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Competitiveness in Music Streaming

Investigating how the entry of big technology companies influence competitive advantages in music streaming

Master's Thesis in the Masters' Programme Management and Economics of Innovation

Linus Adolfsson

Eric Bonfré

DEPARTMENT OF TECHNOLOGY MANAGEMENT AND ECONOMICS

Division of Entrepreneurship and Strategy

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LINUS ADOLFSSON
ERIC BONFRÉ

Supervisor, Chalmers: Adrian Bumann

Department of Technology Management and Economics Division of
Entrepreneurship and Strategy CHALMERS UNIVERSITY OF
TECHNOLOGY Gothenburg, Sweden 2020

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LINUS ADOLFSSON

ERIC BONFRÉ

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Department of Technology Management and Economics Division of Entrepreneurship and Strategy

Chalmers University of Technology

SE-412 96 Gothenburg, Sweden

Telephone + 46 (0)31-772 1000

Gothenburg, Sweden 2020

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Abstract

Big technology companies are present in a range of different industries, and they keep expanding into even more - music streaming being one of them. They create large ecosystems where digital products and services are added to provide both economies of scale and economies of scope. Executed successfully, the customers are locked-in into their ecosystem and the customers would not need to interact with other services. In that way the firms would not only take a large share of one industry but would do so of multiple ones. For certain industries, it has previously been researched how sources of competitive advantage has been affected by the entrance of large technology companies. The aim of this project is to explore how the entry of Apple, Amazon, and Google - henceforth denoted as BTC (Big Technology Companies) - influence the sources of competitive advantage within the music streaming industry.

The method used for achieving the purpose of this project was through a qualitative approach with an inductive character. Semi-structured interviews were conducted with people with experience from the music industry, including two interviews with people from academia. These interviews in turn make up the primary data. To complement the primary data, a literature review was conducted ahead of the interviews and secondary data were collected throughout the project. The literature review consists mainly of 1) resources and capabilities, and 2) strategies for product and service offerings. With the information gathered during both the literature review and the interviews, discussion was made, and conclusions drawn of how the competitive advantages have been influenced by the entry of the BTC.

This report divides the sources of competitive advantages into three different categories: 1) competitive advantages previous to BTC entry, 2) competitive advantages of the BTC, and 3) competitive advantages the incumbents' focus on after BTC entry. The findings, and the contribution to existing research of competitive advantages within the music streaming industry, suggest that the entry of the BTC has influenced the sources of competitive advantages in three different ways: 1) reducing the power from previous competitive advantages, 2) bringing new competitive advantages into the industry that the BTC possess, and 3) forcing the incumbents to focus on new competitive advantages. The overall conclusion is that the industry has shifted from mere resource utilisation of e.g. licenses and product interface towards utilising in-firm capabilities such as ecosystem bundling as well as corporate focus towards e.g. content creators on the platform. This might also show that mere resource utilisation is no longer enough for obtaining competitive advantages as argued by researchers of the dynamic capabilities view (Wu, 2010).

The authors recommend that further research should include a broader set of interviewees.

Key words: Music streaming service, Big Tech, music streaming pure players, bundling of services, horizontal integration, ecosystem, customer lock-in

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Terminology

BTC - refers to large, multinational technology companies that are active within the music streaming industry, such as Apple, Amazon, and Google, excluding tech companies without music streaming services such as Microsoft, Netflix and Facebook

Music streaming pure player - refers to companies with music streaming as the core service (e.g., Spotify, Tidal, Deezer, Soundcloud, and Resso)

Record label - refers to companies in charge of both recording and publishing of music, with the major labels being Universal, Warner Music and Sony Music

1. Introduction

1.1 Background

Digital technology is today ubiquitous and has led to great progress for society. Whether it be during spare time or at work, large parts of people's days have become digitized due to emerging technologies. However, for companies it has led to fierce competition. Many of the businesses with presence in digital markets are investing huge amounts of money to acquire customers with the argument that the "winner takes all" (Hoffman & Yeh, 2018). That means when companies reach a sufficient scale, the growth will be self-reinforcing due to economies of scale and network effects, which will lead the company to capture the vast majority of the market. Examples of industries where players now race to reach scale include streaming services, ridesharing and eScooters.

While globalization has led geographical borders to blur, technology has led industry borders to blur. Reed Hastings, the CEO of Netflix, said their biggest competition doesn't come from other video streaming services but from Fortnite and sleep (Hayes & Chmielewski, 2019). That implies Netflix is not only competing in the video streaming industry or the entertainment industry – it is in fact competing in the industry of spare time.

Just like Netflix in the video streaming industry, Walmart in the grocery industry, and Best Buy in the consumer electronic industry - pure music streaming services, like Spotify and Deezer, are now facing fierce competition as BTC are entering the industry since circa 2015 (Apple, 2015). These BTCs, originally operating in completely different industries, are able to leverage their already large user base and lock-in effects through their ecosystems of products and services, to successfully offer new services (Adner, 2012). These companies have added both video and music streaming to their ecosystem of services. At the time of the services' release, they instantly get exposure to hundreds of millions of users through their parent companies' existing user base. However, it is not only through the existing customer base and by adding new services that they are raising concerns for the pure media service providers. These technology companies also offer an ecosystem of products and services compatible with each other, e.g., smartphones, smart speakers, and computers, leading to lock-in effects. When the different music streaming services now are becoming more and more commoditized and the BTC include it in their larger ecosystems, it might be unclear how the pure music streaming services deliver a greater value for the consumers (Peckham, 2018).

This project sets out to provide an understanding of how the market entry by the BTC influences the sources of competitive advantage in the music streaming industry.

1.2 Aim

The aim of the project is to understand how the market entry from the BTC influences the sources of competitive advantage in the music streaming industry. To make this assessment the project will: 1) determine what the competitive advantages in the industry historically have been; 2) understand what resources and capabilities the BTC possess, that the incumbent pure player music streaming providers don't, that potentially have changed/will change the structure of the industry.

1.3 Limitations

Due to time limits, the research project will have three key limitation areas: geographic focus, focus KPIs, and criteria for being considered a big technology company in this report.

1.3.1 Geographic focus

The research aims to mainly cover the largest and mature markets within music streaming based on findings during the project. Since characteristics within music streaming differs quite substantially between geographies in the form of content and features demanded by listeners, the project might not exhaustively cover markets such as e.g. Australia due to the limited share of the total market, even though e.g. Australian users might provide interesting insights into future themes of the development of the music industry.

1.3.2 Focus KPIs

The research project will consider KPIs based on select key growth KPIs, identified from initial reading and interviews. Typical generic market KPIs for the music industry include Monthly Active Users, total registered users, total subscribers and music catalogue size. Therefore, other KPIs that others might consider key might not be covered by the research.

1.4 Specification of issue under investigation

This study aims to answer following research question:

- How does the market entry by the BTC influence the sources of competitive advantage in the music streaming industry?

2. Methodology

This chapter aims to describe the work structure including processes such as data collection, data analysis and types of data used. Furthermore, it aims to connect the chosen methods with the structure and aspired output of the project.

2.1 Research strategy

Research has two overarching types of strategies – quantitative and qualitative (Bryman & Bell, 2015). The quantitative method is grounded in the existence of a somewhat objective reality. Since the reality is thought to be objective it follows that the reality can be expressed and understood by carrying out statistical tests on large sets of data. The qualitative approach on the other hand does not rely as much on raw numbers, but instead focuses on subjective interpretation of words. As this project is rather associated with the synthesis of mainly qualitative parameters, the strategy is set to a qualitative approach. Due to the heavy emphasis on creation and validation of the output through interviews and synthesis of available data, a qualitative strategy has been deemed most viable.

2.2 Research approach

This study researches the sources of competitive advantages within the music streaming industry. This has been done by reading into external literature on competitive advantages as an academic basis, reviewing contemporary industry data and external information aggregators such Music Ally, and through interviews with 1) strategists, product managers, data scientists with experience from the music industry and 2) external academic professionals with an overview of the music industry and overall industry analysis. The interviews have the purpose to get an understanding of what data the current competitive advantages in the industry are built on, as well as understanding how the BTC is influencing future competitive advantages.

Most of the data gathered is based on synthesis of available information and will, therefore, be of a subjective characteristic. Hence, carrying out the project in a qualitative manner is suitable according to Bryman & Bell (2015) since a quantitative approach would be associated with gathering large sets of objective measurable data.

Holme & Solvang (1991) further supports the chosen approach as they say that the qualitative methodology is favoured when data collection, as well as analysis, occurs interactively, as is the case with the inductive interviews.

2.3 Research process

According to Bryman & Bell (2015), research projects that aim to develop insights and output from interaction are of an inductive character. Considering that this project is largely based on insights derived from interview interaction and changed focus based on previous interviews, the process is viewed as inductive, with the alternative being a deductive project with set hypotheses that are to be tested during the project. In this case, the project is built upon a review of literature on the topics of competitive advantages in the music streaming industry.

The second step of the research process will then be to complement the theoretical basis from external material with 1) industry data obtained from interviews and other resources and 2) interviews with academic professionals within related fields as well as interviews with e.g. strategists, product managers and data scientists within the music industry.

2.3.1 Literature review

In the initial stage of the project, literature was reviewed to establish a theoretical basis for the project. This theoretical basis comprises previous literature related to the research question within two key areas: 1) resources and capabilities and 2) strategies for product and service offerings. Furthermore, other relevant literature will cover topics such as competitive landscape analysis, product differentiation, blue ocean strategy, dominant design, network effects and specific literature on the music industry.

2.3.2 Primary data

The primary data is based on interview data from interviews with people with experience from the music industry. Interviewees consist of analysts, strategists, product managers. Due to the ongoing COVID-19 issues, several interviewees from music companies have cancelled interviews due to issues associated with the pandemic. The sample of interviewees was gathered to cover views from 1) the different functions within the music industry and 2) various geographies, to get an understanding of the shifts that are occurring at a global level.

According to Flick (2009), The appropriateness of the selected sample can be assessed in terms of the degree of possible generalization. Due to cancellations associated with the ongoing COVID-19 pandemic, the lack of external interviewees can be viewed as providing a lower degree of generalization than if more interviewees from more perspectives were included. Furthermore, this lack of width in the data sampling might make it difficult to make generally valid statements (Flick, 2009). However, in this case, as the interviewees cover all different divisions within several different countries of a multinational company, the sampling might arguably provide an understanding on how the different competitive advantages held by other firms are interpreted by outside firms.

The interviewees have different roles and thereby different insights; therefore, a semi-structured approach has been used. According to Bryman & Bell (2015) this enables the interviewer to keep an open mind about the direction of the interviews so that concepts and theory can emerge out of the data. An interview guide has been created based on the literature review, see appendix. The aim of using a structured guide is for the interviews to follow a top-down approach, from larger to more narrow questions, so that the interview follows a clear path.

