales Revenues**

| | 2009 | 2010 | % Change |
|---|---|---|---|
| Physical sales | 11,934* | 10,440 | -14.2% |
| Digital sales | 4,307 | 4,643 | +5.3% |
| Performance rights revenues | 785 | 851 | +4.6% |
| Total | 17,026 | 15,934 | -7.5% |

*Source: Impala, 2012b*
*In million dollars

*Digitization and the Dutch record industry: threatening the traditional business model*

However, this study does not focus on the global record industry. Instead, the focus in this study is on the Dutch record industry. Information about the Dutch record industry comes from NVPI (2012), the branch organization of the entertainment industry in the Netherlands. The NVPI (2012) advocates the interests of most Dutch record companies, publishers and producers of audiovisual content on digital media. When looking at the sales revenues in the Dutch record industry, it becomes clear that these revenues are also decreasing (NVPI, 2010). Table 2 indicates that the revenues in the record industry have been decreasing since 2001, with a peak in 2005 (-17%) and 2010 (-15,6%). The end result being that about half of the total sales revenues have evaporated (NVPI, 2010).

**Table 2 Dutch Record Industry: Sales Revenues***

| Year | Total Sales Revenues** | % Change |
|---|---|---|
| 2000 | 494 | 1% |
| 2001 | 489 | -1,5% |
| 2002 | 467 | -6% |
| 2003 | 444 | -5% |
| 2004 | 411 | -7% |
| 2005 | 343 | -17% |
| 2006 | 317 | -8% |
| 2007 | 294 | -7% |
| 2008 | 271 | -8% |
| 2009 | 258 | -5% |
| 2010 | 218 | -15,6% |

Source: NVPI, 2010
*Physical and digital products
**In million euro's

According to the NVPI (2010), this decrease in the revenues of Dutch record companies is mainly due to a discrepancy between the sale of physical musical products and digital music. This way, the loss of revenues experienced by a decrease in revenues from physical music products is not compensated by an equal increase in the sale of digital musical products. Table 3 illustrates that although the sale of physical musical products is still one of the main income sources, these sale numbers are decreasing. Table 3 also shows how this decrease in revenues is only slightly compensated by a small increase in the sale of digital music. What is more, table 3 indicates that most consumers buy the cheaper digital tracks instead of the more expensive digital albums, resulting in an even bigger discrepancy for the record industries than if only digital albums would have been sold online.

**Table 3: Dutch Record industry: Album Sales***

| Year | CD’s | Digital albums | Digital tracks |
|---|---|---|---|
| 2008 | 18.0 | 0.7 | 4.24 |
| 2009 | 17.0 | 0.9 | 5.48 |
| 2010 | 15.1 | 1.2 | 5.7 |

Source: NVPI, 2010
* Album sales per million pieces

Finally, when comparing the decrease in total global sales revenues to the decrease in total Dutch sales revenues it becomes clear that the Dutch record industry is confronted with a bigger percentage decrease in revenues than the global record industry is. Therefore, the choice to focus on the Dutch record industry is not only a practical one to increases the feasibility of this research. The choice also turns out to bean interesting one: considering the relatively big percentage of change in total sales revenues, the Dutch record industry would be particularly interested in finding new opportunities to increase the profitability of the Dutch record industry.

*Digitization and the record industry: opportunities*

Although digitization can be seen as a threat to the record companies, it is not all bad: it might also provide many opportunities to record companies (Bourreau, Gensollen & Moreau, 2008; Curien & Moreau, 2009; Kretschmer, Klimis& Wallis, 2001; Leyshon et al., 2005; Masnick, 2009; Varian, 2005).First of all, due to the developments in digital technology used to record music, digitization has made it possible to reduce the costs of production and distribution, while maintaining the quality of the musical recordings. This could be used to increase the returns on sales (Cameron, 2011; Hull, 2004; Picard, 2002, p. 58). On the other hand, as tables 1-3 have shown, the record industry is a risky business in digital times to be in, as the total sales revenues are decreasing over time. This is why academic literature into the topic has paid attention to the possibilities of record companies in the digital time to develop alternative business strategies that can be added to the traditional tasks of record companies to produce, distribute and sell mainly physical musical recordings. Developing such alternative business strategies might help to sustain the profitability of the record industry as these strategies can be used to reach the consumer in varied ways, to adaptively respond to their wishes and to generate revenues other than from the production, distribution and sale of musical recordings (Bourreau, Gensollen & Moreau, 2008; Bockstedt, Kauffman & Riggins, 2006; Cooper, 2005; Curien & Moreau, 2009; Hooff, 2007; Kretschmer, Klimis & Wallis, 2001; Masnick, 2009; Mortimer, Nosko & Sorenson, 2010; Leyshon et al., 2005; Varian, 2005).

Therefore, the second implication of the advent of digitization is that the immediate access of almost any type of information or reproducible creative content online also brings about new opportunities for the creators, producers and distributors of cultural goods or music. For the record industry this means that digitization does not only pose threats to the record industry, but also brings opportunities for them to generate revenues from other sources than their traditional working methods; record companies have to find alternative business strategies and marketing tools to deal with digitization. In this study, the focus will be on these so called opportunities of digitization for the record companies.

*New digital possibilities: Alternative business strategies*

When looking into the literature about alternative business strategies it becomes clear that some authors complement their discussion about these strategies with discussions about how record companies could try to influence consumer behavior by putting effort into the sophistication of anti-copying techniques or the lobby for legal actions against copyright infringements (Bockstedt, Kauffman & Riggins, 2006; Bourreau, Gensollen & Moreau, 2008; Cameron 2011; Curien & Moreau, 2009; Liebowitz, & Watt, 2006; Varian, 2005). Other authors also mention the possibility of record companies to outsource their work to online outlets like digital music stores, such as Amazon.com or iTunes (Cameron, 2011). But most authors emphasize that record companies should not try to protect their music through copyrights, but should rather try to '*influence the architecture of their industry', or the 'rules of the game*' by trying to increase the benefits of innovation and gain a '*larger piece of a larger pie*' (Jacobides, Knudsen & Augier, 2006; Sapsed et al., 2008, p. 9-10), by adapting their strategies to a world '*that loves their artists more than it loves buying their records'* (Sandall, 2003, in Leyshon et al., 2005, p.199). Most studies therefore discuss alternative, relatively new business strategies, which function next to the more traditional business models and which can be used by record companies to produce, distribute and sell (digital) musical recordings in a world without effective copyright laws to sustain the profitability of the record industry (Bockstedt, Kauffman & Riggins, 2006;Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Hooff, 2007; Leyhson et al., 2005; Premkumar, 2003; Varian, 2005).The key to effective alternative strategies, according to Masnick (2009) is to '*connect with fans'* and to '*give them a reason to buy*' the music. This way, artists, but also record companies, will be able to '*compete with free*' and therefore '*return to business*' (Masnick, 2009).

Reviewing the literature about these strategies, it becomes clear that the musical economy is '*currently an arena within which a range of experiments are being undertaken in an effort to develop [these] new ways of generating income*' (Leyshon et al., 2005, p. 201). Therefore there is a wide proliferation of alternative business strategies, which range from the sale of physical and digital musical recordings through traditional as well as through new distribution channels, to the sale of subscriptions, memberships or complements to the promotion of live performances (Bockstedt, Kauffman & Riggins, 2006; Bourreau, Gensollen & Moreau, 2008;Hooff, 2007; Kretschmer, Klimis & Wallis, 2001; Leyshon et al., 2005;Masnick, 2009; Mortimer, Nosko & Sorensen, 2010; Varian, 2005). When looking at the websites of record companies it also becomes clear that newer strategies, such as the use of playlists, streaming, rss feeds, etc., continually pop up. In the case discussed by Masnick (2009), new strategies are even created and implemented continuously. With such a proliferation of alternative business strategies, it is essential to bring together the strategies that share a common ground. Based on the literature review as well as a first impression of the websites of record companies, 3 dimensions have been created, namely 1) commerce, 2) marketing and promotion and 3) social media. The creation of these dimensions will be discussed next.

