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Music industry intermediation in the digital era and the resilience of the majors' oligopoly: The role of transactional capabilities

Working Paper

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Abstract

The digital revolution has significantly impacted the traditional business model of the music industry by lowering barriers to market entry. This change is usually depicted as a comeback to "the old-time": artists would have more control and more autonomy in the business thanks to a new range of web intermediaries that challenges the big incumbent firms, the so-called majors (Universal, Sony and Warner). This paper argues that such diagnostic is incomplete and does not take into account the recent changes that the majors have successfully implemented on their business model. Based on a case study of the French major's filial of Sony Music Entertainment the paper shows how and why majors are still playing competitive intermediary functions thanks to the development of transactional capabilities.

Key words: music industry; disintermediation; dynamic capabilities; transactional capabilities; business model; strategic renewal; change; innovation

Classification-JEL: L82, L22, O33

1. Introduction

The traditional music industry is characterized by an oligopolistic market structure in which the majority of the market shares belongs to big firms (the so-called "majors") while the rest of the market is divided between independents labels (Caves, 2000; Gander et al. 2007; Lebrun, 2006)[1]. A large part of the economic and management literature have stressed the fact that this traditional market structure is undergoing brutal and significant changes through the evolution of internet and digital technologies. The physical medium is replaced gradually by new ways of music production, distribution and consumption.

The literature has first insisted on the success of illegal newcomers which use internet as a subversive tool to distribute music (Alexander, 2002; Casadesus-Masanell & Hervas-Drane, 2008; Rupp & Estier, 2002). These studies show the very attractive aspect for consumers to use this decentralized distribution system comparatively to the traditional intermediation system. Some scholars have then considered this transformation as a more general disintermediation of the music market. In particular, thanks to digital technologies, supply and demand can meet each other without institutional limitations from labels record policy (Sen, 2010; Bernardo, 2013; Benkler, 2006). This new situation provides means of empowerment for both parties: on one hand artists could now create music with home studio at very low cost while promoting and distributing their products online; on the other hand music listeners and fans could benefit from millions of songs, interact with artist, and even sometime fund their projects via social networking services (Barbier et al. 2008; Bernardo, 2013 ; Hracs, 2012 ; Leyshon, 2009 ; Sen, 2010 ; Winter, 2012).

In this regard internet transforms rather than remove intermediations activities. The seminal work of Chircu & Kauffman (1999) on electronic commerce has already demonstrated how internet has conducted an intermediation, disintermediation and reintermediation (IDR) cycle from which a new system of production and then new kind of intermediaries have flourished.

An enthusiastic stream of the literature has showed how the flexibility of new intermediaries might opportunistically supplant the very selective and centralized gatekeeping procedure of the majors (Ordanini et al. 2009; Bernardo, 2013). This idea has been declined through several concepts such as "Do It Yourself" artists and "Prosumers" fans from whom independent music production should become the most significant model of production. They conclude that majors will no longer dominate the sector and are doomed to evolve in a much more atomistic and fragmented market as studios activities and sound engineering sector known decade before (Leyshon, 2009). In this context "independent" or "smaller" artists

[1] This oligopolistic structure is due to the cost structure working within the industry but also to the specific nature of the music product (Nelson, 1970) which encourages majors to be vertically integrated along the value chain in order to avoid opportunistic behaviors between economic agents (Williamson, 1985). The internalization of the double marginalization and the huge fix cost of the distribution network allow integrated firms to be more efficient while regulating competitive pressure (Alexander, 1994; Krattenmaker & Salop, 1986). Ultimately, the growing number of music releases resulting from this competitive advantage drives the majors to saturate prescriptive channels and prevent independent labels to cover their own products (Alexander, 1994; Curien & Moreau, 2006).

would be more visible and successful and would challenge the star-system by imposing more diversity (Anderson, 2004; Sen, 2010; Bernardo, 2013).

Some evidences suggest that this cycling process has actually applied to the traditional music industry actors. The most obvious one is the drastic fall of the revenue from record sales of the majors. Waldfogel (2012) observes that worldwide revenue from physical recorded music fell to 37$ billons to 25$ billons from 1999 to 2007. This brutal drop impacted negatively the intermediary functions of the majors: they decreased by 30% their artists' portfolio by focusing on the less risky segments of the market (Wikström, 2009). In France the number of new signatures contracts fell of 51% between 2002 and 2009 while the marketing investment decreased of 56% (Source: SNEP, 2010)[2].

However, music majors still dominate significantly the market today. Despite the fact that they have been the very first intermediaries impacted by digital technologies, Universal, Sony and Warner still held around 73.2% of the worldwide revenue market share in 2015. This domination is also visible in music publishing in which the three majors held 63.8% of the market in 2015[3]. In other words, the majors have been able to keep their oligopoly on the "old physical" music market, which is constantly decreasing, but also to keep it on the overall music market which is now growing again.

This paper aims therefore at explaining this resilience of the music majors' oligopoly. Basing our reasoning on the notion of transactional capabilities and on the case of Sony Music Entertainment France we show that majors will continue to play a proactive role in the music sector by transforming their structure and their capabilities. Majors have indeed managed to recompose their frontiers and their environment in such way that it increases their ability to sell and buy many products in the best conditions. This business model named "360 deals approach" (Moyon & Lecoq, 2007; Marshall, 2013; Moyon & Lecoq, 2013) aims to optimize synergistic relationship between a growing number of sectors, businesses and projects. On the contrary the competitive advantage of indie-labels, characterized by "creative efforts" of new music styles (Caves, 2000; Gander, 2007), is less able to capture the complex economic value of music in the digital era. Furthermore, we also show that this 360 degree approach requires much more competencies and then interactions with external actors than before. In this context we contend that transactional capabilities, that is to say capabilities which increase market exchange between the firm and its environment, constitute a key asset to implement such business model. In other words, we show that transactional capabilities, thanks to specific historical resources renewal and recent strategic changes, are becoming predominant in music majors companies and can provide a good explanation of their resilience.

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[2] A part of the literature has explained the severity of the crisis by cognitive bias from dominant actors facing disruptive effects (Blanc & Hault, 2010; Moyon & Lecoq, 2007) : during the last century the vertically integrated structure of the majors has built a path dependency scheme entirely dedicated to sale physical recorded music. Because of these deeply rooted routines and business practices inherited from the past, the majors were not able to answer efficiently to the new digital era. In the last decade they tried first to contest the disruptive effects of digitalization and then to replicate their traditional business model online (Beuscart, 2007; Blanc & Hault, 2010 ; Moyon & Lecoq, 2007 ; Moyon & Lecoq, 2013).

[3] Music and Copyright https://musicandcopyright.wordpress.com/tag/market-share/, last consultation 27/10/2016

In the next section we analyse the role of market intermediaries at the light of the transaction cost theory and resource based view theory. This leads us to focus on the notion of transactional capabilities. In the following two sections we display the case of Sony Music Entertainment France : Section 3 details the methodology used and Section 4 presents the main results of this case. Section 5 concludes.