The interview responses have been gathered through interviews with 23 interviewees, whereof two academic researchers within music and 21 professionals with experience from the music industry. The focus of the responses has been on prevalent competitive advantages within music streaming, with a partition based on the entry of the BTC into the music streaming industry space. The interviewees are kept anonymous due to confidentiality. Table 1 provides an overview of the interviewees interviewed for the project.

Table 1. Interviews conducted for the study.

No.	Background	Experience	Type (time)
1	Music industry	Project management	Face to face (45 min)
2	Music industry	Industry economics	Face to face (45 min)
3	Music industry	Product management	Virtual (45 min)
4	Music industry	Strategy Asia	Virtual (45 min)
5	Music industry	Strategy Asia	Virtual (45 min)
6	Music industry	Market analysis Asia	Virtual (45 min)
7	Music industry	Product management	Virtual (45 min)
8	Music industry	Strategy analysis North America	Virtual (45 min)
9	Music industry	Global Strategy	Virtual (30 min)
10	Music industry	Marketing	Virtual (30 min)
11	Music industry	Product development	Virtual (45 min)
12	Music industry	Product development	Virtual (30 min)
13	Music industry	Strategic management	Virtual (45 min)

14	Music industry	Product management	Face to face (45 min)
15	Music industry	Product management	Virtual (45 min)
16	Music industry	Market research	Virtual (45 min)
17	Music industry	Product development	Virtual (45 min)
18	Music industry	Product management	Virtual (30 min)
19	Music industry	Product management	Virtual (45 min)
20	Music industry	Strategic management	Virtual (45 min)
21	Music industry	Business analysis	Virtual (45 min)
22	Academia	Music research and analysis	Face to face (60 min)
23	Academia	Management & entrepreneurship	Face to face (60 min)

2.3.3 Secondary data

Analysing data collected in research conducted by someone else is referred to secondary data analysis (Bryman & Bell, 2015). The secondary data in this project has mainly consisted of industry data and reports. As the topic investigated is contemporary, the initial focus was reading into industry data consisting of reports on competition, metrics and KPIs such as financial performance and number of users within each music streaming service, as well as assessments of competitor strengths and weaknesses within technological markets (e.g. technological capabilities for creating product interface). Reading into this material was to understand the consensus on how the competitive landscape look and use this as a lens for the overall music streaming industry. According to Flick (2009), the quality of documents selected to use as data can be assessed based on authenticity, credibility, representativeness and meaning. The selection in this study has mainly been focused on authenticity, credibility and meaning, as the representativeness is hampered by a somewhat narrow interviewee sample.

2.3.4 Data analysis

During interviews, there has been an interactive reasoning with the interviewee while one interviewer writes down notes comprising key takeaways and next steps. Therefore, part of the analysis occurred during interviews as well as after. Data analysis has been done continuously throughout the project. To be able to boil down information from the interview notes, analysis of the data was done through thematic analysis. According to Charmaz (2006), coding helps

remaining open to exploring the data while also enabling comparison of data. In this study, thematic coding has been used to group different phrasings of competitive advantages in accordance with thematic coding described by Flick (2009). This is seen as suitable as the different perspectives of interviewees with significantly different roles and geographic locations provide differing interpretations of phenomena and processes. The thematic coding in turn enables comparability of the empirical data (Flick, 2009). The thematic codes are groups of competitive advantages, where an interpretation of the wording of the interviewee has been made to understand similarities between interviews, where e.g. “a large number of users” as well as “reach” is interpreted as the theme “scale”. Braun and Clarke (2008) state that thematic analysis can be divided into six phases: 1) Familiarising yourself with your data, 2) generating initial codes, 3) searching for themes, 4) reviewing themes, 5) defining and naming themes and 6) producing the report. Applying these phases to this study, the thematic analysis can be described as:

Phase 1, reading through the data several times in various formats to get an understanding of the content from different perspectives by creating summaries, use case logs and transcripts; phase 2, identification of patterns of competitive advantages mentioned by interviewees subsequently used labels such as scale, user base, size of company and business model; phase 3, interpretation of contexts of mentioned advantages as there was overlap between phrasings, where e.g. interviewees mentioning size of company were really referring to size of user base, which was viewed as the same as scale; phase 4: Identifying the competitive advantages and check those

against the chosen theory, where e.g. size of user base becomes a resource from the perspective of the resource-based view; and phase 5: Themes created based on competitive advantages of interest both according to interviews and according to the theory.

Consequently, the competitive advantages in the results will represent the theme codes used in the data analysis. Due to the lack of quantitative analysis in the project, methods such as statistical techniques or programming mentioned by Bryman & Bell (2015) will not constitute a key part of the data analysis.

3. Theoretical framework

The following chapter aggregates and connects the contemporary literature within two key areas: 1) resources and capabilities and 2) strategies for product and service offerings. These areas are in turn considered of particular interest for analysing the creation of competitive advantages for individual firms within music streaming as a digital industry.

3.1 Resources and capabilities

3.1.1 Introduction

The resource-based view (RBV) takes an inside-out perspective to determine the right business strategy of an organization (Madhani, 2010). Valuable resources that are valuable, rare, hard to imitate and non-substitutable provide a foundation to develop and maintain competitive advantages and obtain a superior performance relative to peers (Barney, 1993). Based on these characteristics, the resource-based view identifies four key conditions of achieving competitive advantage: 1) Heterogeneity of resources, 2) imperfect mobility, 3) ex post limits to competition and 4) ex ante limits to competition; as shown in figure 1 (Peteraf, 1993).

Recently, the RBV has been complemented with the dynamic-capability view, which is more focused on the organizational capabilities (Wu, 2010). This theory claims that globalisation, with its associated knowledge dispersion and high rate of innovation, requires something more than solely scarce, inimitable assets such as know-how to create sustainable competitive advantages (Teece, 2007). The added demand for opportunities to create sustainable advantage in the dynamic-capabilities view is therefore unique and difficult to imitate capabilities built from that can be utilised to consistently create, extend, upgrade and protect the firm's unique resources (Teece, 2007; Wu, 2010). Teece (2007) argues that dynamic capabilities can be disaggregated into three key components 1) sensing and shaping opportunities and threats, 2) seizing opportunities that arise, and 3) maintaining competitiveness by enhancement, combinations, protection and reconfiguration of the company asset base.

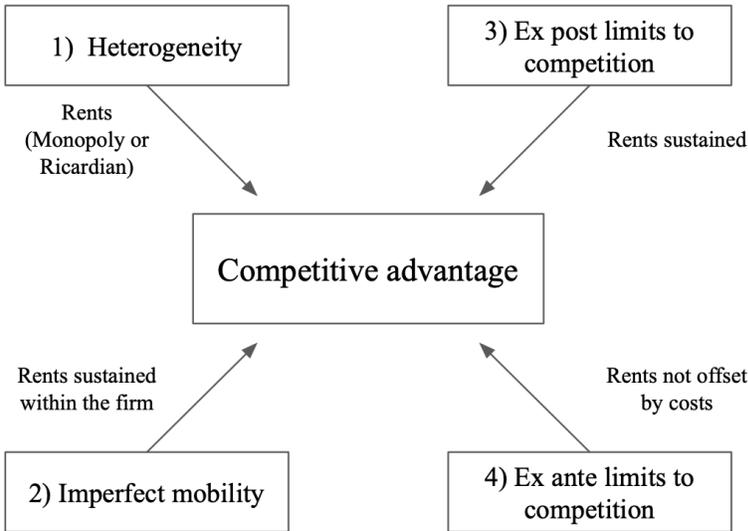


Figure 1. Four conditions for competitive advantage according to the resource-based view (Peteraf, 1993).

3.1.2 Heterogeneity of resources

A basic assumption of RBV is that the bundle of the firms' resources and capabilities are different between firms, providing opportunities for unique combinations thereby presenting potential advantages (Peteraf, 1993). However, these resources are sometimes fixed due to a limited supply. However, they are more often quasi-fixed, meaning that optimal firms have limited possibility to adapt the supply of output rapidly based on increases in demand. This provides opportunities for other, often suboptimal, firms to catch profits available at lower margin levels based on lower prices and/or higher costs. Superiority in profitability originating from superior resources in combination with fixed or quasi fixed factors are referred to as Ricardian rent (Peteraf, 1993). Resource and capability superiority can also be combined with a deliberate restriction of output rather than a scarcity, which is in turn referred to as monopoly rents. These two rents are considered the key manifestations of competitive advantages obtained by firms due to heterogeneity in resources and capabilities.

Competitive advantages arising from mere bundles of heterogeneous resources in environments of rapid and unpredictable market change has been a source of criticism due to oversimplification. Therefore, later research has been done on dynamic capabilities involving the ability to integrate, build and reconfigure these unique resources, which are actions that have been lifted as key complements to the previous theory of RBV (Wu, 2010). Arguably, the dynamic capabilities view can therefore be seen as a complement to RBV since it covers how firms ideally handle the creation of unique resources in the long term.

3.1.3 Ex post limits to competition

In order for competitive advantages obtained to be preserved, heterogeneity of resources must be sustained (Peteraf, 1993). This will be the case only if there are limitations to competitors competing for the same rents after the own firm has gained a resource superiority, referred to as ex post limits. RBV identifies two mitigators of ex post competition: 1) Imperfect imitability and 2) imperfect substitutability. Bottlenecks for imitability by other firms can occur from e.g. difficulties in acquiring specific resources, unclear causalities between capabilities and competitive advantages, and complexity of resources (Madhani, 2010). Such bottlenecks were first referred to by Rumelt (1984) as isolating mechanisms that firms can use to prevent imitation of resources and capabilities.

Peteraf (1993) lifts out current nuances of the perception of limitation of imitability, comparing the above perception by Rumelt (1984) with the perception of Dierickx and Cool (1989) that focuses more on “non-tradable assets which develop and accumulate within the firm” which are considered to develop organizational skills and corporate learning. The obtained resource superiority is then considered to be socially complex and highly path dependent, making it nearly impossible to copy certain resources and capabilities developed in this way, deterring competitors through a perceived difficulty of discovering as well as repeating the process to copy the skill development and learning with a late mover disadvantage due to time lag.

3.1.4 Imperfect mobility

Resources that are immobile refers to assets that cannot be traded or cannot move between firms (Peteraf, 1993; Madhani, 2010). Madhani (2010), points out that the more mobile a resource is, the less sustainable the competitive advantage obtained by the resource. Furthermore, this is an effect that is amplified by recent trends of rapid technological change and globalisation (Madhani, 2010).