*1) Commerce*

First of all, the literature about alternative business strategies in the record industry discusses the commercial exploitation of digital possibilities (Leyhson et al., 2005). For example, Leyshon, Webb, French, Thrift and Crewe (2005) and Masnick (2009) discuss how record companies could develop their own downloading services by providing the consumers with the possibility to download music in different formats for fee. Next to that, exploiting file sharing options might reduce production and distribution costs of physical CDs and at the same time increase revenues from live performances through increased awareness (Bockstedt, Kauffman & Riggins, 2006; Cameron, 2011; Liebowitz & Watt, 2006; Masnick, 2009; Mortimer, Nosko & Sorenson, 2010). This is also why Curien & Moreau (2009) and Cameron (2011) propose that record companies should try to establish new contracts in which all music revenues are shared between artists and record companies instead of reserving revenues from CDs for record companies and the revenues from live performances and ancillary products to artists. Especially the sale of ancillary products online is seen as a profitable new strategy: these ancillary goods are less subject to the economic challenges of digitization and the internet. On top of that, these ancillary goods, such as photos, a poster, fan club membership, live performance tickets or a T-shirt are meant to make it more attractive to buy a musical recording, digitally and/or physically, than to download it illegally (Bockstedt, Kauffman & Riggins, 2006; Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Curien & Moreau, 2009; Hooff, 2007; Liebowitz & Watt, 2006; Masnick, 2009; Varian, 2005). Curien and Moreau (2009) explain that by sharing these revenues from live performances and ancillary products with artists, '*record companies would be able to price-discriminate between consumers willing to buy a CD as well as concert tickets and associated goods and those who are not willing to buy the CD because they find it too expensive. Without piracy the latter consumers are less likely to discover new artists and thus to consume in the live music market.*

*Because piracy increases the audience of an artist revenues from live music products sold to individuals who would not have bought the CD anyway may compensate for the loss incurred from free downloads by individuals who would have bought the CD'* (p. 111). Next to that, record companies could also comply to the wishes of different consumers by providing consumers with the possibility to buy different versions of one CD: each version having its own price, quality and extra's (Cameron, 2011; Masnick, 2009). Besides that, consumers could be given the opportunity to buy a highly personalized version of a CD or digital album, which complies to the wishes and taste of the customer. This way unique, customized versions are produced, which might only interest the buyer itself because tastes differ (Bockstedt, Kauffman & Riggins, 2006; Liebowitz & Watt, 2006; Varian, 2005). Providing consumers with the possibility to become a member or subscribe for a certain (monthly) fee to have access to specific content, is a final strategy that is put forward in the literature about these alternative business strategies that can be exploited by record companies (Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Leyshon et al., 2005; Varian, 2005). As Masnick (2009) explains, using such strategies, as discussed above, record companies could accommodate piracy by making it more interesting to pay for music that is given away for free.

*2) Online marketing and promotion*

Next to the commercial use of digital possibilities, the literature about alternative business strategies also discusses how digitization poses opportunities for the promotion and advertisement of music (Bockstedt, Kauffman & Riggins, 2006; Leyshon et al., 2005; Varian, 2005): '*on the average the internet was seen as a marketing tool with a lot of potential in the areas of direct marketing and promotion*' (Hooff, 2007, p. 60), '*because piracy increases the audience of an artist (..)*' (Curien & Moreau, 2009, p. 111). As Masnick (2009) explained, it is important to connect with fans and the internet can be seen as an extra way to reach consumers. Increasingly record companies grasp these opportunities to control new revenue streams in these times in which traditional income sources are steadily eroded, by moving into areas formerly left to press agencies (Leyshon et al., 2005). For example, Liebowitz & Watt (2006), Cameron (2011) and Bockstedt, Kauffman and Riggins (2006) describe how so called '*trybeforebuying*' versions with lower audio quality can be used as advertisement to attract consumers and drive sales of other, higher quality. Hooff (2007) also describes how a downloaded song can be seen as an advertisement for a physical copy or a life performance and Cameron (2011) explains that such models can be used for the marketing of new music thereby lowering their promotion and marketing costs.

*3) Social media*

Finally, another way to connect with fans, is by the use of social networking sites, like Facebook, Hyves or Twitter, by record companies (Masnick, 2009). It is easily imaginable how on these social networking sites, content is created, shared, discovered and reviewed instantly, not only by actors within the record industry, but also by their (potential) audience (Masnick, 2009; Sapsed et al., 2008). According to Sapsed, Garcia, Adams and Neely (2008) this implies that social networking sites make it possible that niche markets can be established quicker and the discovery of relevant content is easier. This illustrates how digitization has provided record companies with new ways to relate to their audience and to distribute their content. Although this is a rather underdeveloped strategy in the literature about alternative business strategies, the use of social media as a business strategy is already being discussed. For example Kaplan and Haenlain (2010) discuss how several companies have already used social networking sites to support the creation of an audience or community, to do marketing research, to promote their products and/or audience or even to use it as a distribution channel. This is why social media will also be included in the analysis.

Taken together, these three dimensions cover the use of online activities on the websites of record companies. In this study, it has been argued that digitization brings about opportunities for the record companies to implement these activities on their websites. This way, the process of digitization does not only pose threats to record companies as digitization threatens their traditional business model. Digitization also brings record companies new possibilities to implement alternative business strategies that might especially be profitable in these digital times. The three dimensions might help to sustain the profitability of the record industry as they enable the record companies to reach and interact with their consumers in varied ways (*social media*), to promote their artists and their music (*online promotion & marketing*) and/or to sell their products (*commerce*) in ways previously unprecedented. But although digitization brings about these opportunities, it does not mean that record companies actually implement these opportunities. This is why it is not only the aim of this study to identify what record companies actually do with their websites, it also aims to take a closer look at how possible differences in this use of websites might be explained.

*New digital possibilities: Adaption of alternative business strategies*

It is often argued that digitization has brought about a period of technological change, in which innovative suppliers increase their productivity or generate new products or business strategies that will increase their productivity and revenues at the expense of more conservative suppliers. In such a period it is seen as essential to cope with these changes in order to stay competitive (Handke, 2010). As Hooff (2007) explains, different internal and external factors play a role in the adaption of innovative strategies. As it turns out, most record companies struggle to come to terms with the digital distribution of music over the internet, leading to a recession in the record industry due to the surge of unauthorized copying and falls in revenues. However, in the German record industry this recession was accompanied by a high number of small record companies entering the record industry (Handke, 2006). According to Handke (2006) '*this finding is more consistent with a restructuring of the record industry in the context of technological change — i.e. creative destruction — than with plain destruction due to diminished appropriability'* (p. 1). This also illustrates that it will no longer be sufficient for record companies to stick to their established business models and try to reinforce copyright protection: '*to the extent that technological change does occur, copyright extensions and increased investments into enforcement might not constitute adequate copyright policy by themselves. In the context of technological change, copyright policy also needs to provide flexible, neutral and quick solutions for emerging new ways of doing business in order to facilitate innovation and creativity*' (Handke, 2006, p. 47). And as Sapsed, Garcia, Adams and Neely (2008) explain, '*it are often the new entrants that bring capabilities needed for the emergence of innovative business models which are afterwards imitated by incumbents'* (p.13).

This study has already identified such innovative business models. However, the question remains what factors influence the uptake of such innovative business models. Research has indicated that most organizations, when deciding to take up an innovative business strategy, will often consider whether this digital innovation seems beneficial, brings observable results and/or will not be too hard to implement. Aside from these kinds of considerations, organizational characteristics, such as age or size, have been shown to influence their decisions (Acs & Audretsch, 1988; Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002). In this quantitative study, such organizational characteristics can be used to see whether the differences in the use of websites by record companies can be explained by these characteristics. Because, even though the record industry has an oligopolistic market structure, in which a few, so called major record companies dominate, there is a lot of diversity among the so called independent record companies, which often serve a specific niche market (Hooff, 2007; Hull, 2004). Among these record companies there is a lot of diversity in size, genre, management styles, etc. (Hooff, 2007; Hull, 2004). Therefore, it can be expected that differences in such organizational characteristics might explain differences in the use of websites by record companies. By conducting such a research, the results of this study might also complement the discussion about alternative business strategies and their implementation because such studies in the record industry are scarce and often limited (e.g. Alexander, 1994; Peterson & Berger, 1975; Sapsed, Garcia, Adams & Neely, 2008). Therefore, this study could accommodate this research gap by taking a closer look at the relationships between different organizational characteristics that might explain the differences in the uptake of alternative business strategies.