2. Market intermediation

2.1 Reconciling TCT and RBV theories: The role of transactional capabilities

Economic exchange has always required structure playing the role of intermediaries between economic agents. From an historical point of view this phenomenon has taken many forms from wholesaler, brokers or retailer to procurement platform and web interfaces. In this regard internet expansion has increased the diversity of these agents of different sizes and shapes. This diversity is also visible in the various economic theories which try to explain such phenomenon.

A first approach, the transaction cost theory (TCT), explains the intermediation process as a mean to reduce the cost of using market mechanisms. Indeed, according to Coase (1937) the market generates transactions costs. These transaction costs depend mostly on the properties of transactions (which, it should be noted, are largely exogenous) and have been showed to be keys in order to explain organizations' "make or buy" decisions (Williamson, 1975, 1985; Riordan & Williamson, 1985).

In this perspective intermediaries simply exist because of their ability to reduce opportunistic behaviors or hazard issues through contractual arrangements (depending mainly of the specificity and the frequency of the exchanged product). Theoretically, according to TCT, there is no need for the intermediate firm to have any practical expertise for performing its intermediary role. The simple presence of a neutral intermediary between supply and demand suffices to resolve transactional issues (Williamson, 1985). For instance, the only presence of a tierce party will often be sufficient to avoid free riding behaviors from one side of the market even if this tierce party does actually nothing but being present.

By contrast, the Resource-Based View (RBV) of the firm explains competitive advantage of firms through the heterogeneity of their resources (Penrose, 1959; Selznick, 1957; Becker, 1962; Barney, 1991). In RBV firms possess different set of resources but also different abilities to use these resources efficiently. More recently the Knowledge-Based View (KBV) of the firm has stressed the fundamental role of knowledge creation to explain firm's success. Such intangible assets are strategic input for arranging technological and productive resources of the firm into new products and new solutions. According to the RBV intermediation is thus explained by the fact that certain firms possess specific and valuable competencies for the parties involved in the exchange. The firm, thanks to this specific endowment, performs its intermediary role by adding economic value into the transaction.

Presented in this manner, RBV and TCT appear quite incompatible. This opposition is sometime accentuated by the fact that the RBV/KBV literature conceptualized capabilities without any consideration with external actors: technological capabilities (Katz, 1984; Lall, 1992; Patel & Pavitt, 1997), operational capability (Miller & Roth 1994; Skinner, 1969), core capabilities (Prahalad & Hamel, 1990), managerial capability (Du Gay et al., 1996 ; Stamp, 1981) or organizational capabilities (Chandler, 1992; Zander & Kogut, 1995) focus primarily on internal issues of the firm. Furthermore, as we have already mentioned, TCT focus primarily on elements which are external to the firms and sees transaction costs as being exogenous, i.e. as largely unaffected by firms' decisions and resources. More precisely, for a given level of the three key variables (frequency, specificity and uncertainty), firms are supposed to be all subjects to the same level of transaction costs.

However, some contributions suggest that KBV and TCT should be integrated and considered as complementary. In fact several efforts have been made to articulate these two perspectives (Argyres & Liebeskind, 1999; Cohendet & Llerena, 2005, Jacobides & Winter, 2005; Langlois & Foss, 1999; Poppo & Zenger, 2002; Williamson, 1999; Zawislak et al., 2012). Amit & Zott (2005) suggests that resources can be divided into *"activity-enabling resources"* linked to the core of activity of the firm and *"transaction-enabling resources"* linked to the interaction with the market. Although Amit & Zott focus only on the former (activity-enabling) they suggest that transactional capabilities modify the governance choice of the firm since *"focal firm's endowment with such resources may matter, regardless of their degree of firm-specificity"*. More recently the work of Tello-Gamarra & Zawislak (2013) has defined the concept of "transactional capability" as a bridge between TCT and RBV perspective. Transactional capability is *"a repertoire of abilities, processes, experiences, skills, knowledge and routines that the firm uses to minimize its transaction costs (ex-ante and ex-post)"*.

Teece, Pisano & Shuen (1997) also mention the existence of relational and reputational assets that structure relationship with customers, suppliers and competitors. In the line with this first insight other scholars have provide a growing understanding of how the firm capture relational rent from alliances in a changing environment (Dyer and Kale, 2007; Dyer and Singh, 1998; Eisenhardt and Martin, 2000; Kale et al., 2002). Recent works have shown that such assets facilitate coordination and bonding (Schreiner et al., 2009; Schilke, 2014) through specific social governance mechanisms (Van der Meer-Kooistra & Vosselman, 2000) lowering costs between partners (Dyer and Kale, 2007). These researches have been united in under the generic name of *"relational dynamic capability"* (Donada et *al*. 2016). The manifestation of such capabilities can be embodied into routines, procedures and governance schemes.

More specifically some contributions have underlined the crucial role of effective governance mechanisms in optimizing relational assets. For instance, (Donada & Nogatchewsky, 2008) shows that modularization favors relational capabilities concerning the evaluation and the selection of suppliers. However this literature stays focused on the supplier side and does not provide as such an understanding about intermediation process of firms that connect both sides of the market.

Following the same dynamic perspective, we define transactional capabilities as a set of routines, resources, governance schemes and skills that allows a firm to perform intermediation functions, and dynamic transactional capabilities as the ability to create and reconfigure them in a changing environment. As such transactional capabilities do not focus exclusively on firm's properties but also on the market intermediation process between its partners and its customers in order to capture a relational rent. These factors are driven mainly by transaction cost aspects that can be moderated by the transactional capabilities of the firm. Indeed knowing how to manage market interactions involves specific skills including the ability to choose the right partners/clients, the relevant governance structure, and the correct relational standards with them (involving flexibility, customization, long-term view, information sharing).

In other words transaction costs are not exogenous and can be modified and transformed by the development of transactional capabilities. This knowledge is not easy to obtain and sustain (Ireland et al., 2002). This is why one of the most important rationales for majors' intermediation lies on their ability to manage those transactional capabilities, as we will see now.

2.2 The case of the music market intermediation

The focus on transactional capabilities can provide a convincing explanation of the resilience of some economic intermediaries, such as music majors companies. Indeed a pure TCT framework cannot explain the current situation. Internet has been generating a global lowering of entry for intermediation functions in the music market with the emergence of a new set of firms (aggregators, web labels, specialized social networks, crowdfunding platforms etc.) which propose to commercialize and distribute music content all around the world for very low price. By focusing uniquely on transaction cost in music market we should therefore conclude that, given the decrease in transaction costs, intermediaries such as majors are doomed to disappear.