Resources might also be considered imperfectly mobile even if they are tradeable but provide higher value within the firm that utilises them than they would be if other firms were to utilise the resources, meaning that e.g. specialized resources for firm specific needs imperfectly mobile (Peteraf, 1993). Other cases of imperfect mobility of resources include co-specialized resources that must be used together with another resource, where at least one of them are firm specific and the other is not used for any other purposes; resources that are associated with particularly high transaction costs (Peteraf, 1993); as well as resources associated with particularly high development or usage costs (Madhani, 2010).

However, the mobility of resources are thought to be less imperfect in recent years due to knowledge dispersion of previous factors of advantage such as advantageous know-how within manufacturing or innovation (Teece, 2007).

3.1.5 Ex ante limits to competition

The last condition for competitive advantages is ex ante limits to competition, referring to that a position of resource superiority must have limited competition a priori. Hence, in advance of the company identifying an opportunity of gaining resource superiority, equally competent firms must not be aware and set to compete for the same position. Such competition will create fierce competition that ultimately eliminates the expected returns of reaching the position (Peteraf, 1993). Hence, a superior position can be the source of above normal returns only if there is an absence of competitors having the same good luck or foresight to observe the opportunity. In essence, the condition of ex ante limits to competition thereby comprise limitations that prevent Ricardian and monopoly rents from unique resources to be competed away.

3.1.6 VRIO framework

Barney (1991) developed the VRIO framework for a structured approach to apply RBV. VRIO stands for *value*, *rarity*, *imitability*, *organisation* which describe the key characteristics of resources analysed for achieving competitive advantage. If all these characteristics apply, the firm has achieved sustained competitive advantage according to the framework in figure 2.

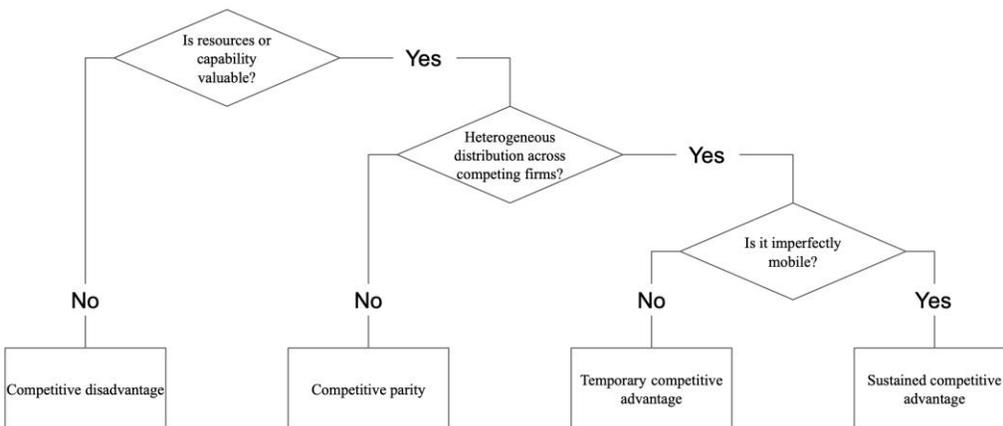


Figure 2. Flow chart illustration of Barney's VRIO framework (Johansson and Newman, 2009).

3.2 Strategies for product and service offerings

3.2.1 Bundling of services

Bundling of products and services refers to the packaging of two or more separate products or services and selling them as one (Panou et al, 2015). By offering a package rather than standalone products or services companies can create a new value proposition to increase revenue, improve price margins, as well as enhance customer loyalty (David Rickard, 2008; Prince & Greenstein, 2014). A famous example of the bundling strategy can be found at fast food restaurants where customers can purchase a bundle of a burger, fries, and drink – resulting in higher revenue since customers otherwise would not have purchased the three separately (Skiera, 2000).

In dynamic and fast changing markets, e.g., technology, media, and telecommunications (TMT) markets, the bundling strategy is considered an especially good tool (Izaret & Pineda, 2013). In those markets, companies want to leverage a large market share to increase their market share in an adjacent market. Google and Microsoft leveraging their strength in enterprise software to grow in cloud services are examples of this.

3.2.1.1 Factors affecting bundling

David Rickard (2008) has made a framework for the purpose of assessing the strategic value of bundling a product or service. The framework includes three market conditions as well as two customer related factors which affect customers' choice of choosing bundled offerings over standalone products.

Market conditions

The most important factors to consider regarding the market dynamics are 1) existing product differentiation, 2) existing alternative bundled offerings, and 3) the company's proportion of the customers' total spending.

Regarding the first market dynamic, degree of product differentiation, customers are likelier to purchase bundles of products or services which are less differentiated than others. Existing substitutes is also a positive indicator for bundling. This is due to customers' relative ease otherwise to change suppliers.

Existing competitive bundled offerings increase customers' likeliness for choosing bundled products or services. Customers are more likely to purchase things they have seen before, i.e., the first company to bundle a specific product will most certainly experience more reluctance from customers than the third or fourth company to do so.

The higher share of customers' wallet (i.e., the proportion of a customer's total spending) a company has, the easier it is to sell bundled offerings to that customer - customers are more likely to purchase bundled offerings from companies they are already spending a substantial part of their

total spending than from other companies (Rickard, 2008). That is especially true when the increased cost is non-substantial.

Customer related factors

For a bundled offer to be successful, it is important to understand what segments and customers within a market that would respond most positively to a bundled package. Two important factors to consider are 1) the customer's experienced value proposition of the bundle, and 2) the difference in spending customers have within a product or service category.

The benefits a customer experience from a bundle is threefold: cost savings, increased efficiency, and increased convenience through having relationships with only one company (Rickard, 2008; Bennett & Robson, 2001). The cost savings part is quite intuitive, the more things you purchase from one company, the more discount you receive. The efficiency gains are due to the fact that the ingoing products or services in a bundled offering are designed to work efficiently together, which is not the case for standalone products or services. The last benefit, only having relationship with one company, comes from: 1) the time efficiency of having only one company to negotiate with, 2) only one bill to pay, and 3) convenience would there be issues with the logistics and delivery of the products or services.

The difference in price between two products or services does affect customers' willingness to purchase them as a bundle (Rickard, 2008). The more difference in price there is between two products or services, the likelier it is that customers will react positively to a bundle.

3.2.1.2 Bundling in TMT markets

Izaret and Pineda (2013) suggest four rules for deciding whether or not to bundle in TMT markets:

First of all, a bundled offering must make it clear for the customer that the value is higher than the products or services would be by themselves. The bundled products and services must give the customer a unified experience – the contrary to that would be that the customer gets the feeling that the bundled products and services are provided by different companies.

The second rule is to bundle a product or service with low penetration but high potential with a product or service which is well-established in the company. Example of this is when the cable and telephone companies reached a stage of saturation in their broadband markets, and subsequently started offering TV and phone services as a package together with broadband.

Thirdly, make sure the attached product or service has a higher margin than the core product. That makes it possible for the company to discount the package by several percentage point at the same time as good profit margin on the attached product can be retained, without undermining the sales of the core product. If margins on the attached product or service was instead lower (and less than 50%), which would lead to discounting the higher-margin core product to spur adoption for the

lower-margin attached product, the profit of the core product might decline at the same time as the profit for the attached product might be eroded.

Finally, Izaret and Pineda (2013) argue that the value of the attached product should be of considerable proportion compared to the core product. The reason for this is that customers otherwise tend to view the attached product or service as a giveaway – making it hard for the company to monetize on the bundling. This is most prevalent in the enterprise software space, where companies sometimes include adjacent services with their core-product that the customer doesn't necessarily have much value for.

3.2.1.3 Strategic response to competitor bundle

David Rickard (2008) points out that just because the market seems susceptible to a bundled offering, and competitors have started moving in that direction, it is not necessarily the best thing to do the same thing. He states four different responses on how companies can act when faced with the question of whether or not to bundle: 1) Do nothing; 2) Focus on the profitable segments; 3) Increase differentiation; and 4) Bundle.

Doing nothing might seem like a non-strategic response. However, when based on well-founded data, it can in certain cases be the best strategic response the company can take. When the products and services would generate lower profits when bundled than would standalone products and services do is an obvious example of when doing nothing could strategically be the best response. However, even though the profits seem to be less positive with a bundled strategy, the company must consider how much of its business will be challenged from competitors' bundles.

When a competitor seems to get some success from a bundled offering, and by that reaping customers from other companies, it is important to assess from what segment of customers it is taking market shares. If it is from the less profitable segments it is attracting customers, the best strategy might be to focus on the more profitable segments, rather than respond with a bundled offering.

As already mentioned, low degrees of differentiation between competing products and services do increase the viability and threat of a bundled offering. Hence, responding to a competitor bundle by differentiating the core product can be a good move. By differentiating the core product or service the company makes customers less prone to switch to another supplier, because they are no longer perfect substitutes and the customers will miss certain features. This can be seen as a strategic response aiming to lock customers in (Burnett, 2014).

The fourth and final response Rickard (2008) suggests companies can take is to bundle its products and services. He is further breaking bundling down into two approaches: choice bundling and value-added bundling. The more common of the two, choice bundling, means that the company offers both the products and services as a bundled offering, and as standalone. This lets the price-sensitive customers decrease their cost, when acquiring the bundle, at the same time as the

company can remain its high profit-margin on the unbundled products and services, with the less price-sensitive customers. Hence, the choice bundling is best used when companies have customers with different price-sensitivity. Value-added bundling has more focus on the value rather than on the price. It does offer the core product, or service, both in the bundle and as standalone. However, the added product or service can't be purchased on a standalone basis. It is aimed for the value-sensitive segments of the market and can for example be an airline offering customers to also rent a car (as a bundle with the flight tickets). The value-added approach is best used when different customer segments have different preferences regarding the total value they are demanding.

3.2.2 Horizontal integration

Horizontal integration is a strategy where a company increases its offering within the same stage of the value chain (Adeleke et al, 2018; Mugo et al, 2015). Many papers define horizontal integration as the process where a company acquires or merge with similar or competitive businesses. This paper, however, does also include internal expansion, i.e., organic expansion, as a way to achieve horizontal integration, as does Schuldenfrei (2019).

Its relative, vertical integration intends to own larger parts of the value chain vertically (Coase, 1937; Williamson, 1971; Bresnahan & Levin., 2012). That means that more of the value creation of a product occurs inside of the company and means that the company insource what their partners upstream or downstream used to do. That can result in one and the same company is in the business of everything from extraction of raw material to sales and distribution. Horizontal integration on the other hand stays within the same vertical, i.e., sales, marketing, distribution, et cetera., but expands within that vertical (Schuldenfrei, 2019). The customers are most often the same in horizontal integration, while the same is not true for vertical integration.