*Researching digitization in the record industry*

The above discussion of the literature so far has pointed out two lines of reasoning, namely 1) digitization brings about opportunities that record companies could use to sustain their profitability and 2) organizational characteristics might explain the differences in the uptake of these opportunities. The literature discussion has pointed out that so far a lot of literature has thoroughly discussed these alternative business strategies (e.g. Bockstedt, Kauffman & Riggins, 2006; Cameron, 2011; Leyhson et al., 2005; Varian, 2005). However, few have investigated which strategies are actually being used by record companies at this moment. Given the current state of the industry, further research into this topic is therefore highly valuable at this moment. Therefore, Sapsed, Garcia, Adams and Neely (2008) also stress the need for further research into the use of alternative business strategies and new business models that can attract consumers and increase revenues. This study assumes that the chance is high that record companies will use the websites to present themselves online and to make use of the new, online possibilities, because in these digital times, the website can be seen as a kind of online music store or like a digital business card for the record company (Broekhuizen & Huysmans, 2002). Therefore, it will be both interesting and fruitful to focus on the adaptation of these digital possibilities by record companies.

But although digitization brings about these opportunities, it does not mean that record companies actually implement these opportunities. This is why it is not the only aim of this study to explore the use of new digital possibilities on the websites of record companies. This study also aims to find out how possible differences in this use can be explained. The above literature review has pointed out that there are studies about the influence of organizational characteristics on the uptake of innovative strategies in the cultural industries (Acs & Audretsch, 1988; Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002). However, studies about the influence of these characteristics on the implementation of innovative business strategies in the record industry are scarce and often focus on the adaption of one strategy and the influence of one organizational characteristic only (e.g. Alexander, 1994; Peterson & Berger, 1975; Sapsed, Garcia, Adams & Neely, 2008).Therefore, a quantitative content analysis of record companies' websites will be made to find out to what extent record companies in the Netherlands use new digital possibilities and how this use can be explained. Therefore, the research questions of this study are:

1) *To what extent do record companies in the Netherlands use new digital possibilities on their websites and 2) how can the use of new digital possibilities on the websites of record companies in the Netherlands be explained?*

## *3. Method & Data*

*Quantitative content analysis*

To answer the first research question, information about the use of alternative business strategies on the websites of record companies is needed. Therefore primary data have been collected from the websites of a reasonably large number of Dutch record companies (60) through a quantitative content analysis. The internet gives cultural institutions the ability to interact with their (potential) public and consumers (Broekhuizen & Huysmans, 2002). This is why record companies can use their websites to present themselves and the music they produce online. By providing consumers with the option to consume the music via their legitimate websites, '*record companies could accommodate piracy by taking advantage of its main positive feature: the ability to ensure large scale access to music at a very low cost (…). In such a scenario, instead of focusing on a strict copyright enforcement policy consisting of suing pirates, the record companies would support innovative means of deriving revenues from legal P2P*' (Curien & Moreau, 2009, p. 112). It is therefore reasonable to assume that record companies will use their website to implement alternative business strategies. This is why a set of criteria have been developed and applied to the websites of record companies to quantitatively measure the content and usability of these sites (Field, 2009). A quantitative content analysis of the websites of record companies will therefore give an overview of the online activities of record companies. Next to that, quantitative content analysis has also been chosen because it will make it possible to answer the second research question as well. The second research question will look at how the differences in the use of websites for alternative business strategies might be explained by specific characteristics of record companies. Quantitative content analysis makes it possible to include those characteristics of record companies in the dataset to be able to look at the relations between these characteristics and the use of websites for alternative business strategies by record companies.

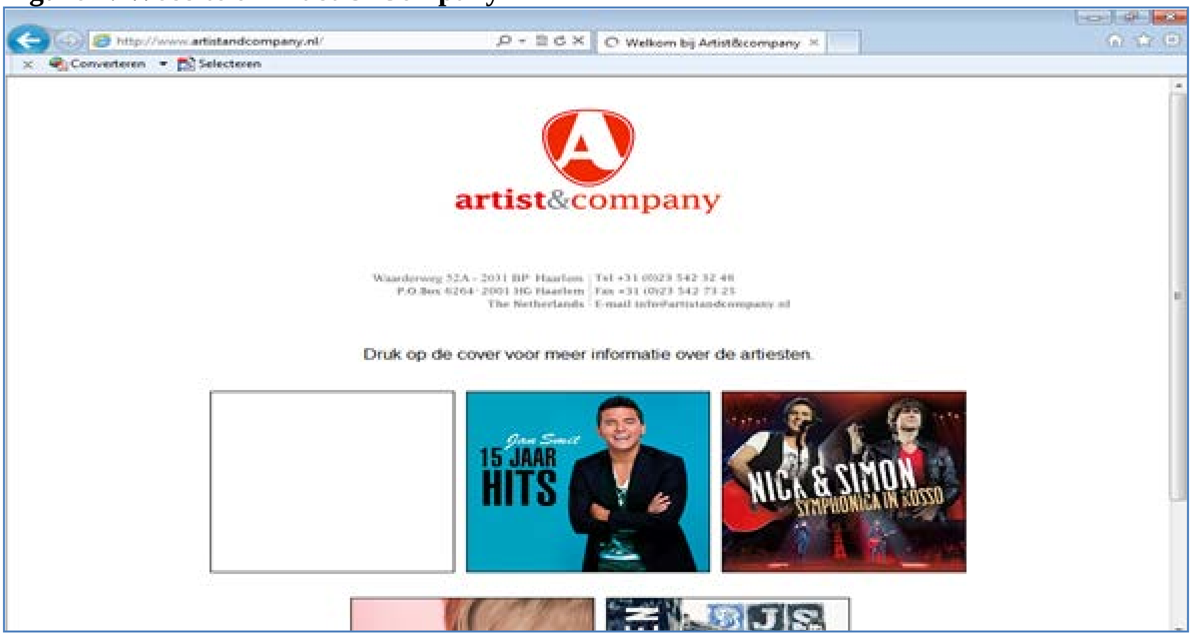
*Data*

In total 60 Dutch record companies were identified and their websites analyzed. The selection of the record companies is based on their affiliation to Impala (2012) or to NVPI (2012), the Dutch association of the entertainment industry, which is affiliated to the IFPI (2012). In this study, Dutch record companies, meaning record companies with a physical office in the Netherlands, affiliated to either one of these three associations were included in the analysis in order to raise the number of cases in the analysis. Affiliation to one of these associations has been used because it provides a list of record companies, which already includes their contact information. Hooff (2007), who only used affiliation to the NVPI in his study, explains that this affiliation also indicates a level of professionalism that is desirable for the participation in this research. As the record industry has an oligopolistic market structure, in which the four major record companies Universal Music, Warner Music, Sony BMG Music and EMI Music hold at least 60% of the market, the selected record companies were checked for their affiliation to one of these major record companies (Hooff, 2007; Hull, 2004). If an affiliation was found, those record companies were excluded from the analysis. The selection of record companies also indicated that the term record company is often used interchangeably to record label. However, Hooff (2007) explains that '*a record label may refer to a record company, but [it] may also refer to a division of a record company or a trademark used by a record company'* (p. 23). If the record label is a division of a record company, this would mean that in a way, this record company is included in the analysis twice. This is why the record labels of record companies have been excluded from the analysis. Lastly, for practical reasons, the final list of record companies was checked to find out whether these record companies were still in business and had a website that was usable for this study. This resulted in a list of 60 record companies, which included major as well as independent record companies. Appendix 2 presents the final list of record companies and their websites.

*Analyzing the websites*

Similar to the study of Broekhuizen and Huysmans (2002), the research unit consists of the websites of record companies. From these websites, only the homepage and the different parts of the website which one can reach by clicking on certain links and tabs on the homepage have been included in the analysis. Therefore all data collected are available only on the websites of the selected record companies. This decision is a practical one, because there was such a wide variety in the use of websites by record companies. To increase the feasibility of the research, it was therefore decided to restrict the focus of this study on the use of the website of the record company itself. This decision, however practical, already has implications for the analysis of the websites of record companies, as illustrated by the following figures 1 and 2. Figure 1 is an example of one of the simplest websites encountered in the analysis, the one of Artist & Company (2012). On this website, only some contact details and the artists that the record company promotes are noted. When clicking on these artists, the visitor is immediately directed to the personal website of the artists (see figure 1). Therefore, this website is illustrative for a record company that does not extensively use its website for the earlier discussed alternative business strategies.

