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WEEKLY INSIGHT
The Sale of the Time Warner Label Reopens the War for the Top Music Companies
The five majors of the music industry –EMI, Universal Music, Time Warner AOL, Sony Music and BMG—, which share 90% of the global recorded music market, could be reduced to just four if the rumour of Time Warner’s sale is confirmed.
The British EMI label has admitted that it is in conversations to acquire the North American music division of the giant Time Warner.
The London-based label is offering €1,400 million. EMI would pay €1,000 million in cash and would give Time Warner a 25% stake in the new company.
But the British company is not the only interested party in the Time Warner business. BMG, the music division of the German group Bertelsmann, has also made its offer to the media giant, valued at $1,500 million.
From The Guardian [Full Story]

Highlights
- EMI is currently the third-biggest record company, which has 12% of the global recorded music market. Warner holds the fourth position. If the deal is closed, they would become the second-largest company, behind the sector leader Universal Music, which has 26% of the market. For its part, SonyMusic is at present in the number two spot and BMG is the smallest of these five main music companies.
- Sales in the global music market fell to $32 billion last year, the lowest in more than a decade, hurt by slower consumer spending and by piracy.
- These problems could push the European Commission to authorize the merger between two of the five main music companies, unlike three years ago, when it prevented EMI from buying Warner Music and Bertelsmann’s BMG.
- Analysts at Bear Stearns yesterday stoked stock market enthusiasm for an EMI bid for Warner Music, saying the
British company could generate up to 289m in annual cost savings from a deal. However, EMI must overcome three obstacles to get Time Warner. On the one hand, it must convince the European Regulatory Board. It must also improve on the offer of its competitor, BMG. Moreover, many experts doubt whether the financial difficulties at EMI will allow them to meet the payment.

**Press Review**

*From Financial Times*

“The game of musical chairs being played by Bertelsmann, EMI and Warner has become excruciating. None of the three wants to miss out on big merger cost-savings, in an industry where profitability has been savaged. But, so far, none has moved decisively. Is the music finally set to stop?

(…)

Most importantly, EMI would be injecting more cash into a declining industry. Doubling up only makes sense if the music industry recovers longer-term. But, as an independent, EMI has nowhere to hide. It has little choice but to position itself for one of the two merger seats, when the melodies eventually dry up.”

[Full Story] (Premium Service)

*From Fox News*

“Facing a gloomy outlook, neither Warner Music, EMI nor Bertelsmann's music arm BMG want to be left out in the next round of consolidation as they attempt to slash costs.

(…)

‘The music industry’s problems cannot be solved by another merger. The current crisis is already the product of over-concentration, and another merger will just exacerbate that,’ Helen Smith, deputy secretary general for Europe’s trade association for independent record labels, told Reuters.” [Full Story]

*From Independent*

“Analysts worry that a Time Warner-BMG combination will leave EMI as a distant third in an industry that needs to cut costs to compensate for declining CD sales.

(…)

Some observers are sceptical that the competitive landscape has really been changed that much since 2000 by the rapid decline in global CD sales. Competition authorities may argue that the decline is less the result of music piracy than as a result of poor music signings which have left the major labels with few artists who have mass appeal.” [Full Story]

**Commentary by…**

Luis Vives, PhD Candidate

**The Music Industry: Rhythm, Size and Something Else**

The decrease in the music industry’s sales figures – according to the RIAA they dropped from 40,000 to 32,000 million in only three years - and its growing globalization makes it easy to picture that a merger the size of EMI and the newly named Time Warner will mean huge incomes.

Still, is this the only choice for the recording companies? Almost certainly the answer is no. Undoubtedly, a bigger size brings a certain size of profits, but bigger doesn’t always mean better. On the one hand, working with a bigger structure enables the recording company to increase its efficiency in record launching processes, in recording and in promoting their artists. At the same time, it increases their power of negotiation with distributors, who will see themselves forced to take on a significant part of the price decreases in the mid- and short terms. This power of negotiation also gains importance for artists, who are already asking for a bigger portion of the income coming from their albums, which stands at the moment at less than 10% of their value.

Yet, big-sized mergers also have their dark side. Apart from adding complexity, these operations take their time and aren’t free of surprises - due to a bigger number of units and people working in the merged company. The cost that unifying former rivals, establishing new structures and confronting the negative effect of personnel lay offs—inherent to these processes— has on motivation is not trivial.

The most important thing however, is that the roots of the problem aren’t addressed. The potential acquisition will allow EMI to get well known artists like Madonna and Metallic. Still, that doesn’t guarantee them more effectiveness in identifying and signing the musical talents that will produce the profits of tomorrow.

Only those recording companies able to recognize and support the stars of tomorrow, as much as generate innovative solutions for the doubts being thrown over the music industry through internet downloading and piracy, will be the
REPORTS

E-commerce, a Matter of Trust
Title: Economics of Trust in the Information Economy: Issues of Identity, Privacy and Security
Source: BREB, University of Oxford
Date: April 2003
Abstract: According to this University of Oxford report, a lack of trust is one of the main possible constraints on e-commerce, particularly in terms of consumer protection and other worries that focus on three main aspects of trust in electronic transactions: identity, privacy and security.