3.2.2.1 Rationales for horizontal integration

The reasons for horizontal integration are many: economies of scale, increased differentiation, increased market share, removing competition, and potentially entering new markets (Francalanci, 2001; Schuldenfrei, 2019; Vassoughi, 2012). Economies of scale are due to shared R&D, marketing, sales, etc., over a larger revenue base – the case is especially obvious in a merger or acquisition when large parts of the overhead costs for one of the entities become obsolete (Francalanci, 2001). The company will further be able to offer more product features, and cross sell or bundle these. Removing competition, and increasing market share, increases the market power a company possess. The company will stand for a greater share of its suppliers' total revenue and will hence get a stronger bargaining power. The same is true downstream. Since it will gain a greater share of the end-market, it will have greater power over its distributors and by having so, more lucrative contracts. The potential of entering new markets comes from the ability to acquire or merge with companies abroad.

3.2.2.2 Disadvantages of horizontal integration

As an organization becomes bigger, it often becomes more rigid and less efficient as well as reluctant to change – potentially becoming a target for disruption (Jurevicius, 2013; Vassoughi, 2012). If competition is removed, and the company gains market power, antitrust laws might lead the deal to be called off – resulting in vast sums of investments, into making the deal happen, becoming wasted.

Hence, before making strategic decisions whether or not to horizontally integrate, companies need to diligently analyse the firm's resources and capabilities, the market, the customers' needs, as well as potential targets.

3.2.3 Ecosystem

James Moore (1996) first introduced the term business ecosystem and described it as a community of organizations and individuals interacting with one another. The term ecosystem is an analogy from the ecological ecosystem where all organisms produce and consume different things, but everyone in the ecosystem relies on each other (Moore, 1996; Iansiti & Levien, 2004; Peltoniemi & Vuori, 2008). In 1998 Moore expanded his definition somewhat and highlighted the decentralized decision making and self-organization (Peltoniemi & Vuori, 2008). He said that the business ecosystem is a system where customers, suppliers, producers, labour unions, and other stakeholders are mutually supportive and where each party brings value to the overall system. It is just as in the ecological ecosystem, when the ecosystem is doing well the individuals within it are flourishing. The reverse is true as well, when the ecosystem is doing poorly, the participants within it are suffering (Iansiti & Levien, 2004; Peltoniemi & Vuori, 2008).

3.2.3.1 Software ecosystem

Customers have during the last decades increasingly demanded newer and more features from their software vendors (van den Berk et al, 2010). The software companies can therefore no longer develop all the features themselves if their customers' needs are to be met. This has led companies to look for third party developers to add functionalities to their product. The desktop operating system was the start of this revolution where other third parties developed applications for companies such as Microsoft and Macintosh. Today, more or less all software companies are in one way or another involved in a network like this, where companies are gathered around one single platform – called Software Ecosystems (SECOs). Perhaps the AppStore is the most famous one, where Apple lets third party developers create and add applications for the iPhone.

Moore (1996) said that ecosystems consist of a central entity, a platform, and niche players (van den Berk et al, 2010). The platform is owned by the central entity, and the niche players are allowed to use the platform to create value for themselves at the same time as they are creating value for the platform. The platform owners today have had problems figuring out how to manage these

ecosystems. As they no longer have total oversight over the platform it can be hard to understand how their decisions will affect all stakeholders within the ecosystem.

3.2.4 Customer Lock-In

Customer lock-in, or vendor lock-in, can be defined as switching-costs that a consumer incurs when changing his/her current vendor to another vendor (Farrell & Klemperer, 2006). The effect can appear due to different switching-costs. Potential contributors for customer lock-in are learning to use a new product, brand loyalty, dependency on complementary products, network-effects (Eurich & Burtscher, 2014). The grade of customer lock-in a business possesses is dependent on the presence and the importance of those factors. It often serves as a business model within the corporate world – it is desirable for companies since it leads to recurring revenues and an opportunity for cross-selling other products.

3.2.4.1 Strategies

Freemium is a concept that has got traction over the last decade, especially among start-ups and mobile apps (Kumar, 2014). The term is a mix of the terms free and premium. The basic idea behind this strategy is to give customers access to basic features of the product/service without cost, and full access in exchange for a subscription fee. The aspiration is to convert the freemium users to premium users. The freemium service works as an initiator which enlarges the total customer base. The more the freemium and premium services/products are intertwined and the larger the total customer base, the more value is generated from the product/service due to network externalities. Freemium as a business strategy is prevalent in the music streaming industry. Other businesses using the freemium strategy are Skype, LinkedIn, and Dropbox.

Platforms letting customers create and purchase features on their platform often use a lock-in effect called the data-trap (Amarsy, 2015). Were the customer to leave the platform the customer also leaves its data, hence the lock-in effect. That might not sound as such a bad thing, especially not in the wake of GDPR. However, if customers had bought apps on the Apple AppStore, they'd have to re-buy the apps would they change to Android. The same goes with music streaming services, would you leave Spotify for Apple Music, you would also leave your playlists.

In addition to the mentioned lock-in effects, it can be worth mentioning the “industry standard” lock-in where there is a consensus of what product or service to use. An example of this is Microsoft Word for word processing (Liebowitz & Margolis, 1994).

3.2.5 Network effects

Network effects refer to the effect an additional user of a product or service has on the value of that product or service to other users (Shapiro & Varian, 1999). Hence, the value of the product or service increases as the number of users increases. The authors further argue that this leads to

industry standards and switching costs. An example of an industry standard that has been sustained due to network effects is the QWERTY-keyboard (Arthur, 1994).

Parker and Van Alstyne (2005) proposed a new way of looking at network effects, related to the digital era. Instead of considering network effects intramarket, that is within a market, they described network effects intermarket, which is network effects operating between different markets. They refer to the intermarket network effects as two-sided network effects - producers want consumers, and consumers want producers. Hence, every new user in one of the actors (e.g. a producer), increases the value of the platform for the other actor (in this case, the consumers). The two-sided network effects are present in the music streaming industry, where more artists lead to higher value for the listeners, and more listeners leads to higher value for the artists.

3.3 BTC and music streaming

3.3.1 Background music streaming

Music streaming has been a boost for the music industry, with revenues from the music streaming service providers now accounting for over 50% of all recorded music revenues worldwide as of 2018 (Maasø & Hagen, 2018). However, the rapid growth of the music streaming industry itself is not yielding profits for all actors within the market, with a fierce competition within several KPIs and metrics such as product features and content available within the platform (James Benett, 2018). For instance, Tencent (2018), one of the big Chinese tech companies that is also active within music streaming, wrote in their F1 statement in conjunction with their IPO:

“We compete with our competitors based on a number of factors, such as the diversity of content, product features, social interaction features, quality of user experience, brand awareness and reputation.”

Hence, the competition within the music industry is perceived as high also by the larger actors with some scale benefits (Benett, 2018). However, the profitability and most important KPIs are obscure, making it hard for competitors to understand the priorities of competitors and which KPIs are currently the most focused on (Benett, 2018). According to Bennett (2018), there are several competitive advantages that have not been studied in depth that might be interesting to determine the effects of. More specifically, Bennett (2018) recommends further research in the fields of e.g. the strategic partnerships that provide competitive advantages for music streaming service providers, as well as the necessary subscription growth as an asset in record label negotiations.

The area of competitive advantages within music streaming is sparsely studied by academics online. Therefore, this study adds to previous literature by aggregating the available competitive advantages and identifying how they have developed due to the entry of the BTC as this has not been done for the music streaming industry before.

3.3.2 Background on BTC inclusion of music in ecosystem

The BTC have managed to create large ecosystems where digital products and services are easily added to provide both economies of scale and economies of scope (Skog, Wimelius & Sandberg, 2018). These ecosystems have provided them with a clear structure for horizontal integration and bundling of services. By using the ecosystem as a platform, the companies have been able to combine horizontally and vertically adjacent services (Skog, Wimelius & Sandberg, 2018). To illustrate the vertical and horizontal relationships present within the music streaming industry, the products and services often included in ecosystems can be viewed as in different abstraction levels, with e.g. level 1: phones, speakers, computers; level 2: operating systems, search, e-commerce; level 3: news, music streaming, video streaming. Integration between the different levels then represents vertical integration and integration between the categories within the same level represent horizontal integration (Schuldenfrei, 2019).

According to (Peltoniemi & Vuori, 2008), ecosystem services and their business units should be mutually supportive and synergistic. Considering the products and services included in the ecosystem, it can be viewed as utilizing horizontal integration but within multiple value chains and levels within them; where e.g. products in abstraction level 1 are all the distribution channels that are utilised by users to use services from abstraction level 2 such as search, operating systems and e-commerce; and together, these provide platforms for consuming content in abstraction level 3 (Schuldenfrei, 2019). Hence, economies of scale can surface from shared R&D, marketing, sales over a larger revenue base in accordance with Francalanci (2001). This provides hard competition for companies that are focused on only one activity within e.g. abstraction level 3, which is the case for the incumbent pure player music streaming firms as they are not having the same control of a lower level platform (Skog, Wimelius & Sandberg, 2018). Figure 3 below illustrates the market shares for subscriptions in the global music streaming industry. The music streaming pure player Spotify is larger than competitors; however, it is noteworthy that the major competitors are all larger technology companies. Another notable data point is that Amazon grew its subscribers with 17 percentage points more than Spotify did during 2019 (Mulligan, 2020).

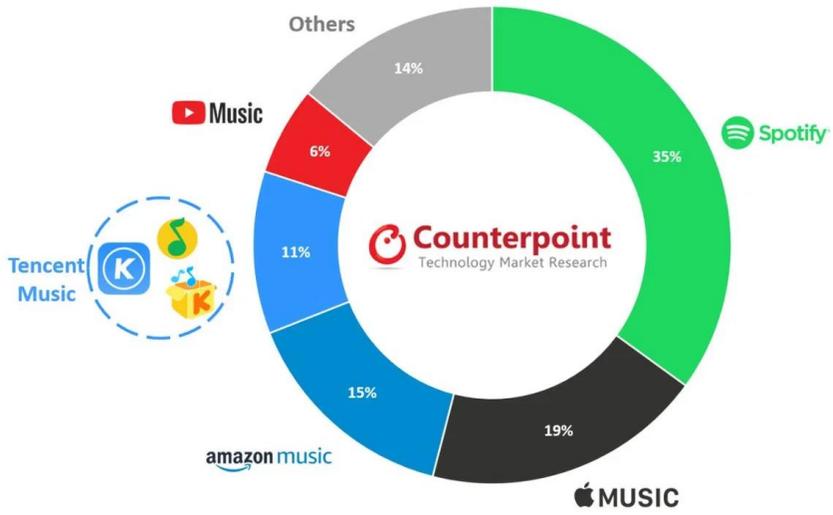


Figure 3. Global music streaming paid subscriptions by brand share in % (Kumar, 2020).