**Figure 1: Website of Artist & Company**




Source: Artists & Company (2012)

Figure 2 however, is an example of a website of a record company (Armada Music, 2012) that provides all information within the website of the record company itself (see figure 2). What is more, this website is extensively used for alternative business strategies as this website provides the visitor with all kinds of options to find out more about the record company and its artists and music. This website is therefore a good example of a record company that does extensively use its website for alternative business strategies.

**Figure 2: Website of Armada Music**


Source: Armada Music (2012)

*Operationalization alternative business strategies*

Earlier, these alternative business strategies have been grouped into three different dimensions that have been identified based on literature review. These dimensions are 1) *commerce*, 2) *online promotion & marketing* and 3) *social media*. In the data collection, various variables operationalize these dimensions that measure the use of websites by record companies. The variables were based on the literature review on these strategies. After going through several websites, the operationalization of these variables was specified and supplemented with options found on these websites. These variables, which were all given a dichotomous score of 0 (= not present) or 1 (= present), were included in the statistical program SPSS.  In the data collection the dimension *commerce* has been measured by the use of dichotomous variables (0 = not present, 1 = present), which measure the use of the website for the sale of music and music related articles. Based on the literature review and a first impression of these websites, this dimension could be measured using the following 10 variables: the sale of 'CD', 'mp3' or 'vinyl' music recordings, the sale of tickets for 'live concerts', the sale of 'ancillary goods', 'digital tracks' or 'albums', the sale of different 'versions' of a musical recording, the possibility to download the music from 'p2p networks' or the possibility to buy a 'membership' to the website of the record company in order to be able to download music for a monthly fee (e.g. Bockstedt, Kauffman, Riggins, 2006; Bourreau, Gensollen & Moreau, 2008; Cameron, 2011; Curien& Moreau, 2009; Hooff, 2007; Liebowitz & Watt, 2006; Leyhson et al., 2005; Masnick, 2009; Mortimer, Nosko & Sorenson, 2010; Varian, 2005). The dimension *online promotion & marketing* has been measured by looking whether the record company provides visitors of their website the possibility to find out more about their artists and their music. Options (6) to do so include the possibility to listen to music via the 'radio' or the modern version of the radio, the 'podcast'. Next to that, visitors could also listen to music and even see the artists via the 'streaming' of music files or via the 'video' or 'tv' channel. Finally, visitors are also given the opportunity to leave behind comments on specific music on a 'comments page' (e.g. Bockstedt, Kauffman & Riggins, 2006; Cameron, 2011; Curien & Moreau, 2009; Hooff, 2007; Liebowitz & Watt, 2006; Leyshon et al., 2005; Masnick, 2009; Varian, 2005). The availability of these options has been measured with the use of variables, which have been given a dichotomous score of 0 (= not present) or 1 (= present). The final dimension, *social media,* has also been measured with dichotomous variables measuring the use of social media by record companies (Kaplan & Haenlain, 2010; Masnick, 2009; Sapsed et al., 2008). The social networking sites included in the analysis are:

‘Facebook’, ‘Hyves’, ‘Twitter’, ‘LinkedIn’ and ‘YouTube’ (only in case of a personal YouTube page). In sum, the use of online activities on the websites of record companies has been measured through 21 different variables, which belong to one of the three dimensions. In appendix 1 a list of the variables collected for this research has been included. Each website was checked for the presence of these variables and the results were collected in SPSS.

However, these 21 variables, which in some way measure the use of online activities on the websites of record companies, were theoretically selected to measure the 3 overarching dimensions *commerce, online promotion & marketing* and *social media*. To see whether these divisions also hold empirically, a factor and reliability analysis has been run (see table 1) (Field, 2009). The factor analysis showed that 4 instead of the expected 3 dimensions could be identified from the 21 variables put into the factor analysis. To see whether these 4 dimensions, which exist of several variables, are also reliable, a reliability analysis has been run (Field, 2009). After running both the factor and the reliability test it became clear that 3 variables could not be put into one of the 4 dimensions, namely the use of ‘videos’ and a ‘comments page’ to watch and comment the music and the option to buy a ‘membership’ to a website. These variables are probably excluded because these variables are either mainly present (‘video’ and ‘comments page’) or mainly not present (‘membership’) on the websites of record companies. Next to these variables that were not put into one of the dimensions, the factor- and reliability analyses also indicated that excluding the variable that measures the possibility to buy tickets for ‘live concerts’ and the variable that measures the use of ‘hyves’ would raise the reliability of their respective dimensions (see table 1). This way, the factor- and reliability analysis indicated that 4 reliable dimensions could be created, instead of the anticipated 3. Based on the literature review, the dimensions *commerce, online marketing & promotion* and *social media* have been discerned. The fourth dimension is created because the dimension *commerce* has been divided into 2 dimensions. The first commerce dimension that has thus been made consists of 4 variables that measure the use of the website to sell ‘CDs’, ‘Vinyl’, ‘Complements’ and different ‘Versions’ of music. Because this dimensions consists of variables that measure the use of the website to sell physical versions of music or music related products, this dimensions has been called ‘*commerce physical’*. This dimension has a good reliability (Cronbach’s $\alpha = 0.69$). The second commerce dimension is constructed by 4 variables that measure the use of the website to buy digital formats of music, such as songs on ‘p2p networks’ and for ‘mp3’ or ‘digital albums’ or ‘digital tracks’. Therefore, this dimension, which also has a good reliability (Cronbach's α = 0.76), has been named '*commerce digital*'.

The next dimension has been called the same as in the literature review, namely *'online marketing & promotion'*. This dimension has a moderate reliability (Cronbach's α = 0.57) and consists of the following 4 variables that measure the way the website is used to promote the music and artists of the record company: 'radio', 'tv', 'streaming' and 'podcast'. The last dimension is *'social media'*, which also has a good reliability (Cronbach's α = 0.71). This dimensions consists of 4 variables that measure the use of record companies of social networking sites like 'Facebook', 'Twitter', 'LinkedIn' and 'YouTube'. This way, 4 dimensions have been created, each consisting of 4 variables. The dimensions are created by counting up all 4 variables into one dimension. This way, the four dimensions have a continuous score from 0-4 in which a higher score indicates more use of this dimension on the websites of record companies. For factor- and reliability analyses see table 1.

**Table 1.** Factor- and reliability analysis items measuring the use of websites by record companies

| Items | 1st Factor<br>Commerce physical | 2nd factor<br>Commerce digital | 3rd factor<br>Online pr& marketing | 4th factor<br>Social media |
|---|---|---|---|---|
| CD | .72 | | | |
| (Live concerts) | (.33) | | | |
| Vinyl | .46 | | | |
| Versioning | .79 | | | |
| Complements | .42 | | | |
| P2P | | .47 | | |
| Digital albums | | .68 | | |
| Digital tracks | | .67 | | |
| MP 3 | | .66 | | |
| Radio | | | .41 | |
| TV | | | .61 | |
| Streaming | | | .72 | |
| Podcast | | | .75 | |
| Facebook | | | | .62 |
| (Hyves) | | | | (.28) |
| Twitter | | | | .78 |
| LinkedIn | | | | .39 |
| YouTube | | | | .74 |
| **Reliability** (Cronbach's α) | .69 | .75 | .57 | .71 |
| **Eigenvalue** | 2.83 | 2.75 | 2.31 | 2.19 |
| **R2** | 0.13 | 0.13 | 0.11 | 0.10 |
| **N** | 60 | 60 | 60 | 60 |

*Operationalization adoption of alternative business strategies*

To answer the second research question about the explanation of differences in the use of new digital possibilities by record companies, specific organizational characteristics have been identified to be collected. The expectation is that if these characteristics are included in the analysis, it will be possible to see to what extent differences in the use of websites by record companies can be explained by these organizational characteristics. First of all, the literature about the diffusion of innovations indicates that the use of different innovative strategies can be influenced by the level of competitiveness of the sector. The literature points out that higher levels of competitiveness drive the adaption of alternative business strategies because more record companies within the same environment strive to attract consumers (Acs & Audretsch, 1988; Broekhuizen & Huysmans, 2002; Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002; Peterson & Berger, 1975). In this study, the competitiveness of the environment of record companies has been measured by calculating the number of record companies located in the same city as the city in which the record company is located. Thus, the first hypothesis is:

*Hypothesis 1: The higher the competitiveness level of the industry of the record company, the more a record company will use a) commerce physical, b) commerce digital, c) online marketing & promotion and d) social media*