On the other side of the picture, the RBV and the KBV theories suggest that majors' intermediation survives because they create direct economic value into the music content by providing engineering skills, specific recording facilities, musician assistance, etc. Though these assets are still important today in the industry, digitalization has considerably democratized the access to technology supports: The merger of audio system with computing devices has turned music into an information product thereby the artist can work and mix at very low cost. The strategic aspect (Barney, 1991) of the engineering and recording studio sector has been declining with digitalization (Leyshon, 2009). In another words, the core competencies of the majors, including production distribution and promotion tasks, are easier to replicate today thanks to digital intermediation and provides means of empowerment for both artists and fans (Barbier et al. 2008 ; Bernardo, 2013 ; Hracs, 2012 ; Leyshon, 2009 ; Sen, 2010 ; Winter, 2012). Then by focusing uniquely on RBV/KBV in music market, given the decreasing importance of the assets that made them play a key role in the "old world", intermediaries such as majors are doomed to disappear

But the changing environment has another consequence. However, if internet has incredibly multiplied the possibilities about how to create and distribute music, it has also made it incredibly difficult to capture the economic value from music activities. In particular, sources of revenues are now multiple. Record companies have then considerably changed their mono-product value proposal, as we have stressed in introduction. Music is now a multifaceted artifact which has to be declined in many different goods. This new business model named "360° deals approach" aims to exploit synergistic relationship between a growing number of sectors, industries and projects.

Hence we propose:

Proposition 1: *Majors still preserve a competitive advantage on the music market intermediation by successfully performing a "360 deals approach"*

This strategy implies to share between label and artist every type of income stream connected to music production: it can be of course sale recordings, but also live performance, merchandising, sponsorship, endorsements etc. These resources are heterogeneously distributed across numerous different actors that are not always related to record companies. In that sense, new music business era is hence much more complex to conduct than before and the intermediation process on the music market today is much more difficult than before.

Thus there is a room for intermediaries who play a proactive role in making deal on the music market. In this context we contend that the transactional capabilities constitute a key-factor for building a sustainable music business through long-term and profitable deals.

This complex intermediary role cannot be endorsed by aggregators since they are exclusively and technically dedicated to reduce transaction cost between subscribers and web retailers on the digital music market. On the other side independent labels do not have the very strategic resources that permit to develop sustainable transactional capabilities. Indeed, not all firms are able to earn systematically relational rents. Majors have historically developed strategic resources that are considered as less important today because of the digitalization (huge back catalogue related to copyright duration, CD-ROM supply chain, recording facilities etc.). However it is precisely the role of transactional assets to augment and extend efficiently existing resources of the firm with the resources of its partners. Only majors can performs efficiently this set of complex and diverse assets thanks to the transactional combination of their strategic resources.

Thus we postulate that:

Proposition 2: *In order to develop their new "360 deal" strategy, majors change their music market intermediation role by rearranging and valorizing their traditional strategic resources with transactional capabilities.*

Furthermore, the new situation has not only increased the importance of transactional capabilities, it has also changed the organization of music majors from a vertically integrated structure to a more modular one. Indeed, during the traditional era of the music industry, production, promotion and distribution were sequentially implemented. In this model, the industrialization of the product was driven by different stages: the first was to produce the music content, then physical support and finally the product was marketed and distributed through in-house distribution system, other forms of classic music diffusion (such as radio and concerts) supporting this main distribution channel. Except for final retailers, all the value chain of the industry was monitored by the hierarchy of the majors.

This strong integration can be explained by transaction costs consideration: the high specificity of music investments incites producers to control distribution and development tasks to avoid opportunist behaviors and bargaining charges (Curien et Moreau, 2006). However this type of linear structure requires a constant flow of information to switch from a stage to another. Vertical coordination was precisely possible because of the relative simplicity of the value proposal of the industry thereby demand was merely reach through a mono-product strategy (vinyl then CD-ROM).

Yet, this structure is no longer tenable in the current music industry. To handle the complexity of their environment majors have to create an extensive intermediation strategy that relies on an important variety of skills and actors that goes beyond their core competencies. Such production process is costly in terms of coordination and transaction. Therefore complexity inclines record companies to change their routines and their organizational structures toward a much more reactive and modular scheme (Simon, 1962). Indeed modular system spares resources on management by enabling the decomposition of a complex system into simpler sub-systems (Koppl & Langlois, 2000). It leads to separate the learning about the architecture of the system, from the learning about the features of the modules. This dichotomy allows an increase of diversity generated by recombination of the modules and reinforces the capabilities of the whole system to valorize faster innovations and knowledge generated locally (Bureth & Pénin, 2007).

The literature has stressed that modularity is going beyond technical or physical dimension of production. It is also a strategic mean for enhancing capabilities thanks to its propensity to reduce both internal and external transaction costs. Indeed, modularity increases transaction performance by involving directly the provider into effective and frequent interaction within modular units (Dyer, 1996, Dyer & Nobeoka, 2000, Danoda et al., 2016). Modularity is then crucial to understand how the firm can actively develop and sustain transactional capabilities. In other words, modularity allows rationalizing the management of diverse or complex transactional activities as major's music business tends to be. Therefore we propose that:

Proposition 3: *Majors develop and sustain their transactional capabilities by arranging their business organization into a modular system.*

3. Sony Music Entertainment France: case study methodology

3.1 Methodology justification and delimitation

This empirical study is based on a rigorous protocol conforms to the recommendations of the literature (Albarello, 2011; Eisenhardt, 1989 ; Yin, 2003). Among the main guidelines mentioned in these works, transparency constitutes a key element of the scientific validation of such approach. In this regard the following section details how the study has been built and assures the validity of the results (Yin, 2003).

Our qualitative approach is motivated by the nature of our research program investigating how a KBV framework can be usefully articulated to transaction cost issues through the concept of transactional capability. Such perspective requires a comprehensive approach insisting on social and contextual dimensions of the firm which can only be revealed by qualitative step going *"beyond methods with which we are comfortable and confident"* (Barney et al., 2001, p. 637). Moreover as Yin (2003) has underlined, qualitative methods are particularly fitted for the exploration of new phenomenon such as the impact of technology breakthrough on economic actors. The significant changes that still undergo the industry today have been thus determinant in the choice of our method.

The study focuses on the transformation of Sony Music Entertainment over the recent period 2009-2014. By taking into account the time we aim to scope the proposals of Yin (2003) and Eisenhardt (1989) who have stressed the importance of the context to study and understand recent phenomenon. We have also extended our analysis to the immediate environment of Sony Music by studying three levels of actors surrounding the firm: competitors, the other activities from music business such as music publishing, concerts etc. and related industries such as web retailers and other creative sectors. In order to better understand the ability of the major to maintain its rank in this complex environment we provide a greater focus on independent competitors by comparing their resources and capabilities to those of Sony Music.