4. Results

The results chapter will present and provide an overview of the empirical information gathered in the conducted interviews, which are further described in the methodology section. The competitive advantages presented below have been divided into what the interviewees see as 1) competitive advantages previous to entry of the BTC, 2) competitive advantages of the BTC and 3) the music streaming pure player advantages in focus after the entry of BTC. Each partition consists of the key competitive advantages mentioned by the interviewees. The interviewees are kept anonymous due to confidentiality and the results are presented as aggregated, apart from individual quotes of noteworthy responses.

4.1 Competitive advantages before the entry of BTC

To understand how the entry of BTC influences the sources of competitive advantage within the music streaming industry, it is worthwhile to first understand the sources of competitive advantage before their entry. Four such competitive advantages have been identified from the empirical data: 1) freemium; 2) catalogue; 3) product & features; and 4) brand. The first three have more or less commoditized, while brand is still a key differentiating factor.

4.1.1 Freemium

Even though some of the music streaming pure players generate money through the freemium model by selling advertisements, that is only a fraction of what these services are generating from subscriptions. Some services may measure the success of its freemium model by what conversion-rate it generates (how often it converts a free user into subscriber). That requires a constant balancing between providing a sufficiently good experience for its free users whilst providing enough value-add for its premium users.

“As in many other industries, the quality of a free tier attracts users to try-out the platform; however, it is once the users start using the premium tier and starts paying for the service that the platform can make money” - interviewee 1

Many of the interviewees pointed out that the music streaming services don't own the content they are distributing; it is the labels that own the content, and hence decides who will have the rights to distribute it. Hence, the labels are in charge of deciding which companies are allowed to have a free offering and who don't. What features the labels allow freemium offering to have compared to its competitors, and vice versa, is decided in negotiations with the labels, on a case by case and country by country assessment. Many of the interviewees claimed to have observed that a freemium offering has become more and more prevalent amongst the music streaming services. They further note that the free versions that the services are offering have started to resemble each

other more and more. Hence, the freemium offerings that some of the services previously used as a competitive advantage, have increasingly become commoditized.

“Some services used to differentiate themselves by offering a great free tier. However, today, more and more of the other services are starting to have similar free offerings” - interviewee 3

One of the interviewees from academia believes the freemium model will completely disappear as a business model in the music streaming industry. He argues that as freemium is used by the streaming services to convert music listeners to become paying subscribers, the freemium model will lose its appeal once a market is starting to mature.

“Since freemium is used as a source for converting users into subscribers, the model will fade away once subscribing to a music streaming service has become the rule. Just look at the Scandinavian countries, and Sweden in particular, how many of your friends are using the freemium version?” - interviewee 22

4.1.2 Catalogue

Almost all of the interviewees agree that an exhaustive catalogue, the library of songs and albums a service offers to their customers, has today become more of a hygiene feature, a necessity, rather than a key differentiator. The services in the industry don't put much effort into broaden their catalogue. That is due to because they can no longer gain a competitive advantage from offering more popular songs, since all services already offer all of the most important songs.

“Having deals with the majors as well as the largest indies are required for operating a music streaming service today” - interviewee 14

Some of the interviewees noted that certain markets have quite different music taste than other parts of the world. That has given some of the domestic streaming services which are focused on offering a market-specific catalogue an advantage, as they as a result became the standard music streaming service in that market. However, as the companies in the space have become both more global as well as financially stronger, interviewees predominantly from emerging markets have found that the catalogues are today not only larger but also more market focused – throughout the music streaming services.

“Some services used to have superior local content, now more investments are being directed toward local content and the superiority starts to diminish” - interviewee 6

4.1.3 Product & features

With new technologies, there is a lot of testing and revising in the beginning, with a high intensity of innovation and testing in the beginning of industries. Within music streaming, lots of different features were initially tested to find out what the customers wanted. However, as the industry has

matured, the product and features ¹ offered by different actors have converged and has become more or less commoditized throughout the industry. As it is not possible to get copyrights on the products and features offered, successful new features are rapidly copied by the competing services. The interviewees agree that the copying has become much faster since the entry of the BTC – they can therefore afford to wait and see and then spend large amount of money to copy fast.

“The larger players have sufficient money to being able to swiftly copy competitors whenever they see a new feature, they think add value for the consumers” - interviewee 12

Some of the interviewee stressed that the streaming services’ user experience has converged over time and now all of them almost look the same. By downloading the mobile versions of the largest music streaming services - Deezer, YouTube Music, Amazon Music, Spotify and Apple Music – it is clear that they do look very much like each other. This is illustrated with the image below (figure 4).

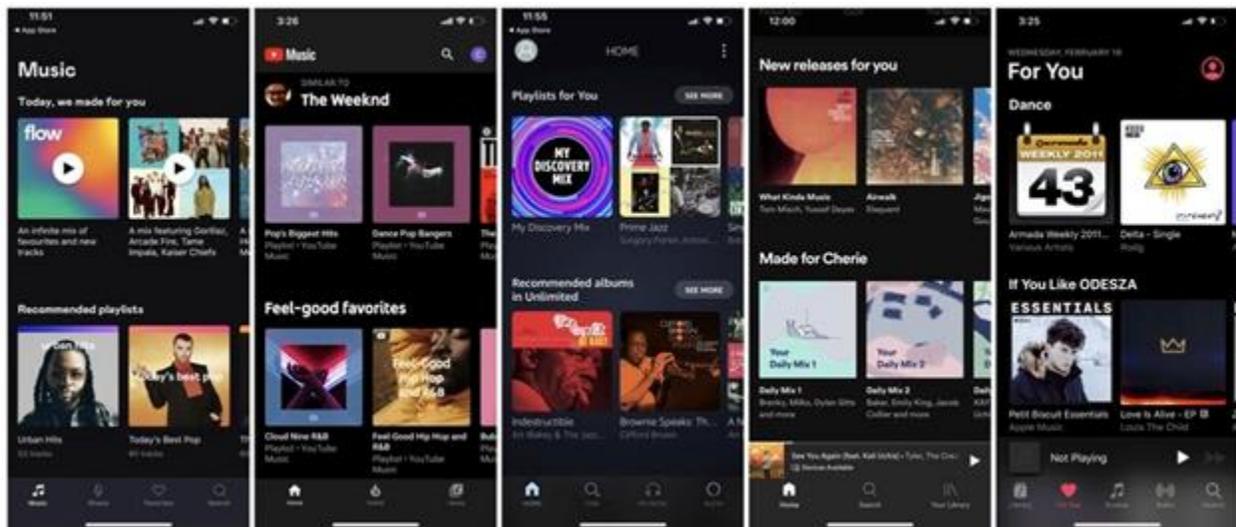


Figure 4: comparison of the mobile versions of Deezer, YouTube Music, Amazon Music, Spotify and Apple Music

4.1.4 Brand

Music streaming providers overall track various metrics related to its brand, such as: awareness, consideration, and net promoter score (NPS). It is not sufficient for people being aware of the firm’s music streaming service and brand, the important, and hard thing to do is to translate the awareness into subscribers. That is why there is a distinction between aided and unaided

1

Product and features refer to the quality and features of the music streaming service, and include user friendliness, number of relevant features, feature innovation, and quality of feature functions

awareness². Being the top-of-mind brand associated with music streaming is very important, as long as of course the NPS for it is positive. Many firms want to become the household name for music streaming, in the same way as Google has become for search.

“The brand is one of the most important success factors in the industry. We want to achieve a Kleenex status for music streaming.” - interviewee 9

Some of the interviewees say that the BTC tried to leverage their already known brand when they entered the music streaming market. However, as mentioned above, it is not only the awareness of the brand that is of importance – people might know that Amazon is selling books, but they might not know that they are also offering music streaming. Hence, interviewees claim that brand, related to music streaming, is still very present as a source for competitive advantage. The brand does also differ a lot between markets, especially argued by people working towards emerging markets. In certain countries a domestic brand can be highly competitive due to national loyalty, but also for having had the ability to set the expectations for how a music streaming service should look like due to first mover advantages.

“In Indonesia, people are expecting music streaming services to work as it does on Joox because that is what they are used to. In other emerging countries without much penetration of music streaming but with many people using YouTube (not the music streaming service), people will expect the same thing from a music streaming service because that is simply what they are used to” - interviewee 12

4.2 Competitive advantages after the entry of BTC

Since the entrance of the BTC into the music streaming industry, several interviewees claim that the key competitive advantages within the industry have changed. The perception prevalent among the interviewees is that the BTC have applied their key strengths obtained in other industries while incumbent music streaming pure players have reacted by trying to utilise their own strengths to achieve competitive advantages. Therefore, the competitive advantages after BTC entry have been divided into 1) advantages of the BTC and 2) music streaming pure players advantages in focus after BTC entry.

4.2.1 Advantages of the BTC

The competitive advantages of the BTC are often related with leveraging the other activities within the same firm. According to the interviewees, the four main advantages the BTC holds are: 1)

² Unaided awareness is percentage of people aware of brand without being assisted, e.g., "Which music streaming services do you know?". Aided awareness is percentage of people aware of brand when asked e.g., "Do you know company X?"

product and service ecosystem, 2) user base within the ecosystem, 3) financial strength and 4) network effects.

4.2.1.1 Product and service ecosystem

Many interviewees do not consider ecosystems to be achievable for pure player music streaming firms as they don't have as many products and services. Many interviewees emphasize that app usage is going towards having multiple functions within one app and that this creates convenience for the user. This is what several interviewees perceive the BTC to be doing, and by providing ecosystems to provide a one stop shop for the users, which locks them into a specific ecosystem that they enter for a purpose that is generally not to find a music streaming service. One interviewee claims that users often use products and services of ecosystems and are then funnelled within the ecosystem to their first encounter with music streaming, where the funnel might be through an already installed music app or implicitly paying for the music streaming as part of a wider e-commerce or media offering.

“YouTube is a key ecosystem player due to the Android and Google's other services creating a massive scale. Apple and Amazon have rather achieved good ecosystems through good bundling and integration of services creating a good value proposition rather than just raw scale as is more the case with Google.” - interviewee 7

The ecosystem providers are often perceived by interviewees to be focused on creating a perfect ecosystem from a holistic perspective rather than from a music streaming perspective, wanting to satisfy users' wishes regarding the complete functionality within the full ecosystem rather than providing the best possible music streaming service. Bundling of activities are at the centre of creating a combination of adjacent services, making it of interest to, instead of only providing audio books, also provide music since these are intuitively close to each other for users. According to one interviewee, ByteDance is an example of a company that has identified the adjacency between social features (TikTok) with music streaming features (Resso), as TikTok's social features enable discovery of music by short videos often having background music which leads the user straight to streaming that music in the Resso app. These synergies between adjacent services are attractive for many ecosystem players as they provide an opportunity to control both services with the funnel created reinforcing the control of the user.