Secondly, research into the diffusion of innovations has also indicated that the use of different innovative strategies can be influenced by the age of the organization. Younger organizations turn out to adopt new and innovative business strategies quicker than older organizations do as they are more capable to let their already established ways of doing business go when confronted by seemingly profitable new business strategies. For older organizations, their business models might already be established and taken for granted. Therefore it will be harder for them to alter their business strategies when circumstances change. Next to that, older organizations also tend to have a reputation they can build on, which decreases the need for alternative business strategies (Acs & Audretsch, 1988; Alexander, 1994; Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002; Sapsed et al., 2008). In this study, the age of the record company has been measured using the year in which the record company was founded. This would mean that the higher the score, the younger the record company is. Therefore, the second hypothesis can be formulated as follows:

*Hypothesis 2: The younger a record company is, the more a record company will use a) commerce physical, b) commerce digital, c) online marketing & promotion and d) social media*

Thirdly, literature points out that firm size might influence the adaptability of record companies to change (Handke, 2006). The literature has pointed out that bigger firms tend to do more with innovative business strategies than smaller ones do, although it has to be pointed out that it is uncertain whether bigger record companies tend to do more with alternative business strategies or that those record companies that do more with such strategies are therefore bigger (Cunliffe, Kritou & Tudhope, 2001; Frambach & Schillewaert, 2002). In this study, size has been measured by counting the number of artists signed to the record company. This way, the higher the score, the bigger the record company is. Although some artists have a relatively higher value for the record company than others do, it was decided, mainly due to practical limitations, to measure size only by counting the number of artists assigned, without giving them a certain value. Therefore, the fourth hypothesis will be:

*Hypothesis 3: The bigger a record company is, the more a record company will use a) commerce physical, b) commerce digital, c) online marketing & promotion and d) social media*

Finally, a variable measuring the genre of the record company has been included. Previous research into the use of museum websites has indicated that differences exist per type of museum (Broekhuizen & Huysmans, 2002; Pauwels, Van Oost & Lavens, 2004). Although this kind of research is in a different sector and concerns different dimensions than the ones identified in this study, it is expected that record companies of different genres also use the new digital possibilities differently. For example, a record company serving a relatively small niche market might be more interested in promoting its music to attract more consumers, while a record company in the popular genre could be more concerned about the missed revenues due to illegal downloading and would therefore focus more on commercial strategies than record companies of other genres would.  Therefore, the third hypothesis has been formulated as follows:

*Hypothesis 4: Per type of record company the use of a) commerce physical, b) commerce digital, c) online marketing & promotion and d) social media*

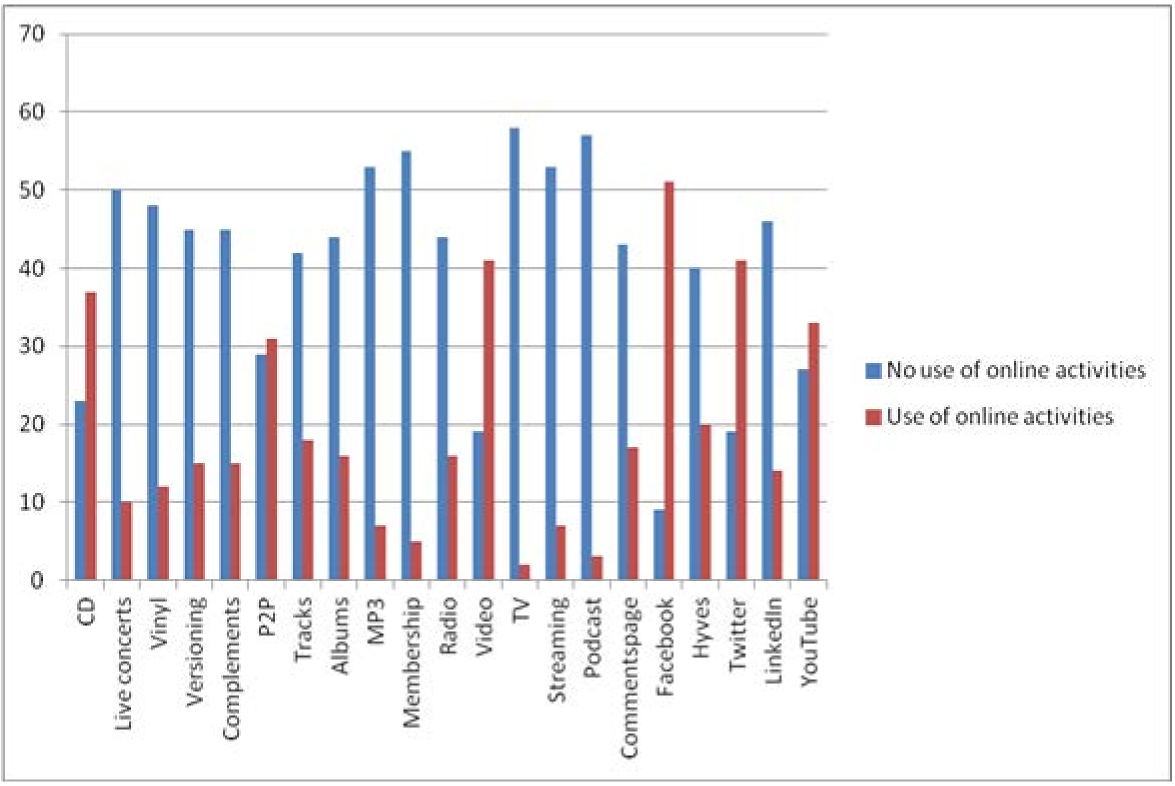
In the data collection, the genre of music the record company produces has been measured by the use of four categories. The first category is for the genre ‘popular’ (28). Record companies producing record in the genres ranging from popular, to dance and rock, have been included in this category. The second category is ‘world’ music (23). This category is a construction of world music as well as ethnic music, such as Dutch or African music. The third category consists of record companies producing ‘classical’ music (5). Although only 5 cases is rather low, it was decided to make a specific category for classical music because 1) this genre is difficult to include into another category and, most importantly, 2) the analysis of the websites of record companies indicated that the record companies that produce classical music use their website different than other record companies do. The final category is for the ‘major’ record companies (4). Major record companies have been included as a separate category because they, like the record companies that produce mainly classical music, use their websites differently. Next to that, as has been noted before, these record companies have a great market share and therefore dominate the record industry. However, they are also distinctively different from the so called independent record companies, as the independent record companies often serve a specific niche audience (Hooff, 2007; Hull, 2004). Major record companies can therefore be seen as a distinctively different category than the independent record companies. This is why 4 categories have been distinguished, namely ‘major’ (4), ‘classical’ (5), ‘popular’ (28) and ‘world’ (23). For each category, a dummy has been made.

## 4. Results

*Frequencies online activities*

To answer the first research question about the use of new digital possibilities on the websites of Dutch record companies that can complement the traditional tasks of record companies to produce, distribute and sell mainly physical musical recordings, a frequency analysis has been run on the use of such online activities on these websites (see table 2). Table 2 shows the number of record companies that use one of the 21 variables that measure the use of online activities. These 21 variables were selected based on the literature review and a first impression of the websites of record companies (see chapter 3). As you can see in table 2, most of the 60 record companies in the analysis, do not use these options extensively. Most of the times, less than 20 record companies make use of one of these options. This accounts for 15 of the 21 options. When it comes to the use of the website to sell CDs, to link to P2P networks, to promote their music and/or artists in videos or to interact with the audience about their music on social networking sites like Facebook, Twitter or YouTube, there are more record companies which use their websites for these possibilities than there are record companies which do not use their website for these possibilities.

**Table 2: (No) use of online activities by Dutch record companies (2012)**



Although table 2 does give an impression of the use of alternative strategies on the websites of record companies, it does not show what kinds of strategies are used more extensively then others. This is why, based on the literature review, a first impression of the websites of record companies and the factor- and reliability analysis, 4 dimensions (*commerce digital, commerce physical, online promotion & marketing* and *social media*) have been created to measure the use of these different kind of strategies. This is why the next step in the analysis is to identify to what extent record companies make use of these dimensions on their websites. Figure 3 illustrates the uptake by record companies of *commerce digital, commerce physical, online promotion & marketing* and *social media*. For each of these dimensions, a pie chart has been created, in which the slices range from 0 (= no use of this dimension) to 4 (= complete use of this dimension).