The diversity of the data collection permits also to consolidate the external validity of the results (Yin, 2003). Indeed, the choice of the independent labels considered in our study is driven by their heterogeneity (cf. Table 1). As we will see further, parameters such as the size, the market positioning or distribution assets are crucial to understand the development of transactional capabilities in the different actors of the industry. We have also increased the internal validity of our results by multiplying the sources from Sony Music Entertainment. In particular we focused on the articulation between one of the most important label of the major that we renamed Sony-label for confidential motives and the transversal services of the major directly monitored by the central hierarchy.

Table 1: Main characteristics of the different firms considered in the case study

Label code	Distribution system	Sales revenue in 2014	Approximate Number of employees	Market position	Geographical covering
Sony-label	Sony Music Entertainment France	80 millions €	190	General	Global covering
Indie-label 1	Warner	3 millions €	30	Variety/Pop	France and GB
Indie-label 2	Auto distributed	15 millions €	30	Indie Rock then Variety	Europe
Indie-label 3	Distributed by another independent record company	unreported	1	Jazz	France

3.2 Data collection and design

Archives, interview, internal documents and reports from public institutions or phonographic associations represent the majority of our data collection. The direct observation has also been used and formalized in several field notes reporting the internal organization and routines of the Sony-label. Archives have been collected the web site of Sony Music France/US and from archive.org. We have also consulted specialized website and dataset from professional association of the industry such as IFPI (International Federation of the Phonographic Industry) and other local organizations such as SNEP (Syndicat National de l'Edition Phonographique) and SPPF (Société Civile des Producteurs de Phonographe en France).

Semi directive interviews are our main source of data. These interviews enabled us to better understand the industry and the internal organization of the labels considered. Anonymous procedure has been implemented since the beginning of our study. Because music industry is a very competitive and socially interrelated sector confidentiality has been one of the most guideline of our protocol and it has prevented sometimes the direct exploitation of firms' statistics and official documents.

Table 2: Main characteristics of the interviews realized in the case study

Status	Code	Duration	Interview method
Director of Sony-label	Dir_Labmaj	1h 26min	Interview conducted in the work site
Director of Indie-label 1	Dir_indé1	1h40min	Interview conducted via videoconference
Director of Indie-label 2	Dir_indé2	56min	Interview conducted via videoconference
Director of Indie-label 3	Dir_indé3		Interview conducted via email exchange
Director of the promotion department of Sony-label	Dir_promo	1h10min	Interview conducted in the work site
Director of creative department of Sony-label	Dir_créa	1h18min	Interview conducted in the work site
Legal expert Business affair of Sony-label	Jur_business	1h03min	Interview conducted in the work site
Legal expert in charge of Brand partnership of Sony Music Entertaiment France	Jur_brand	42min	Interview conducted in the work site
Director of the Supply Chain of Sony Music Entertainment France	Dir_supply	59min	Interview conducted via phone exchange

We have conducted nine semi directive interviews representing thirteen hours of recording (cf. Table 2). Due to timing issues two interviews has been realized via by videoconference. Another one has been realized by email exchange over four consecutive days. As recommended by the literature, we have proceeded to a recording of the interview in order to capture all the dimensions of the speech. All the interviews have followed the same protocol based on a common framework with some arrangements and specific questions according to the status of the interviewee. The guideline open on a comparison between practices, resources and competencies of the traditional era of the industry and now, and then questions and discussion focus on relationship between the firm and its environment.

Following Yin (2003) we have realized a data triangulation according to a dual scheme between primary sources (interviews, observations, artifacts etc.) and secondary sources (articles, reports etc.) in order to guarantee the validity of our data. When a secondary empirical material was not formally confirmed by primary data we have consulted by email those who were able to provide a relevant insight in order to revalue the validity of the material by following an *ad hoc* method (Baumard et Ibert, 1999). Then we have proceeded to a condensation of the data to facilitate its treatment. Interviewed have been treated in two stages: every recording has been summarized in several sections and sub sections based on the content of the interviews. Then we have proceeded to systematic coding of the interviews into a generic scheme with other data sources.

4. Sony Music Entertainment France: case study results

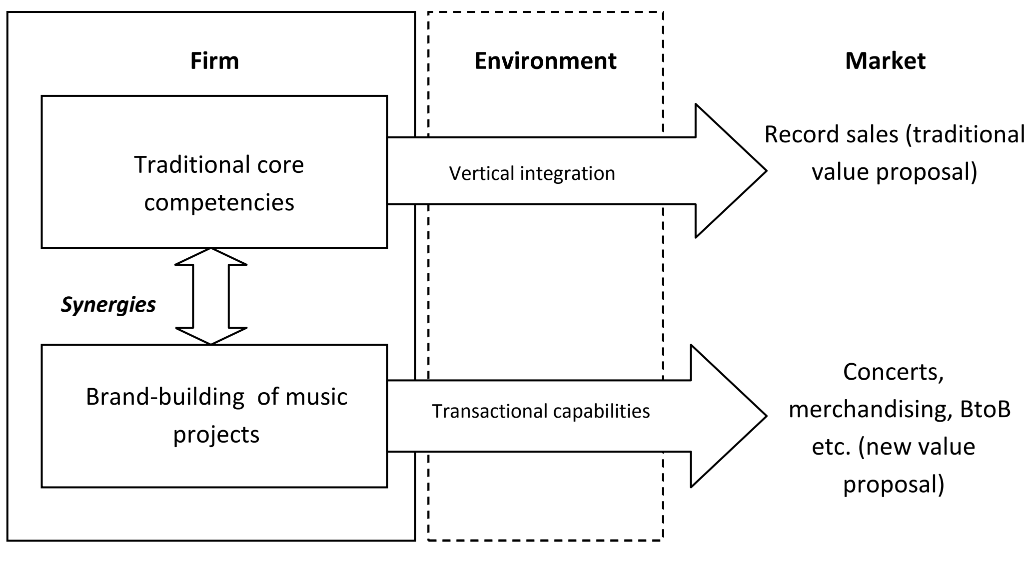
We now propose to test the analytic framework exposed in Section 2 by analyzing the evolution of the intermediation of the musical industry through the case study of the major Sony Music Entertainment. We aim to examine how internal resources of the firm can be designed or converted into transactional advantages over suppliers, customers and ultimately competitors. Our paper being more on organization and management rather than on strategy, we will not follow the order of the three propositions put forward above and then not start by justifying the choice of the "360° deal" strategy. Alternatively, we will start by explaining the evolution of the majors' transactional capabilities and how modularization plays a key role in this evolution, in order to show how it allows the majors to gain competitive advantage through renewed intermediation in 360° deal strategy.