“The motives for entry in music streaming by the Big Tech is ambiguous, where it might not be for the music itself but rather to capture engagement within their networks, where bundling and combinations with music provides network effects and drives engagement also for adjacent products and services on the platform.” - interviewee 3

4.2.1.2 User base within the ecosystem

Having a large previous user base is a prime competitive advantage according to the two researchers interviewed. The user base across the services of start-ups is considered a very critical factor in competing for different verticals as companies leverage their user base. This is done in different ways and, according to one interviewee, music streaming is considered to be highly adjacent to particularly video, which provides substantial leverage from having a user base within one of the two services when moving into the other one.

“The nature of the content, as well as the access YouTube provides for both sides of the network, gives them a real potential for growth within music streaming, particularly in new markets. The combination of easy access and usage and the enabling of free sharing of content gives them the opportunity to introduce new markets to streaming.” – interviewee 9

According to one interviewee, having a large user base lets companies adopt a plug and play methodology, where a service can simply be added to the ecosystem and marketed within the ecosystem towards the user. The interviewee claims that Amazon has used this approach for including music within the Amazon Prime ecosystem and are leading the users straight towards their music streaming. Due to their large user base within American e-commerce, they can then leverage that into a conversion towards music streaming.

“Even though Amazon Music Unlimited still has quite low numbers of users regarding key metrics, their Prime offering is doing all right due to the established user base. This gives them the same sort of competitive advantage as YouTube.” - interviewee 14

According to one interviewee, leveraging the user base for conversion into the music streaming space is what makes these players dangerous, since the intensity of competition provided from such players depends mainly on the current sentiment within the company. Furthermore, several interviewees think that if the BTC decides to fully commit to the music streaming industry, they have a high leverage for converting users within adjacent services into music streaming. However, some actors such as YouTube are having a hard time converting into a material paying base due to an established free perception by the users prohibiting converting free users into paying users.

“YouTube is a key player within music streaming regarding several aspects. However, they struggle to achieve a material paying user base. YouTube is so associated with free that it is hard to create an effective conversion into paying” - interviewee 19

4.2.1.3 Financial strength

The financial strength of the BTC is a competitive advantage pointed out by many interviewees. The financial strength is perceived to give the same advantage as having a large user base that can be leveraged - opportunities for high acquisition and conversion of users into music streaming. It

is claimed by interviewees that acquisition of users can be made by efforts such as raising directed marketing spend towards specific segments, copying product innovations and features of competitors, as well as buying whole competitors in mergers and acquisitions deals.

“Financial strength has not been used as a major advantage previously by the Big Tech companies, but it can easily be leveraged to create opportunities for M&A and exclusive deals for content, which might exclude other competitors from key content.” - interviewee 22

Several interviewees consider the BTC having an unmatched financial strength over other players in the music streaming industry. The companies are known to have access to large amounts of capital, the fear is that it could be utilised to get a higher share of the music streaming industry if the corporate focus shifted towards music streaming. However, according to several interviewees, the corporate focus is currently considered to be on other products and services, with some examples being Apple focusing on iPhone, Amazon focusing on e-commerce and YouTube focusing on video. Many interviewees claim that as long as the BTC focuses on other services rather than music streaming, it is improbable that large parts of the funds will be used for music streaming services. However, some of the BTC do leverage their financial strength for an extensive catalogue and exclusive music video rights, which can indicate a shift in sentiment according to some interviewees.

“More and more have similar catalogues of music on a global level and a lot of companies are investing heavily into this. However, some companies such as Apple are combining such investments with a lot of exclusive music videos and in some cases, even though not as common, with exclusive music content as well.” - interviewee 22

4.2.1.4 Network effects

Interviewees claim that an advantage of the BTC is that they can utilise their user base to create same-side network effects between users by obtaining scale. Furthermore, they can also achieve cross-side network effects by providing opportunities to reach that user base for creators. In the case of music streaming, this generally means connecting labels representing artists with the music listeners according to one interviewee.

“Amazon is not active within music streaming for the music itself but rather wishes to capture engagement in their network, where bundling and combinations with music provides network effects and drives engagement also for adjacent products and services on the Prime platform.” - interviewee 3

One interviewee mentions TikTok owner Bytedance recently having launched their music service Resso, and that it has put focus on social features and their associated network effects. He describes the network as comprising music listeners and artists, with Resso in the middle as a tool connecting

the two sides for interaction. Based on this, the users create same-side network effects between themselves, as more users in turn create more users; as well as create cross-side network effects with artists as more users drive the incentives for more artists. One academic interviewee puts the competitive advantage as:

“The music streaming pure players such as Spotify and Resso become a tool in the network between the two sides that in turn reinforces the network effects by managing and enhancing the platform for interaction. This in turn drives behaviours standard to the current impulse economy, where the music streaming pure players can enable small purchases due to an established custom among users to perform small and quick payments online.” - interviewee 22

Several interviewees highlight that social media integration overall has recently been driven by ByteDance in the music industry as they have tried to connect TikTok short videos as a way of discovering music on the new Resso music platform. It is believed that through social integration, digital service providers are trying to drive interaction on the platform through higher engagement and value add for customers from song sharing and information regarding another users' listening.

“By connecting the two services, Resso obtains the network effects and scale already established by the social network on TikTok.” - interviewee 3

According to one interviewee, firms that do not have an established social media side alongside music streaming often establish partnerships with third parties as a strategy. Music streaming pure players can then partner with social media networks that lack a music streaming service to achieve same side network effects through sharing of music and commenting material.

4.2.2 The music streaming pure players advantages in focus after BTC entry

After entry by the BTC into music streaming, the competitive advantages utilised by music streaming pure players have shifted due to the new set of capabilities utilised in the competitive landscape. According to the interviewees, there are four key competitive advantages that the music streaming pure players has been able to leverage due to this shift in market dynamics: 1) platform compatibility, 2) music focus, 3) artist focus and 4) customization.

4.2.2.1 Platform compatibility

Several interviewees point out that the BTC are fighting one another head-on by trying to lock-in their customers into their ecosystems of products and services. Interviewees commenting on partnerships says that the BTC are reluctant to let other BTC's services work well on their products, e.g., Amazon Music works smoother on the Amazon Echo smart speaker than would for example Apple Music do. The same people admit the same is somewhat true for themselves as a music streaming pure players, but not at all to the same extent. Even if the BTC do compete in the music space, the BTC values their overall ecosystem much higher. The BTC therefore sees value

in letting various firms use their distribution channels (e.g., smart speakers, phones, computers, etc.). While the BTC are considered enemies to one another, the interviewees call the music streaming pure players relation to the BTC as a frenemy relation; they are competitors but still do partnerships to leverage each other's capabilities. Therefore, one of the competitive advantages music streaming pure players have, compared to the BTC, which they also have used to get partnerships, is their ability of being ubiquitous across all platforms.

“The pure players within music streaming are like Switzerland – they have very few enemies and most countries want to be friends and co-operate with them” - interviewee 11

Some of the interviewees further noted that the music streaming pure players' compatibility advantage doesn't only come from the fact that they can partner with BTC, but it also let them partner with the rest of the larger technology players such as Facebook and Netflix. However, the interviewees working with partnerships and relations were careful to note that recent news suggests that partnerships between BTC and other large technology players are in fact becoming more common as well.

“While the music streaming pure players are not competing with Facebook, companies like YouTube are direct competitors by stealing time through chats and other social features. Therefore, Facebook doesn't want to partner with YouTube. The same is also true for partnerships with other companies operating in media and entertainment; with that being said, it seems as the larger technology platforms offering music streaming are to some extent starting to get those partnerships as well” - interviewee 17

4.2.2.2 Music focus

Many of the interviewees suggest that the fact that the pure players have a sole focus on music is a key competitive advantage compared to the BTC as it provides specialisation. While the BTC view their music streaming services as just one of many services to lure in users into their larger ecosystems, the music streaming is the bread and butter for pure play music streaming providers. Having music as the core service gives the pure player companies an obvious reason for existence which the employees can come together around. The advantages can further be divided into internal and external advantages. Included in the internal advantages are prioritization, speed, and innovation. For the external part the brand is the key advantage.

As the music streaming pure players focus on music, it gives them an advantage in internal prioritization compared to the BTC platforms. The prioritization goes beyond just financial allocation, since the BTC have sufficient money to compete financially with the music streaming pure players in music even though that is just a tiny share of their overall budget. The interviewees believe that the focus the music streaming pure players possess makes them faster in reacting to competitor's action and changes in customer preferences, since they don't have to run things

through other parts of the organization – they have less bureaucracy. Some of the interviewees also note that as music is not within the BTC platforms' core services, the best and brightest people won't be working in that division – they will be prone to move into the larger and more important parts of those companies. This makes music streaming pure players better positioned for innovation.

“Focusing exclusively on music gives an operational strength – it makes us faster to react to new market preferences and gives the opportunity to go deeper into what we care about and can thereby build something others don't” - interviewee 11

As mentioned under 4.1.4 Brand, achieving the “Kleenex status” for music streaming would be highly valuable. The music streaming pure players have an advantage that they are associated solely with music streaming, which is not true for the BTC platforms. The BTC platforms will always be associated with their core services – iPhones, e-commerce, and search for Apple, Amazon, and Google respectively. That further makes it easier to acquire music-savvy talent for the music streaming pure players.

“Association to music is important – no one associate Apple with music” - interviewee 9

4.2.2.3 Artist focus

One interviewee describes a music streaming platform as a network, with the artist side comprising one side while the users comprise the other. These two sides can then create cross-side network effects between each other. Several interviewees claim that this has led incumbent music streaming pure players to put more efforts into the artist side of the network as competition has turned fiercer, and a way that this is surfacing is through direct donations to the artist.

“Music streaming is becoming an increasingly two-sided network business model, instead of a clear previous focus on the user side. Music streaming companies can then become a tool between both sides of the network.” - interviewee 22

According to an independent professor, the focus on direct interaction with the artists comes from a higher priority of the artist side of the network. This also includes fair compensation to artists and creators, which has been used as a way of differentiating against the competition by some players. However, this distribution is generally outside of the control of the music streaming pure players and rather steered by the labels.

“Focusing on compensating artists fairly and has enhanced the perception of music streaming and reduced traction of arguments against it. It is generally less cash generative but more fair towards artists. However, this is a complex and sensitive topic as labels are in control of the distribution between artists. This has led to some disruption, where e.g. Tencent started investing in labels, which might drive further changes to the structure of the industry.”

4.2.2.4 Customization

Customization of music consumption is pointed out by interviewees as a key opportunity for differentiation among the pure player music streaming service providers. The customization needs to adapt the proposals and discovery of new music to the listener, which gives an opportunity to increase the value obtained by the user from recommendations which in turn is aimed at increasing engagement.