**Figure 3:**Pie charts frequencies 4 dimension

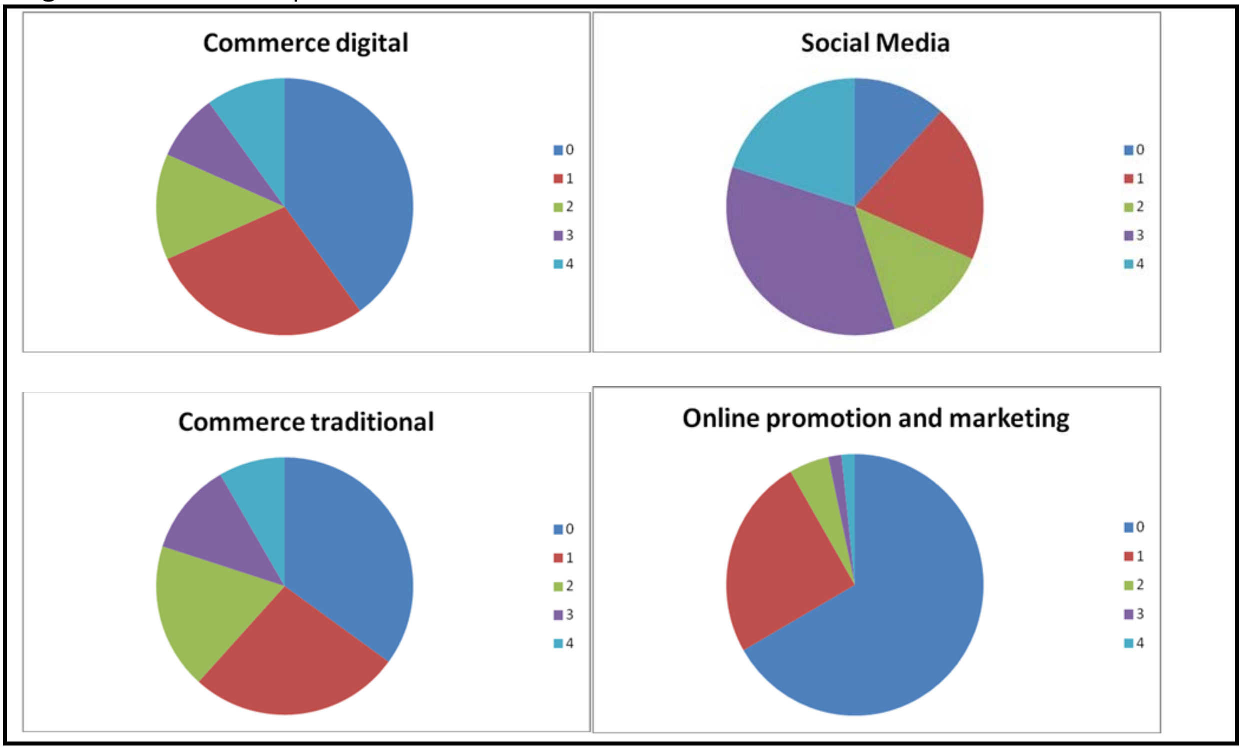
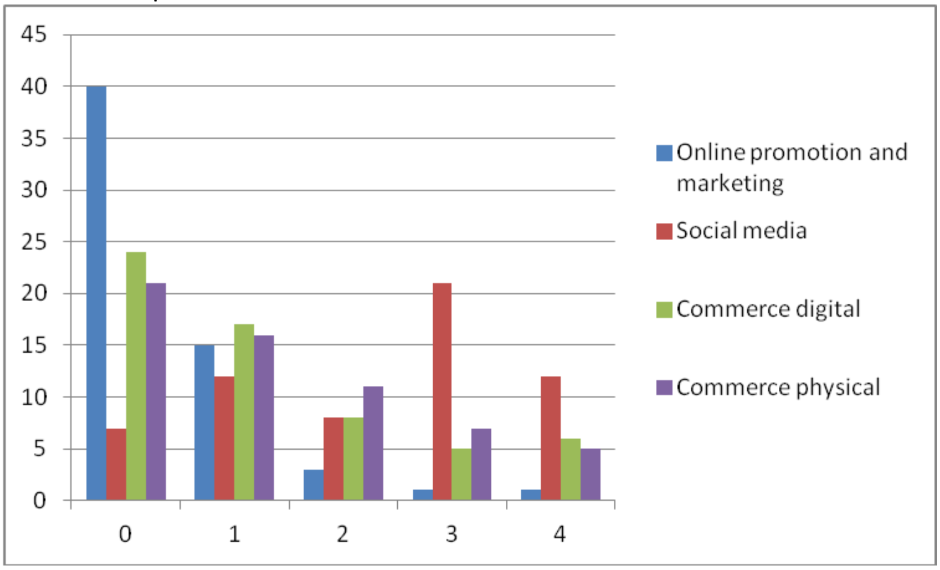



Figure 3 shows that most record companies make limited use of at least 3 of the 4 dimensions. Especially when it comes to the uptake of *online promotion and marketing*, figure 3 shows that about 65% of the record companies do not use this online promotional option on their websites and therefore only a small number of record companies use their websites to promote their music and/or artists. This therefore illustrates that the potential the web gives for online marketing and promotion is only used minimally by record companies. However,

figure 3 also illustrates that most record companies make considerable or even extensive use of *social media* to interact with their followers and to promote and distribute their music and artists among their followers on these social networking sites. As figure 3 shows, only about 10% does not use these social media at all. Finally, when considering the uptake of *commerce digital* and *commerce physical*, figure 3 illustrates that around 35-40% of the record companies do not use their websites to sell digital or physical formats of music. Figure 3 also illustrates that most record companies, around 40%, makes moderate use of their websites for these commercial options, while around 20% uses their website extensively for this.
The above results also illustrate the differences that exist in the uptake of the 4 dimensions. To make these differences more explicit, table 3 has been created. Table 3 is a frequency table that shows the uptake of each dimension, ranging again from 0 (= no use of this dimension) to 4 (= complete use of this dimension). As table 3 illustrates, social media have been taken up the most by record companies. However, at the same time most record companies are using the commercial options, both for digital and physical products, only moderately, although more record companies use their websites to sell physical musical products than to sell digital versions. Finally, table 3 also clearly illustrates that most record companies could better use their website for online marketing & promotion. These results therefore show that record companies do see the extra possibilities websites can give to sustain and increase their revenues by implementing these strategies. However, a lot can still be gained as well, especially when it comes to the online promotion of their artists and their music on their own websites. For frequencies, see table 3.

**Table 3.** Frequencies 4 dimensions



*Correlations*

The second research questions aims to identify how these differences in the use of websites by Dutch record companies might be explained. This is why earlier in this study, hypotheses have been formulated about the expected relationships between the dimensions and some explanatory variables, namely the age, the size and the genre of the music of the record company and the competitiveness of the city the record company is located in. To test these hypotheses, the correlations between these explanatory variables and the dimensions have been checked. This way, it will be possible to get an impression of the potential relationships between the variables, although it will not be sufficient to establish a causal relationship (in either direction) (Field, 2009). Because there is 1 nominal variable, a correlation analysis as well as a compare means analysis has been run. For the results, see table 4 and 5.

**Table 4: Correlations between the independent variables and the dependent variables Commerce physical, Commerce digital, Online promotion & marketing and Social media**

| | Commerce physical | Commerce digital | Online promotion & marketing | Social media |
|---|---|---|---|---|
| Commerce physical | - | ,37* | ,23 | ,24 |
| Commerce digital | ,37* | - | ,34** | ,40** |
| Online promotion & marketing | ,23 | ,34** | - | ,22 |
| Social media | ,24 | ,40** | ,23 | - |
| Competiteveness region | ,09 | ,29** | ,34*** | ,31** |
| Age record company | ,20 | ,07 | ,08 | ,11 |
| Size record company | -,07 | -,06 | ,25** | ,33* |
| Genre record company: World | See Table 5 | | | |
| Genre record company: Popular | See Table 5 | | | |
| Genre record company: Classical | See Table 5 | | | |
| Genre record company: Major | See Table 5 | | | |
| N | 55 | 55 | 55 | 55 |

* = P < .1 ** = p < .05, *** = p < .01, **** = p < .001

The results in table 4 and 5 indicate that different organizational characteristics of record companies explain the differences in the use of the website by record companies (*commerce digital, commerce physical, online promotion & marketing* and *social media*). First of all, the analysis indicates a relationship between the use of the 4 different dimensions on the website of record companies and the competitiveness of the region in which the record company is located. Table 4 shows that there is a positive relationship between the level of competitiveness of the region in which the record company is located and the use of all 4 dimensions. These relationships are even positively significant in the cases of *commerce digital* (Pearson's $r$ = 0,29, n=55, p <.05), *online promotion & marketing* (Pearson's $r$ = 0,34, n=55, p <.001) and *social media* (Pearson's $r$ = 0,31, n=55, p <.05). This therefore indicates that the more record companies in the region, in other words, the higher the competitiveness of the region, the more record companies will use their websites to implement alternative business strategies in the form of *commerce digital, online promotion & marketing* and *social media*. This therefore confirms hypothesis 1b, 1c and 1d, but rejects hypothesis 1a about the uptake of *commerce physical*.