4.1 Resource renewal and resource creation for building transactional capabilities

Sony Music Entertainment is no longer seen by its hierarchy as a record company but as a music-business company whatever the form that this business takes. To achieve this progressive transformation Sony Music Entertainment has redeployed its core competencies with new ones. The core competencies of the firm can be declined in three categories: recording and production of music content, promotion on traditional media and physical distribution. These competencies are still crucial today but they are quite similar in any other record company. Our results show however that these assets are valorized very differently today in Sony Music: the firm aims to exploit all the complementarities (Brandenburger & Nalebuff, 1995) that music can offer with other related products such as concert, merchandising, advertising etc (cf. Figure 1). Whereas in the past these complementarities were occasional and entirely handled by other actors (management company, show producer etc.), they are now optimized by the firm. As the jur_business notes:

> *"We need that artists see us like a creator of opportunities and no any longer as a record company. Part of our job is then to prospect and approach other firms and markets. I am a legal expert with an accounting report in the head"*

Figure 1: Complementarities scheme between traditional core competencies and new competencies of the Sony Music



In the line of our proposition 1 we observes that these capabilities have both be developed on some historical assets and properties of the firm and acquired progressively over the past few years. First Sony label employees have some strategic resources that indie-labels can rarely possess like international superstars and huge musical repertoire due to its old position in the industry. These resources are used as a bargaining power to deal with suppliers in the best possible conditions. For example superstars are essential for big radio stations allowing the firm to use their notoriety for imposing less famous artists on the agenda. In the same way the very big repertoire of the firm permits to negotiate much more profitable deals with web retailers than an indie-label structure could do: Over the 2011-2013 period the streaming platform leader Spotify has been committed to pay 9 million of dollars advance for the first year, 16 for the second, with a 17, 5 million advance for the optional third year to Sony Music[4].

To this is added the fact that the total volume of the transaction from Sony Music Group is much higher compared with indie-labels. It generates of course economies of scale and scope in transacting but also a higher frequency of social interaction and projects with suppliers raising the cost of opportunism. This is particularly true for art and craft companies providing packaging design, graphic chart and pictures of music products. Majors such as Sony Music are important clients from which they build their reputational resources. Their ability to transact repeatedly with these big record companies invites them to reduce the need to invest in bargaining.

In the same way other Sony Music resources have been renewed with transactional ones via the accumulation of knowledge and data on the demand side. Among these resources the supply chain asset can be considered as highly strategic (Barney, 1991). Indeed, a growing number of independent supply chain infrastructures have been removed recently because of their low profitability in a context of drastic reduction of physic market size. This can be exemplify through the strategy of Sony Music Entertainments to purchase shares of some independent labels such Atmosphérique in 2013 which has consequently renounces to its own distribution system to survive. Cost have also increased because of the multiproduct base of the new business involving multichannel system (digital chain, physic chain, derivative product chains etc.), which in turn multiplies storage and disposal charges. It does require also very specific skilled employees in supply chain management and logistics.

Our data suggest that this new trend is true for traditional channels but more critically for digital supply chain. In this regard internet has transformed rather than removed barriers and cost due to the complexity and the diversity of interfaces, standards, audio formats etc. Among these characteristics metadata appears to be the trickier one to handle for companies. Metadata is a set of informational codes linked to a musical content enabling its diffusion on digital retailers' platforms. It includes basic information such as the name of the author, album title, ISRC code, music style but also contracts rules and rights attached to the file embodied in digital devices. This data is one of the main sources of transaction cost on the

[4] The Verge, http://www.theverge.com/2015/5/19/8621581/sony-music-spotify-contract, last consultation 05/05/2016

digital market today; it requires technical skills for understanding digital standards and controlling illegal content on the web. Sony supply chain has recruited a team dedicated to set up interfaces and protocols checking the path and the cash flow generated by items. They have to assure that digital activities are conforms to the contract terms of each file for each retailer and that right holders received corresponding revenues.

Thus if digital era has decreased dramatically storage cost, there is no guarantee that fix costs and human capabilities required to manage such complex channels are lower. This raises the question of the level of market concentration since distribution margin are very low[5]. It reinforces the fact that such capability is becoming more difficult to replicate than before and increase the coopetition mechanisms between majors and independents. Indeed only majors due to their financial power and some specialized distributors have such competencies. The three indie-labels considered in our study do not have in-house digital channel generating sometimes coordination problems and technical slacks besides the cost charged by the external operator[6].

The implementation of this multidimensional strategy has also required a new range of transactional capabilities aiming to understand the diversity of consumers' profiles and expectations. While in the past Sony Music was not really interested by consumers' needs they are now directly involved into sale relationship. Contrary to the indie-labels Sony-label assumes now direct to consumer marketing and selling: mailing lists, database, newsletters, and satisfaction survey prospect consumers' needs on daily basis. It confirmed our idea exposed in the Proposition 1 that Sony Music is developing transactional assets in order to increase its sales performance.

In the same way Sony supply chain staff has created routines aiming to capture data on consumers: a *Dashboard* has been set-up combining sales statistics, data users left on social networks and data collected by marketing and CRM supports. It creates intangible transactional assets that give some insights about what kind of music and products are appreciated by consumers according to demographic, gender, age, location or income parameter. The firm keeps track of what and how these consumers purchase products and then can benefit from this information to implement new successful musical items. This knowledge is used in order to discuss and enhance the promotional strategy decided by the label. Contrarily to web aggregator intermediaries focusing merely on technical transaction cost, Sony supply chain assumes a proactive role by proposing, readjusting and checking the commercial evolution of a project. Regarding this fact the competitive advantage linked to in-house supply chains both physic and digital is not only a matter of cost but more importantly a matter of knowledge.

This concern has been extended to the fan community monitored by community managers. The motivation of this integration is threshold: first the very idiosyncratic aspect of

[5] A recent example of this concentration mechanism is the acquisition of the French leader Believe Digital of the American company TuneCore.

[6] For example the indie-label 1 has to deal with the major Warner to distribute its physical output. This choice has been driven by the fact that Warner, thanks to economies of scale, proposes lower charges than any independent operator.

the building process of any music branding requires a level of tacit knowledge which is easier to share inside the firm rather than outside. Moreover the fact that communication on social networks is managed by employees permits a better social coordination between branding strategy and publications. Managers have also specific skills and tricks about how to handle interaction between fans and artists. This bilateral networking relationship creates an affective commitment which contributes directly to turn fans into intensive buyers. As noted Nusair et al. (2011), such commitment incites the consumer to be proactive into the brand building of the artist and raises his willingness to pay. Dir_labmaj has many times insisted on this new aspect of the business:

> *"We do not hesitate today to make Direct to Consumer marketing although it didn't exist at all six years ago! I mean, we need to know the fan, and tease him because this is how we can make music valuable."*

4.2 Modularization as organizational extension of transactional capabilities

As we suggest before, the constant exchange that Sony Music has with the external world increases coordination cost inside the firm: the multiplicity of providers, projects and interactions may generated organizational slacks (Penrose, 1959). Modularization system recently adopted by the label aims precisely to deal with this complex business expansion. This change has been definitely shaped in 2012, when promotion and communication services were redeployed into labels while in the past they were centralized into the major hierarchy. Dir_promo presents the main advantages of such reorganization:

> *"It didn't work very well [before 2012]. With social network events and many other releases you need to watch the stream otherwise your communication, with all these things, is just a big mess! It is easier to be integrated in the label. All the process was vertical; today I work mutually with colleagues from others departments."*

By this manner, Sony Music aims to handle a well-known dilemma in any creative industry: on one hand flexibility and decentralization are crucial to produce innovative effort and artistic output, but on the other hand labels' teams have to produce managerial checks in order to maintain their coherence inside the major. In the case of Sony Music, labels are structured as follow: The hierarchy decides a branding strategy left to the interpretation of modules which decline it in several tasks and subprojects.