“It is important to understand the value of individual parts of the value offering. E.g. Netflix can leverage their massive amounts of data to create great recommendations. This is in turn an important part of music recommendations as well.” - interviewee 12

However, one interviewee highlights that the amount of data is not all that matters, the quality of data matters as well. This essentially means that engagement among users raises the quality of data and music specific data is generally considered more valuable than adjacent or overarching data when trying to adapt the customization of the music streaming platform. The customization also drives the user experience, with more content users creating a higher brand love.

“Pandora has managed to create high user value by good tailored playlists and customized opportunities for music consumption. However, that competitive advantage has not been correctly combined with the rest of the offering.” - interviewee 7

5. Discussion

The discussion chapter will discuss the findings presented in Section 4 and connect these to the theoretical frameworks described in Section 3. The discussion is separated into two sections: 1) competitive advantages before the entry of BTC and 2) competitive advantages after the entry of BTC.

5.1 Competitive advantages before the entry of BTC

This section discusses in what way the competitive advantages before the entry of BTC has been affected by it. As presented in the result section: freemium, catalogue, and product & features has more or less lost its competitive advantage; while brand is still a key competitive advantage.

5.1.1 Freemium

To gain advantage over other firms, a company needs resources other firms don't have – it must have heterogeneous resources (Peteraf, 1993). As seen in the result section, certain firms have experienced that their previous competitive advantage stemming from freemium has disappeared. As other industry players adapted it and started offering a freemium version like the ones present on the market, the competitive advantage was lost. This can be explained by Peteraf (1993) as freemium as a resource neither being fixed nor quasi fixed. At the time when BTC entered the market the freemium model had been somewhat accepted in the industry, and many players were offering a free tier. Hence, it is not the entry of the BTC into the music streaming industry that is the driver of making freemium less of a competitive advantage, it is rather the maturity of freemium within the industry. The maturity coincided with the entry of BTC which made it look like they were the key driver.

As indicated by interviewees, some measure the success of their freemium strategy based on their ability to convert users to subscribers. That is because companies are dependent on the revenues from subscribers which are significantly higher than what they receive from advertisements on their freemium versions. Before BTC entered the music streaming market, the firms with a free offering could therefore tell how well their freemium worked compared to its competitors'. However, for some of BTC, the aim with their music streaming service are not to generate as much money as possible but to enlarge and enhance their overall ecosystem. Hence, some of them have used the freemium strategy to lure in as many customers as possible to their ecosystem rather than trying to convert the free-users into paying subscribers – further making freemium less of a competitive advantage and more of a commodity (Kumar, 2014; Moore, 1996; Skog, Wimelius & Sandberg, 2018).

5.1.2 Catalogue

As seen in the results, the library of songs and albums on a global level has become a staple, a necessity for doing business, rather than being a competitive advantage within the music streaming industry. This decrease in competitive advantage from catalogue can be explained by Peteraf (1993); it is neither fixed nor quasi-fixed which is important to gain a competitive advantage over other firms. However, it is still argued by some of the interviewees that a catalogue focused on domestic music, less known on the global level, can give a competitive advantage in certain emerging markets. The focused catalogue is no more fixed than the catalogue on the global level and is hence not a source of sustainable competitive advantage.

The role the entry of BTC has played in making the catalogue less of a competitive advantage is minimal. Since the catalogue lacks any characteristics of a sustainable source for competitive advantage, it would have lost its benefits as the catalogue had matured whether BTC had entered the market or not (Peteraf, 1993; Madhani, 2010). The market niche catalogue is lagging the broader global catalogue in maturity and will soon neither be different between music streaming services.

5.1.3 Product & features

Interviewees from one company say that their firm previously could innovate and add new features to their firm's service in order to gain competitive advantage over other services. This resembles what Teece (2007) and Wu (2010) talks about in the dynamic-capability view, where organizational capabilities such as innovativeness give a competitive advantage. However, many of the interviewees say that the music streaming services today are offering more or less the same product and features. Due to no availability for copyrights, the product and features don't have imperfect imitability which results in that they are not providing a sustainable competitive advantage (Peteraf, 1993).

Even if new products and features are not susceptible to imperfect imitability, it is not easy to copy them. However, with the entry of BTC, the competitors in the music streaming industry became much financially stronger and the level of talent more sophisticated, the copying has become much faster. This has resulted in less differences between the services, and the previous advantage stemming from offering superior product and features have been reduced.

5.1.4 Brand

Most of the interviewees said that they track their brand metrics closely and have a high prioritization of them. The brand is important to get customers to use a specific music streaming service over another – it gives a competitive advantage. A brand has imperfect imitability, imperfect mobility, and imperfect substitutable which indicates a source of competitive advantage (Peteraf, 1993; Madhani, 2010).

When the BTC entered the music streaming industry, they tried to leverage their already known brand. However, according to some of the interviewees, the BTC companies will never be associated with music streaming and will therefore never become the industry standard, as the pure players might (Liebowitz & Margolis, 1994). Hence, brand as a source for competitive advantage is still very present. That is also the reason music streaming pure players makes a distinction between aided and unaided awareness – to know which brand is top-of-mind associated with music streaming.

5.2 Competitive advantages after the entry of BTC

This section discusses how the sources of competitive advantages have been influenced by the entry of the BTC. It has been divided in the same way as in the results section: 1) Advantages of the BTC and 2) the music streaming pure players advantages in focus after BTC entry.

5.2.1 Advantages of the BTC

This section discusses how the BTC have been able to leverage their resources and capabilities within their firm and used them as competitive advantages in the industry. The competitive advantages discussed are: 1) product and service ecosystem, 2) user base within the ecosystem, 3) financial strength and 4) network effects.

5.2.1.1 Product and service ecosystem

The primary reason for the shift in the advantages utilised within the competitive landscape of the music streaming industry is arguably the inclusion of music streaming into the characteristic ecosystem platforms characteristic for the BTC. They have managed to add music streaming to their large ecosystems with other digital products and services which according to Skog, Wimelius & Sandberg (2018) provides significant opportunities for both economies of scale and economies of scope.

The product and service ecosystems created by the BTC have provided them with a clear structure for horizontal integration and bundling of services. Especially forward integration has been in focus, where services that are located closer to the end-customer are integrated into the business (Schuldenfrei, 2019). This is arguably a key success factor amongst the BTC that is also highlighted by several interviewees, where the e.g. phones are utilised to provide an operating system, which is in turn utilised to provide a music streaming service. Going from providing a music streaming service to providing an operating system for a phone requires developing know-how within operating systems, but arguably also requires know-how about phones as well. Hence, backward integration is considered considerably more complex in this industry than forward integration, which favours the BTC in services such as music streaming. It also means that the relatively smaller pure player music streaming companies have a hard time creating the same sort of ecosystems due to a complexity of the resources held by large ecosystem companies. Customer

lock-in can be created by combining complementary products among other things (Eurich & Burtscher, 2014), this is arguably the case of the forward integration into ecosystems, where certain phones have pre-installed operating systems, that in turn have pre-installed music streaming apps, search apps or video streaming apps; making it considerably harder for users to switch between different music streaming providers, thereby incurring them a switching cost in accordance with the ones described in Eurich & Burtscher (2014).

A long-time of acquiring different resources and capabilities within different fields, and the subsequent variety in combinations of know-how regarding e.g. phones, operating systems and music streaming (or smart speakers, e-commerce and video streaming) arguably creates complexity in resources, ambiguous causality between combinations, as well as barriers to copy. According to Barney (1991), this is the sort of resources and capabilities that creates sustainable competitive advantages for companies that hold them. This in turn favours the BTC and puts small pure player music streaming providers at a disadvantage. The rise of ecosystems is arguably of particular importance for the discovery of new music, which in turn is currently a hot theme within the music streaming industry, since it creates opportunities to maintain heterogeneity of resources by introducing new combinations. This in turn is an important part of maintaining competitive advantages arising from unique resources (Peteraf, 1993) In the music streaming industry, one way that this is manifested by is connecting viewers of short videos and clips on social media with the background music played in individual movies, providing instant connection of a non-music experience with the music associated with that experience for the individual.

5.2.1.2 User base within the ecosystem

The combination of services through bundling into ecosystems has arguably provided opportunities to acquire a larger user base across products including music streaming. The size of the user base in turn drives the brand awareness, which in turn drives the size of the user base. Hence, the size of the user base essentially drives further size in the user base. This has arguably been a major driver for the ecosystem approach within music streaming and software overall. According to Van den Berk et. al. (2010), new functionality is constantly required by users which has driven the use of a platform or ecosystem for software. In recent years, the combination of economies of scale, increased market share and other advantages (Francalanci, 2001; Schuldenfrei, 2019; Vassoughi, 2012), and the central owner of an ecosystem platform approach suggested by van den Berk (2010), has arguably created a common understanding that the combination of acquiring dominant scale and presenting continuously new functionality drives a massive user base, which in turn drives itself.

Controlling one product with a large user base provides opportunities to lead those users into new products. Eurich & Burtscher (2014) claim that lock-in effects can be created by e.g. brand loyalty and a perceived tediousness of learning a new product. Hence, providers of music streaming services can utilise their previous product infrastructure to lower the time spent learning the new

product for the customer, thereby providing a relatively easier product for the user. Hence, the full user base within the ecosystem can be steered quite effectively around in the ecosystem depending on user preferences and functionality needs.

5.2.1.3 Financial strength

Financial strength arguably provides an opportunity to create ex post limits to competition in accordance with Peteraf (1993) and Madhani (2010), by firms having the opportunity to bleed out competitors and dependency of profitability based on which firms own the product.

Opportunities to bleed out competitors can be obtained by simply reallocating massive resources towards marketing in order to acquire users to the specific platform or simply realising short-term losses if the space is attractive enough to justify it. Furthermore, synergies between products and services enable sustaining of heterogeneous resource mix, which is a requirement for competitive advantage according to Peteraf (1993), since the same products are not profitable for other companies. In the music streaming industry, this can be done by owning the operating platform and claiming a share of revenues from revenues to the app. Players that control the operating system can thereby make the same products less profitable for competitors since the own app effectively doesn't have to pay a share of the revenue for sales in the app.

Since the products are only profitable depending on the holder of the product and the related resources and capabilities, it indicates that the resources cannot be moved freely between firms. Hence, according to Peteraf (1993), there is imperfect mobility of the resources and capabilities. Considering that most of the BTC arguably hold a very unique set of resources, the VRIO framework in figure 2 in the theoretical framework by Johansson and Newman (2009) indicates that the financial strength in this case might provide competitive advantages itself when combined with an ecosystem. However, for these competitive advantages to create above normal returns in accordance with Peteraf (1993), it needs to fulfil the condition of ex ante limits to competition, meaning that several equally competent firms cannot have identified the opportunities, which is arguably not the case within the music streaming industry considering all BTC are essentially pursuing the same resource superiority from financial strength.