Table 4 also indicates that there is a positive relationship between the age of the record company and the uptake of the 4 dimensions. This would indicate that the younger a record company is, the more a record companies implements these 4 dimensions on its website. However, table 4 also indicates that none of these correlations are significant. Therefore hypothesis 2a, 2b, 2c and 2d can't be confirmed. Finally, table 4 also shows some interesting results in the correlation between the size of the record company and the use of the 4 dimensions on its website. Table 4 indicates there is a negative correlation between the size of the record company and the uptake of commercial options on the website of record companies. This would indicate that the bigger the record company, the less these record companies use these commercial options. However, these results are not significant and therefore it can't be said whether these findings are coincidence or not. What can be said is that there is a positive correlation between the size of the record company and the use of *online promotion & marketing* (Pearson's $r$ = 0,25, n=55, p <.05) and the use of *social media* (Pearson's $r$ = 0,33, n=55, p <.1). These findings would therefore confirm hypothesis 4c and 4d.

Table 5 shows the uptake of the 4 different dimensions on the website of record companies per genre of music the record company represents. When considering the record companies in the world and/or ethnical genre, table 5 indicates that most of these record companies use the

4 dimensions to a lesser extent than other record companies in the analysis do. This difference is even significant when it comes to the use of *commerce physical* (T = -1,29, p <.05) and online promotion & marketing (T= -1,92, p <.03). Table 5 also indicates that record companies in the popular genre make more use of all 4 dimensions than other record companies in the analysis do. However, this use is only significantly more in the case of *online promotion & marketing* (T= 2,180, p <.04) and *commerce physical* (T=1,614, p <.05). In contrast, record companies which produce classical music make less use of 3 of the 4 dimensions. Table 5 indicates that these record companies use *commerce physical* significantly more than others do (T=2,053, p<.08), while they use *online promotion & marketing* (T= -3,52, p <.000) and *social media* (T= -0,21 p <.08) significantly less. In the case of the use of social media, table 5 shows that record companies that produce classical music do not use social media at all. Finally, table 5 also indicates that major record companies use their websites mainly for *commerce digital, online promotion & marketing* and *social media*. Their use of these dimensions is higher than other record companies in the analysis and even significantly higher in the case of *social media* (T= 1,503, p <.02). However, table 5 also indicates that these record companies do not use their websites for *commerce physical* at all and therefore they use this dimension significantly less than other record companies in the analysis do (T= -3,182, p <.001). These results therefore indicate that record companies of different genres use the dimensions differently. For example, the dimension *social media* is used significantly more by major record companies and significantly less by record companies in the classical genre. The dimension *online promotion & marketing* is also used significantly less by record companies in the classical and world genre, but significantly more by record companies in the popular genre. The dimension *commerce physical* is also used significantly less by some record companies and significantly more by others. However, the analysis has shown that no significant results have been found for the dimension *commerce digital*. These results therefore confirm hypothesis 4, except for the dimension *commerce digital*. For comparisons of the means, see table 5.

**Table 5: Compare means between genre record company and Commerce physical, Commerce digital, Online promotion & marketing and Social media**

| | Commerce physical | Commerce digital | Online promotion & marketing | Social media |
|---|---|---|---|---|
| **Dum genre: World (N=23)** | | | | |
| Yes | 1,04 | 1,09 | 0,22 | 1,96 |
| No | 1,49 | 1,27 | 0,62 | 2,54 |
| Significance | ** | | ** | |
| **Dum genre: Popular (N=28)** | | | | |
| Yes | 1,61 | 1,32 | 0,71 | 2,57 |
| No | 1,10 | 1,10 | 0,25 | 2,09 |
| Significance | ** | | ** | |
| **Dum type: Classical (N=5)** | | | | |
| Yes | 2,00 | 0,80 | 2,20 | 0,00 |
| No | 1,23 | 1,24 | 2,33 | 0,51 |
| Significance | * | | * | **** |
| **Dum type: Major (N=4)** | | | | |
| Yes | 0,00 | 1,50 | 0,75 | 2,75 |
| No | 1,41 | 1,18 | 0,45 | 2,29 |
| Significance | **** | | | ** |

* = P < .1 ** = p < .05, *** = p < .01, **** = p < .001

## 5. *Conclusion & Discussion*

*Conclusion*

From the literature about digitization in the record industry it becomes clear that digitization has far reaching consequences for the record industry. On the one hand literature points out that digitization can be devastating for the record industry: most record companies are struggling to keep their sales figures up in these digital times where physical musical recordings get competition from (illegal) digital versions. This is why it becomes increasingly important for record companies to find alternative business models and strategies to keep up with the changes within the industry: or else another record company might bite dust.
This is why many authors promote alternative business strategies that could be implemented next to the traditional business model to make record companies sustainable in the digital era. This indicates that these digital times do not only pose threats, they also bring opportunities for record companies: the process of digitization and rise of the internet can also be used by record companies to implement these alternative strategies. However, the topic of 1) how and 2) why the (Dutch) record industry uses these new digital possibilities of the digital era to find new ways towards profitability is still understudied. To make a contribution to this research gap, this study conducted a quantitative content analysis of the use of new digital possibilities on the websites of Dutch record companies. Next to that, this study also contributes to the discussion about the explanation of possible differences in the use of digital possibilities by investigating the relationships between the implementation of these possibilities and organizational characteristics of record companies.

To answer the first research question about the use of new digital possibilities on the websites of record companies, this study created 4 dimensions based on the literature review and the factor- and reliability analysis. These dimensions were created to clarify different strategies record companies could use to '*connect with fans*' in order to give them a '*reason to buy*' the music (Masnick, 2009). This way, record companies should be able to '*compete with free'* and '*return to business*'. The dimensions that have been created are 1) *commerce physical*, or the use of the website to sell physical musical products, 2) *commerce digital*, or the use of the website to sell music in digital formats, 3) *online promotion & marketing*, or the use of the website to promote (new) music and artists in order to give consumers the incentive to buy their products, both physical and digital, and 4) *social media*, or the use of the website to connect and interact with fans in order to interchange music. The analysis of the use of these 4 strategies indicated that most record companies do use these strategies to some extent on their websites. However, improvements can be made in this use, especially in the use of *online promotion & marketing,* which is barely used on the websites of record companies. The use of the dimensions *commerce physical* and, to a lesser extent, *commerce digital* could also be improved by record companies in order to make better use of the new digital possibilities that could compensate their loss in sales revenues. The dimension mostly used by record companies is the one about the use of *social media*.

To answer the second research question correlations have been run between the 4 dimensions and the organizational characteristics age, size, genre and competitiveness of the region. The results also indicate that differences in the use of these possibilities positively correlate with the competitiveness of the sector and the size of the record company, thereby confirming hypothesis 1 and 3. Next to that, the analysis indicated that different types of record companies use their websites often significantly different, thereby also confirming hypothesis 4. Hypothesis 2 has been rejected because no significant results have been found. These results therefore indicate that both internal (size and genre) and external (competitiveness region) factor influence the uptake of the four identified dimensions that could help to sustain the profitability of the record company in digital times. Although the number of cases in this analysis is small and therefore the causality of these correlations could not be checked, these results already provide an insight into the differences in the use of alternative strategies. Such results might be interesting for record companies as it provides an insight into the options that different record companies could use to gain a competitive advantage to other record companies. This study also indicates that record companies still have a lot of options open to implement alternative strategies: no record company would have to bite the dust yet. Next to that, these results are also promising for further research into this topic.