According to the experts, four strategies need to be developed in order to improve trust in e-commerce. In the first place, there should be identity establishment through the use of a verifier like Netscape User Identity. Secondly, third party certification should be standard and loss insurance taken out. Finally, setting up legal frameworks could address different trust concerns.

However, finding an appropriate framework that balances the need to offer consumer protection while maintaining e-commerce growth involves many interrelated uncertainties: economic, psychological, institutional, technical and legal. According to the report, only by using these measures is possible to reduce consumer lack of trust. In fact, 70% of consumers in the US fear that privacy of their personal data is more at risk with the Internet than with the telephone or postal services.

[Full Story]

Japan and Denmark, ICT Leaders in SMEs
Title: ICT and Economic Growth. Evidence from OECD Countries, Industries and Firms
Source: OECD
Date: 2003
Abstract: About 7% of total business employment in the OECD area (Organization for Economic Co-Operation and Development) can be attributed to ICT production. The USA, Japan, the United Kingdom and Spain are some of the countries included in the OECD.

This is one of major highlights of this report, which analyses the contribution made by ICT to economic performance. As it was expected, the USA, Canada, New Zealand, Australia, the Nordic countries and the Netherlands have the highest ICT rates of diffusion. One of the reasons is that these countries spend more than 2.5% of total GDP on investment in ICT.

Due to rapid technological progress in the production of key ICT technologies, the prices of key technologies have fallen by between 15% and 30% annually. This fact makes investment in ICT attractive to firms, especially services (trade and financial services). Although large firms invest more than SMEs in ICT technologies, over 90% of firms with more than ten employees in Denmark, Japan, Finland and Sweden had Internet access in 2001.

[Full Story]

How to Keep Customers by e-Mail
Title: E-mail Management and Distribution Tools-A Primer
Source: The Conference Board
Date: August 2003
Abstract: Quick and accurate responses by email to customer queries are the key for customer retention, according to The Conference Board report about email management strategies.

This organization considers that the use of an AI (Artificial Intelligence) engine for email management can provide automated and/or suggested response capabilities by use of an existing associated knowledge base. When a customer email is received, the AI engine can determine the intent of the email and either fulfill the email request with an automated response or provide a suggested response to a Customer Service Representative.

The experts say customers expect a response to their email questions or comments within hours, not days. The report advises firms to implement these strategies as they represent a saving of money and time and they increase security.

[Full Story] (A Free Register is required)
COMPANIES
Microsoft Closes its Chats
Microsoft will shut down Internet chat rooms in 28 countries, including several parts of Asia, citing concerns about pedophiles and sex predators. MSN's US chat-rooms will stay but will be shifted to a subscription model to promote accountability.
From Business Standard [Full Story]

Time Warner drops AOL from its brand
AOL Time Warner's board of directors has decided to drop "AOL" from the corporate name. The company will now be known as Time Warner and its ticker symbol on the New York Stock Exchange will revert to "TWX," which the media company used prior to its $112 billion merger with America Online in January 2001.
From AdAge.com [Full Story]

WE RECOMMEND
The Opinion of the Internet users, a Market Research Method
Currently, companies are forced to know what Internet users are saying about their products and services. To help executives to do so, netnography, an interpretative method to research the behaviour of the Internet user, has appeared.
Experts maintain that the netnographical method will become --and in some sectors it has already become— a very valued complement to traditional market research.
This kind of study works with online forum and virtual community users as population samples. These surfers, unlike users of traditional samples, give their opinion about products or services spontaneously.
To take advantage of this method, companies must: establish relationships with community members, study community language and rules, try to avoid being deceived, so easy on the Internet, and identify different kinds of members (opinion leaders and usual, sporadic or specific visitors).
Moreover, it must be remembered that, in the online environment, users are information creators, not just receivers, and that relationships among companies and consumers are multi-nodal, that is to say, companies are able to communicate with thousands of persons, who are at the same time connected to each other.
From Baquía [Full Story]

Pioneers Wanted
In the not too distant past, labelling a company as an "early adopter" of IT was a badge of honour. When economic conditions changed, however, most companies pulled back on IT spending. But Optimize claims that, of the businesses that followed the early-adoption approach, 63% grew faster than their competitors over the past five years.
For this reason, the magazine recommends companies not to hesitate to be pioneers when they invest in technology. To make a good investment, there are three steps that should be considered. First, understand the functions that create advantages for the company. Then, create a list of all potential technologies that might play a role in your industry and align them with crucial functions. Finally, it's vital to have a solid understanding of the internal and external triggers for each function and technology.
A good example of innovation and early adoption geared toward the customer can be found at Occidental Chemical. Several years ago, OxyChem installed a SAP ERP system with the appropriate hooks to let its larger customers' production processes directly trigger replenishment actions within OxyChem's order-fulfillment operation.
By adopting new customer-centric technology without waiting to mature, this company got to reduce its inventory levels and working capital, increase staff productivity, improve production-scheduling accuracy and enhance distribution-planning efficiency.
From Optimize [Full Story]

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