This structure is close to what Dubois & Gadde (2002) describe. The firm is composed first of a "network within the network" articulated around a permanent set of actors performing its core competencies and a second network temporary formed for each lateral projects. The permanent network is characterized by standardization in terms of products and routines while the temporary network is characterized by a high degree of interdependency between different types of actors.

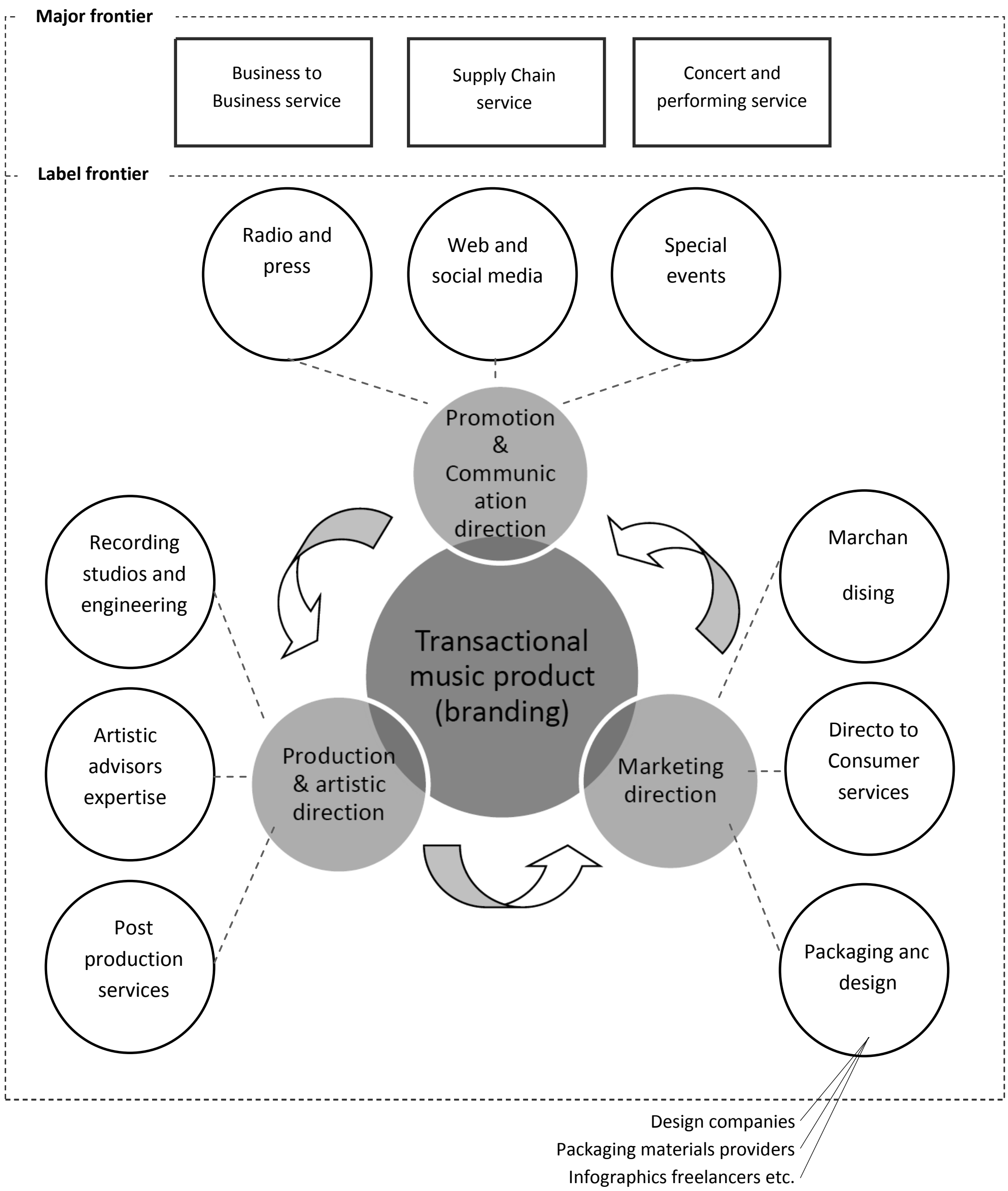
- First, the *internal modularization level* framed by departments inside the label (communication, promotion, marketing, artistic etc.) making independent tasks which are however constantly revised by a progressive convergent integration of their respective outputs. This first modularization level is closed to the overlapping model mentioned by Sanchez and Mahoney (1996) insofar as departments' output is collegially discussed every week in transversal meetings.

- Second, the *external modularization level*, in which each department from the label is decomposing tasks in modular subprojects based on the coordination of the first level. This second level involved many types of actors both internal and external to the major such as transversal services of the firm, freelancers, specialized firms, other entertainment industries etc. connection and exchange inside these *ad hoc* modules are very intense whereas the connection between modules are weak. This second level of modularization can be explained by the multidimensional aspect of the branding strategy.
- Ultimately there is a third level of modularization interacting with all the labels of Sony Music and directly handled by the central governance of the major. These modules provide different kind of services by intervening at the latest stages of the different projects of the labels.

The first level of modularization aims to produce a transactional musical product, meaning a product both modular (declinable in other subproducts and subprojects) and commercial (corresponding to a large and profitable demand). It consists in defining a general design mixing both artistic and commercial assets in order to provide to the second level a branding prototype from which modular subtasks and subprojects will be based on. This first arrangement is coordinated by standardized routines and driven by a formal modular architecture corresponding to the head of the departments of the label. Standardized routines (weekly meetings, procedural discussions etc.) aim to accelerate this brand-building process since it is partly non decomposable (Hippel, 1988): artistic output impacts how to conduct the branding and vice versa. .

This coordination can however generate many communication costs (Langlois, 2002) because every module needs to know sooner or later what the other modules are doing. To address those issues the Sony label is framed by the label executive and Sony Music direction. They organized informal sharing sessions that assure a strong convergence toward a shared vision matching to the corporate culture of the firm. Heads of both label and major propagate a common language in the different departments in order to minimize communication costs (Langlois, 2002). In Sony Music this "metalanguage" is driven by transactional properties; contrarily to the three indie-labels considered in our study, the employees from the artistic department of the Sony-label are characterized by a strong commercial background allowing them to understand the specific output from promotional and marketing departments as global demand trends, marketable music styles, commercial techniques etc.