*Discussion*

The aim of this study was to identify how record companies deal with digital possibilities by looking at the use of 4 different dimensions on the websites of record companies. The second aim of this study was to identify how differences in this use might be explained. The results of this study are promising and make an interesting stepping stone to further research into this topic. However, due to practical limitations, decisions have been made that have influenced the final results of this study. For one, decisions had to be made concerning the research approach of this current study. A quantitative approach has been chosen in order to be able to asses the actual use of alternative strategies by record companies and how this use might be explained. However, a limitation of the proposed research is the rather low number of cases (60). If the number of cases in the analysis would have been raised, a regression analysis could have been run to check the causality of the relationships. On the other hand, because of the explorative status of this study, the results hold interesting implications for further research into this topic. Next to that, the focus of this study is on the record companies in the Netherlands only. The number of cases in the analysis could therefore be seen as indicative for the total population of record companies in the Netherlands. What is more, the findings might make a good indicator for other countries as well. On the other hand, the fact that no comparisons are made with other countries might be seen as another limitation of the research.

Secondly, decisions had to be made concerning the operationalization of this study. For example, the size of the record company has been measured by counting all the artists signed to the record company. However, the top performers are more important for record companies than the ones that barely bring any revenue to the record company. Therefore, if further research would be conducted, a weighted variable for size of the record company should be used. Next to that, size might also be measured by counting the number of fte's a record company has. This would be a second option for further research. A third option for further research into this topic would be to include more organizational characteristics into the analysis. Such characteristics could be obtained by adding surveys or qualitative interviews to the current research approach. A qualitative approach might also determine why record companies implement certain strategies. Next to that, a qualitative approach might also make it possible to identify best practices and determine whether record companies are developing new business opportunities, both offline and online, to cope with the changing industry.

However, due to the limited time, it is not possible to conduct these interviews for this research.

Another limitation of this study is that it does not include record companies that did bite the dust since the rise of digitization and the internet. The study of record companies that did bite the dust could give an insight into the strategies they did implement, but did not work out. This could be valuable information for record companies in their struggle to come up with profitable, alternative business strategies. Documenting the evolution in alternative business strategies implemented by record companies might also clarify the impact and effects of digitization on the record industry more clearly. However, due to time limitations, this is left for future research. This discussion therefore indicates how this study can be seen as a starting point for further research about the threats and opportunities of digitization in the record industry.

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# Appendix 1: Codebook

| Characteristics of the record company | | Coding |
|---|---|---|
| Name of the record company | | Nominal |
| Place of the record company | | Nominal |
| Age of the record company | | Continuous |
| | | |
| Size of the record company: | | |
| * No. of contracted artists | | Continuous |
| * Urban/ Rural | No. of inhabitants | Continuous |
| | | |
| Type record company: | | |
| * Genre music | Pop, Dutch, Rock, Dance, Techno, World, Classical, Various, Major | Nominal/Categorical |
| | | |
| Competitiveness sector: | | |
| • Record industry | No. of record companies in the same genre | Continuous |
| • Location | No. of companies in the same city | Continuous |

| E-commerce | Coding |
|---|---|
| * Web shop: | |
| * Physical products: | |
| o Physical music (CD) | Dichotomous |
| o Live concerts | Dichotomous |
| o Vinyl | Dichotomous |
| o Versioning/Customizing | Dichotomous |
| o Complements | Dichotomous |

* Online products:

- P2P networks
  - I-Tunes, Spotify, etc.

| | |
|---|---|
| o Tracks downloading/burning | Dichotomous |
| o Albums downloading/burning | Dichotomous |
| o MP3 | Dichotomous |
| o Subscriptions, licenses, memberships | Dichotomous |

| **Interactivity** | **Coding** |
|---|---|
| • Radio | Dichotomous |
| • Video | Dichotomous |
| • Tv | Dichotomous |
| • Streaming | Dichotomous |
| • Podcast | Dichotomous |
| • Commentspage | Dichotomous |

| **Social media** | **Coding** |
|---|---|
| Social Media: | |
| * Facebook | Dichotomous |
| * Hyves | Dichotomous |
| * Twitter | Dichotomous |
| * LinkedIn | Dichotomous |
| * YouTube | Dichotomous |

## Appendix 2: List of record companies in the Netherlands (total no.:60)

Retrieved from membership at NVPI (2012), Impala (2012) & IFPI (2012)

Majors (NL):

| | |
|---|---|
| Universal Music Netherlands | http://www.universalmusic.nl/ |
| Sony Music Netherlands | http://www.sonymusic.nl/ |
| Warner Music Netherlands | http://www.warnermusic.nl/ |
| EMI Music Netherlands | http://www.emimusic.nl/ |

Dutch labels:

| | |
|---|---|
| AG Music | http://www.agmusic.nl/ |
| Armada Music | www.armadamusic.com |
| Artist & Company | www.artistandcompany.nl |
| Basta (Netherlands) | www.basta.nl |
| Berk Music | http://www.berkmusic.nl/shop/ |
| Black Hole Recordings BV | www.blackholerecordings.com |
| Boombax | http://www.boombax.nl/ |
| Captain Rob Records | http://www.captainrobrecords.nl/ |
| Cardiac Music BV | www.cardiac.nl |
| Challenge Records | www.challenge.nl |
| Channel Classics Records | http://www.channelclassics.com/ |
| Chrysalis songs Benelux | http://www.chrysalissongs.nl/ |

| | |
|---|---|
| Cloud 9 Music BV | www.cloud9music.nl |
| Coast to Coast | http://www.coasttocoast.nl/ |
| Corazong | www.corazong.nl |
| CNR Entertainment | http://www.cnrentertainment.nl/ |
| Corbeau Music and Management (CMM) | http://www.ctm.eu.com/ENG_cmm_home.asp |
| Dee 2 Records | http://www.dee2records.com/ |
| Dox Records | http://www.doxrecords.com/ |
| Dutch Record Company | http://www.dutchrecordcompany.nl/index.php?41 |
| Epitaph Records/Epitaph Europe | www.epitaph.com |
| Excelsior Recordings | http://www.excelsior-recordings.com/ |
| Flow Records | www.flowrecords.nl /http://www.idolmedia.com/ |
| Hippo Records | http://www.hipporecords.nl/ |
| Kusters Music | http://www.hanskustersmusic.be/cms/ |
| Lower East Side Records | http://www.lowereastsiderecords.nl/ |
| Marista | http://www.marista.nl/ |
| Marlstone Music | http://www.marlstone.nl/ |
| Mascot-Provogue | http://www.mascot-provogue.com/ |
| Mirasound Records BV | http://www.mirasound.nl/ |
| N.E.W.S/N.E.W.S. RecordsNederland | www.newsrecords.be |
| NRGY Music | http://www.nrgymusic.nl/site/ |
| O.A.P. Records | www.oaprecords.com |
| Pan Records | www.panrecords.nl |
| Pentatone Music | http://www.pentatonemusic.com/index1.htm |

| | |
|---|---|
| PIAS Nederland | http://www.pias.com/nl/ |
| Psychonaut Records | www.psychonautrecords.com |
| Purple Eye Entertainment BV | www.purple-eye.nl |
| Red Bullet Productions | http://www.redbullet.nl/ |
| Roadrunner Records | http://www.roadrunnerrecords.nl/ |
| Rodeo Media | http://www.rodeomedia.nl/ |
| Sally Forth Records | http://www.sallyforthrecords.com/home/ |
| SneakerzMuzik | http://www.sneakerzmuzik.nl/ |
| Strengholt Music Group (Dureco) | http://www.strengholt.nl/musicgroup/ |
| Stichting Jazz Impuls | www.jazzimpuls.nl |
| Suburban Records | http://www.suburban.nl/ |
| SyncoopProdukties | www.syncoop.com |
| Timeless Records | http://www.timelessjazz.com/ |
| T2 Entertainment | www.t2entertainment.nl |
| V2 Records BV | www.v2benelux.nl |
| Vulcano Music | www.vulcano-music.com |
| Walboomers Music | www.walboomers.com |
| WM Recordings | http://www.wmrecordings.com/ |
| World Connection | www.worldconnection.nl |
| Zware JongenzProductions | www.zjrecords.nl |
| 8Ball Music | www.8ballmusic.nl |