Additionally, financial strength clearly provides good opportunities for M&A, regardless of the success of individual deals, providing both opportunities and risks with subsequent vertical or horizontal integration. For instance, according to Francalanci (2001), horizontal integration through M&A provides opportunities for economies of scale and increased differentiation. However, rigidity due to too large companies and antitrust laws related to the current size of the acquiring company might provide substantial risks or fully hinder these sorts of deals; especially for the BTC observed in the report.

5.2.1.4 Network effects

The increasing social features of ecosystems comprising music streaming has driven same side interaction between users on the platform. Furthermore, an increasing amount of interaction has enabled cross side interactions with artists as well. Both of these are examples of features that are arguably enabled by the ecosystem approach described by van Der Berk (2010). The BTC often have established social features on their platforms, capabilities from previous implementation therefore yields advantages also within music as network effects are increasingly higher valued (Parker & Van Alstyne, 2005).

These network effects, like many other of the strengths held by the BTC, provide opportunities for using social features of the products or services to raise the switching costs, which are considered customer lock in effects (Parker & Van Alstyne, 2005; Farrell & Klemperer, 2006). Hence, as the importance of social features within music streaming continues to increase, the lock-in effects and subsequent opportunities for recurring revenues and cross-selling claimed by Eurich & Burtscher (2014) will most likely increasingly favour the BTC in the competition.

5.2.2 The music streaming pure players advantages in focus after the entry of BTC

The entry of the BTC into the music streaming industry has forced the music streaming pure players to focus on certain competitive advantages. The competitive advantages the pure players have focused on are: 1) platform compatibility, 2) music focus, 3) artist focus and 4) customization.

5.2.2.1 Platform compatibility

The entry of BTC has brought a whole different type of competitive nature to the industry according to the interviewees in the study. These large companies are competing with one another all over the world and are each other's largest competitors. One key success factor when bundling services, as they have done with music, is the increased convenience for the customer to have a relationship with only one company (Bennett & Robson, 2001). This might bring convenience in certain aspects of the music streaming experience; however, it has also brought negative consequences with it. That is due to the competitiveness between BTC and their willingness to lock out each other as much as possible, to being able to lock-in consumers in their ecosystem. It has further led other larger technology players (without a music streaming service), frightened of BTC's ecosystem, to not partner with them nor let them bundle their services.

The isolation tactics used by BTC against each other have led to disadvantages regarding setting up partnerships with other large firms. This has provided music streaming pure players, with an advantage as they can be available across platforms. Not only have they been able to have their services work better on BTC platforms than other BTC, but they have also been able to bundle with other services, e.g., telco's as a strategic response to BTC bundling of services (Rickard, 2008).

As Jurevicius (2013) and Vassoughi (2012) discuss, there are disadvantages with horizontal integration which has been apparent in BTC entry into the music streaming industry. They have been faced with increased scrutiny and been less trustworthy from competitors in all different industries. However, as seen in the results, this seems to become less of a problem as BTC have started to make partnerships with other large technology firms. Hence, as platform compatibility has been seen as a sustainable competitive advantage for music streaming pure players due to the imperfect mobility of BTC, it is unclear whether or not it actually still is sustainable (Madhani, 2010).

5.2.2.2 Music focus

Before the entry of BTC in the music streaming industry, all the companies were music streaming pure players. As Wu (2010) and Teece (2007) emphasize with the dynamic-capability view, organizational capabilities can lead to sustainable competitive advantage. Being solely focused on music, as the music streaming pure players are compared to the BTC, they can be nimbler and faster in their reactions – less bureaucracy. This is further argued by some of the interviewees at music streaming pure players that emphasize the competitive advantage for music streaming pure players over BTC stemming from a devotion to music. Horizontal integrations create disadvantages like antitrust laws and increased scrutiny, which the BTC has become more susceptible against (Jurevicius, 2013; Vassoughi, 2012).

The music focus further has ex post limits due to non-substitutable nor non-imitability for BTC. It has to do with the external advantage stemming from the focus, which is the positive effects it has to the brand. BTC can't substitute a pure player's music associated brand for their non-music associated brand (even if their brand is well-recognized), nor can they simply copy it. BTC does not have the same potential of reaching the "Kleenex status" or becoming the industry standard as the music streaming pure players (Liebowitz & Margolis, 1994).

5.2.2.3 Artists focus

Pure player music streaming providers have extended the view of the customer of the platform to include artists and creators of content as well. Van den Berk (2010) describes the ecosystem development as often having third party development on the platform to create functionality for the user, which arguably sounds very similar to artists creating and publishing content on music streaming platforms. This opportunity for artists to publish directly on streaming platforms also enables the music streaming providers to avoid the record labels acting as middlemen, which enables vertical integration in the value (Schuldenfrei, 2019). Hence, the focus on artists can enable capturing more of the value creation for the music streaming providers.

Providing tools for artists such as, data analytics of fanbase, interaction with fans and tools for publishing music provides additional value for artists. Such value adding activities create barriers to changing platforms, which are creating customer lock-in effects in the form of switching costs

as mentioned by Farrell and Klemperer (2006). Furthermore, these methods can help to capture artists early on in their career, which would be very valuable in combination with customer lock-ins as it might raise the probability of the artist staying on the platform in later stages of their career, when they tend to generate more streams.

5.2.2.4 Customization

Customization of music consumption and recommendations based on the user's consumption are hot topics within music, primarily because they enable a better user experience and facilitate discovery of new content. Creating playlists and obtaining recommendations based on the movements of the user creates significant amounts of data on the platform, which essentially represents customer lock-in effects in the form of data-trap described by Amarsy (2015).

The obtained data from the users' consumption patterns is unique. This makes it very hard to imitate, which indicates ex post limits to competition (Peteraf, 1993). Hence, ex post limits to competition can be created if music streaming providers can acquire the user and engage them with the content on the platform and collect the subsequent data. This data cannot move over to other providers, which makes the data a resource that has imperfect mobility. Hence, considering the data is arguably unique by nature, the streaming providers that can pull off the data-trap lock-in can obtain competitive advantages in accordance with Johansson and Newman (2009). If pure play streaming providers were alone to see this at the inception of the advantage, it might furthermore provide sustainable competitive advantage.

6. Conclusions

In this report competitive advantages within the music streaming industry have been investigated, with a focus on the consequences of the BTC entering the market. The study has discussed the different competitive advantages prevalent before BTC entry, as well as the upcoming competitive advantages that have developed after BTC entry.

The research question of the study has been: “How does the market entry from the BTC influence the sources of competitive advantage in the music streaming industry?”

The findings of the study are divided into three key parts: 1) Previous competitive advantages within music streaming, 2) competitive advantages introduced by the BTC, and 3) the music streaming pure players advantages in focus after the entry of BTC; where part two and three comprises the resulting competitive advantages that have surfaced as a result of BTC entry.

The previous competitive advantages within music streaming are freemium, catalogue, product & features and brand. Before BTC entry, the music streaming industry was mainly occupied by relatively small pure play music streaming providers. These players mainly followed a pattern regarding strategies of capturing the market, where the most prevalent strategies included these competitive advantages.

The competitive advantages introduced by BTC are product and service ecosystem, user base within the ecosystem, financial strength and network effects. These are typical competitive advantages utilised by the BTC as they essentially originate from their core business model. Including one more service in the ecosystem platform provided is generally considered quite easy if the service included is considered adjacent to the previous products and services provided on the platform. Music streaming as a software-based service is therefore quite fitting for the inclusion on such platforms.

The music streaming pure players advantages in focus after the entry of BTC are platform compatibility, music focus, artist focus and customization. As BTC entered the market, incumbent pure play streaming providers have gone towards another way than trying to compete with the BTC within their own strengths. Therefore, the identification of competitive advantages that fit with pure player streaming providers’ business model has been critical.

Overall, the study finds that the entry of BTC seems to have shifted the competitive advantages from utilising mere resources such as licensed catalogue and product interface, towards capabilities such as ecosystem bundling and focus of the firm such as focusing on relationships with content creators.

In summary, this study adds to the existing research on competitive advantages prevalent within the music streaming industry by 1) contrasting existing theories on competitive advantages and applying them to the music industry, 2) identifying the core competitive advantages prevalent and

utilised within the industry to enable analysis of which firms hold which ones of the competitive advantages, and 3) discussing what theoretical conditions and characteristics are fulfilled by each of the competitive advantages to provide an understanding of the sustainability of the competitive advantages themselves.

7. Further research

This study is based on a small sample of interviews from a small number of perspectives, providing an interesting but not necessarily exhaustive view of the topic. Hence, the authors of this study recommend that further research should aim at including a broader set of perspectives by broadening the set of interviewees, as well as dive deeper into the actual significance of individual competitive advantages.

Furthermore, case study, and/or specific research, within the BTC and their perceived competitive advantages would be interesting to provide further attention to the differences in perception due to different perspectives.

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8. Appendix

8.1 Interview questionnaire

Business model

- What are the current competitive advantages/key success factors in the music streaming industry?
 - How have they evolved over time?
 - How do you see them evolving going forward?
- How does the increased competition in the music streaming industry affect horizontal integration and bundling of services?
- What types of horizontal integration/bundling have been used? (How effective has it been?)
 - What types of horizontal integration/bundling do you think will be used going forward?
 - What integration/bundling do you think will revolutionize the industry?
- How does ecosystems as a strategy of horizontal integration apply to the music streaming industry?
 - Will controlling an ecosystem be inevitable to survive in the music streaming industry?
 - Can music streaming pure players, without the same ecosystems as Big Tech, be competitive? (elaborate why/why not)
- What is your view on vertical integration in the music streaming industry?
 - What types of companies are best positioned? (e.g., labels, DSPs)
- How do you see the industry changing the coming years?

Metrics & insights

- What types of metrics/parameters are the most important to follow for analysing the competitive landscape? Why? [NB multiple ALT possible]
 - ALT Quantitative (e.g. User base (MAU, MAU growth), Financial (investments, revenue, revenue growth, profitability), Brand funnel (awareness, consideration, test, use, promoter), Brand perception & Social (e.g. NPS, mentions on certain platforms) etc.)
 - 5 Specific key parameters?
 - Rank 1-5
 - If hard to obtain: Viable proxies?
 - ALT Qualitative (e.g. Strategic actions/movements (market, product launches/bundles/offerings, M&A); Partnerships (e.g. telco, other); Local content

(e.g. quality of catalogue: differentiator/Sufficient/Weak) (EX: Resso market launch, Apple launches competitive free offering)

- 5 Specific key parameters?
- Rank 1-5
- If hard to obtain: Viable proxies?