Figure 2: Modular system organization in Sony-label and Sony Music



It has to be noted than middle managers from directions are not playing the role of structural nodes between branding strategy and submodules; if the upstream coordination is well conducted, each team can easily provide relevant outputs without intense communication cost due to the transactional nature of the musical product. In that sense, the first level of modularization has two roles: first it has to make understandable the idiosyncrasy of the music project in order to allow the second modular level to replicate coherently its own specific knowledge and routines. Then, the second role of the direction is to coordinate the modules for reaching effective production, delivery at time and finally fitted to the main branding strategy decided upstream. Consequently this process allows creativity at the starting point of subprojects but reduces creativity at final stages, as the branding strategy is being revised and consolidated by the hierarchy.

However our results comfort our Proposition 2 by showing that such process enhances significantly the transactional skills of employees involved at the later stages of the production. Indeed modularization favors commitments and trust since a limited number of people are working together on a specific project. Such reliance between parties is commonly recognized as an positive feature for bargaining (Gulati & Nickerson, 2004; Sako, 1991 ; Langfield-Smith & Smith, 2003 ; Donada & Nogatchewsky, 2006). For several activities, as promotional tasks on radio websites or TV, trust is reinforced by the fact that interactions are constantly repeated between the same groups of people (Gulati, 1995). Employees have personal connections with Medias that sometimes go beyond professional needs. It allows for occasions to correct transaction disputes and reducing bargaining costs for future exchange.

Such strategic commitment between the firm and suppliers is also an important basis for interfirm information sharing. It reduces asymmetries and transaction costs related to the specificity of the assets because both parties transact with similar information. More importantly such exchange favors knowledge transfer and knowledge creation between label's employees and providers. This knowledge occurs first through conversations and operational tasks: daily activities tend to create a common cognitive framework between employees and providers which improves very locally the implementation of subprojects. In other words modularization creates specific knowledge by the fact that a limited number of people are working together on a specific project. Consistent with our proposition 2, such organization scheme favors creation reliance and information transfer which is turned by firm's employees into capabilities for negotiating and transacting with *ad hoc* external team members.

It has also to be noted that this social process implies transactional competencies which are quite different from what TCE framework would recommend. The idiosyncrasy level of music projects may be compare to the notion of specific asset of Williamson. According to this author, human asset is highly specific (Williamson, 1981) and does require a unified governance. This is not empirically confirmed in our results: as shown previously the project-based routines of the firm is structured through flexible modular structure involving both firm's employees and providers.

One may argue that internalization would however allow Sony-label to profit directly from procedural efficiency and scale economies. But such a view ignores the fact that music product has an idiosyncratic character involving tacit, socially and contextually skills (Polanyi, 1966) which are less appropriated to controls and checks. Employees, artists and providers can respond damagingly to the overuse of formal procedures by provoking a spiral of distrust and self-seeking reaction (Ghoshal & Moran, 1996; Wicks, Berman & Jones, 1999). This idea can be clearly illustrated by the hierarchical pattern implemented by the Production & Artistic direction: The direction is well aware that it cannot directly intervene on the creative work of artists, technicians and managers. Such formal control would disturb the cognitive framework build between members' team. This framework depend of course on the branding strategy of the project but also of the musical style of the project and its maturity, the personality of the artist and his needs etc. Such appreciation is socially constructed from past experiences and past projects that make it necessarily specific and encapsulated to each module.

Regarding this fact it can be observed that one of the most important difference between Sony label and indie-labels hold in this organizational and managerial feature. Indeed, indie-label 1 and 3 managers have frequently insisted on the community aspect of their respective staff sharing similar aesthetic values or similar ways of conducting business. In these firms projects are made simultaneously by less people working with a common mental model. On the contrary Sony Music Group and Sony-label does not have such mental model because modules tend to develop their own views and their own practices which can be quite different from one another. This is precisely how the firm is able to develop transactional capabilities, because modularization encourages local and particular trust and information sharing which generates higher level of relation-specific investments. Cospecialized investments increase, in turn, the interdependence and long-term relationships between Sony label and suppliers (Heide and Miner, 1992; Parkhe, 1993). Thus, transaction costs can actually decrease though assets are specific.

4.3 Transactional capabilities as competitive advantage in performing 360 degrees strategy

We have seen in the previous sections how Sony-label deploys different kind of resources to enhance its transactional relationship with suppliers and consumers. These transactional capabilities permit to Sony Music to competitively perform its 360 deals approach by proposing a much more diverse and complex range of providers. In the line of the work of Teece (2010) Sony Music Entertainment is now trying to focus on the very specific wants of consumers in order to satisfy unrequited demand. These needs are covered through many types of products enabling the firm to proceed to discrimination prices. In this regard physic and digital supports are not seen as substitutable but constitute different markets for different type of consumers. On the physic market the firm declines each release in different way ranging from basic CD to Deluxe and Vinyl editions including a high level of design and packaging investment.[7]. This segmentation is also realized on the digital market by offering different audio formats such as .mp3, .FLAC, .DSD etc. In the same way merchandising and many other derivative products constitutes new ways to customize the offer. The firm is still pushing the boundaries to create new products and detect new clients than its competitors. In accordance to our proposition 3 results demonstrates that this process is fostering by both modularization and supply chain resources.

Consistent with the proposition 3, the imaginative propensity of the firm to extend its music intermediation on other markets is encouraged by transactional capabilities embodied in modules: through information sharing and encapsulated knowledge, employees discover new trends and practices from other related industries which bring creative ideas for new

[7] Such asset increases the willingness to pay of the consumer despite the fact that the music content is now largely available on web for free. The growing number of vinyl sales reflects this new trend, IFPI observes that this market has grown of 54,7% at the global level in 2014.

business opportunity. In this regard middle managers play a significant role in this innovative process: by monitoring their corresponding *ad hoc* modules they are able to detect and encourage best practices. By doing so they manipulate the sensing process of modules members by emphasizing the importance of some information or theme compared to others. This process accelerates the emergence of new ideas and the selection of the most profitable ones.

As we have seen above front-line employees within modules, thanks to face-to-face interactions, are endowed with tacit knowledge making them progressively "expert" of their related markets. Consequently the boundaries of the firm are expanding in accordance to the absorptive capacities of the modular units toward other markets: The label has been focused first on close related industries such as music publishing by dealing with Sony/ATV Company. In 2013 it has realized a partnership with the global merchandising company leader BandMech. The label is now concluding an important deal with the French book publisher Gallimard for making comics and novels based on its recent musical repertoire. This later example is a good illustration of this learning and innovative process. Employees from Sony-label marketing modules initially not so familiar with book publishing industry are now more and more inclined to develop derivative goods with Gallimard. It allows them to share practical tricks and experiences and increase their ability to identified new potential product to sell to the consumer.

Transactional capabilities permit also a better coordination between the different elements of this 360 value proposal. As mentioned before music is a rapid-life cycle product which requires a high level of coordination. Directions are dedicated to assure such coordination by implementing deadlines and planning procedures. However the fact that Sony Music Entertainment possesses is own supply chain gives significant flexibility. This allows synchronizing promotional tasks, music release and derivative product distribution. When a music product is becoming a hit, other associated products must be conceived and distributed really quickly because of their dependent life cycle. It permits to the firm to ensure that each subproject be as close as possible to this lifetime in order to transact all the products at the best moment. Such coordination is not always possible for independent labels since their release agenda is partly control by the distributor.

Similarly transactional capabilities give to Sony Music a competitive advantage over its independents competitors in new corporate client identification process: data collection of consumers and fans from the supply chain is not only analyzed to better react to music users demand but are also turned into transactional assets for opening businesses with corporate clients. Indeed Sony Music has initiated a Business to Business team to conclude deals with other companies. In a context of weak IP effectivity such cooperate clients constitute an increasing profitable market for labels. This new market has required various legal capabilities to reduce transaction cost associated with contract arrangements.

Our results show that Indie-label 1 and 2 have tries also to offer product for corporate clients (such as sponsorship, endorsements, synchronization etc.) in order to spread their image and entice new consumers that are otherwise out of scope. But once again the transactional advantage of Sony Music compare with its independent competitors comes from the knowledge that the firm is able to absorb through its data management. Endowed with data, Sony Music can detect what are the main consumption practices and the main characteristics of artist's fans. Then the firm is able to provide a tailor-made product by associating the appropriate artist brand to the relevant client's product into the pertinent setup (cobranding, events, product placement, music theme for TV ads etc.). These results are consistent with the recent literature which have demonstrated that the acquisition of an effective supply chain management system contributes directly to develop relational capabilities and innovation by reducing purchasing costs, making higher quality products, encouraging supplier or client integration, raising the speed of delivery, increasing flexibility and knowledge (Beske, 2012; Delbufalo, 2012; Prajogo et al., 2012).

The recent investments made by the firm confirm this data-centered approach: Sony is a shareholder of the streaming leader Spotify and released with Warner and Universal Music 9 million of dollars in 2014 in the capital of Shazam[8] to improve the digital marketing of artists. Sony Music is now investing in technical tools for collecting and analyzing information about consumers and users profile. This huge amount of information needed new investments and skills which are realised jointly with firms specialized in Big Data treatment.

The internalization of concert hall network Arachnée is driven by the same motivations. Of course the spectacular growth of this market has pushed Sony Music to vertically integrate show facilities for aligning profit incentives and diminishing transaction costs. This new concern for music performance is also materialized through various partnerships with festivals: in 2014 Sony Music become producer of We Love Green festival. A legal and technical module support is entirely dedicated in setting tours and concerts in order to better capture the economic value of live music. But more importantly this new resources provides information about consumer practices and tastes. As for the supply chain, the fact that Sony Music possesses concert facilities permits to guarantee the control of the agenda. It also constitutes a test for new artists to meet their public and therefore provide a general idea about the success of a branding strategy and useful insights to readjust it in case of failure.

> *"Concerts is just the very first step after CD sales. When an artist start to sell records and carry out a good show you may have something which is interesting to exploit on other fields."* Dir_labmaj

These last points illustrate the great complementarity between the new value proposition and at the traditional resources of the firm in the line of our proposition 1 (cf. Table 1): traditional channels addressed to consumers generate a range of data which in turn is converted into transactional insights for performing 360 degrees deals. It permits to Sony Music Entertainment to capture new aspects of the economic value of the musical content while preserving its music producer core competencies. This emphasis of knowledge creation and knowledge flow in our analysis stressed the fact that the idea of transactional capability includes an economic reality which is more complete than consumer-oriented side such as

[8] Shazam is a famous mobile application of music identification

marketing or promotional tasks. It investigates the entire proactive role that the firm adopts for transacting with the market; including its capacity to renew its resources to better satisfy usual and new types of clients. As the Dir_labmaj stresses:

> *"If we are still here it's because we are multiservice. This is a key service that we give to artists: today nobody can control music so we have to offer something that we can control with some external partners or in-house like concerts."*

5. Conclusion

The difficulty to capture economic value from records sale has made music business much more complex than before, with a larger variety of potential sources of revenues combined with a larger variety of intermediation roles and of related required assets. We have shown that in the case of the majors, this complexity is handled by the development of capabilities which increase the efficiency and the quality of their interactions with the two sides of the market. In this regard, modularity makes the firm's boundaries much more permeable with the external world by setting project teams and social exchange process which create common knowledge and mutual trust between suppliers and modules. This is also motivated by the fact that conventional managing procedure fail to control what is nonlinear and ambiguous: Music content and its related productions are idiosyncratic in such way that hierarchical methods are ill-adapted.

By providing insight both on the supply and the demand side, we have stressed the fact that Sony Music performance is no only due to its ability to sell finished products but is also linked to its ability to order and purchase relevant inputs especially when they are quite distant to the firm's resources. Such transversal analysis permits to underline the synergistic relationship between knowledge flow from demand side and supply side: permanent connection with providers enable Sony Music to absorb some insights about related industries and offer opportunities to develop new products; at the same time collection of data about sales performances and consumers profiles permits to check the validity of the multiproduct strategy. In this regard the both-sided aspect of transactional capabilities permits to underline this mutual impact of pre and post-production knowledge flow.

Of course the fact that music industry is structured by copyright system consolidates the market power of the historical actors of the market. It facilitates the ability to the firm to capture an intermediation rent on other related markets but it does not explain how these interactions are successfully detected performed and sustained. On that point, our case study has shown that transaction costs properties can be modified by internal assets (such as social interactions with suppliers, data management skills, commercial background etc.).

Our case study and theoretical framework offer therefore an explanation to the resilience of traditional music intermediaries despite the expansion of web technologies and the recent arrival of GAFA. Indeed, the fact that transactional capabilities deployed by modules are based on inter-firms alliances reinforce the competitive advantage of majors over indie-labels and web newcomers: Their business model based on specific relationship with customers and suppliers is difficult to replicate because any adding competitive pressure tends to disturb and modify the environment in such way that it is impossible to replicate synergies (Teece, 2010).

Our study suggests practical recommendations for managers by stressing the fact that transactional capabilities are also an important factor for developing competitive advantage. Such development should go beyond the simple monitoring and planning system of purchase and sell products at low price. On the contrary employees should endorse roles and attitudes that allow information sharing both on demand and supply side in order to increase performances and innovative opportunities for business. Of course such prioritization should depend of the properties in which operate the firm. Future researches could therefore investigate the role of transactional capabilities in intense technological-competition sectors.

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