

# “Warner EMI Music. Strategic Development for the First Decade of the New Millennium”

AUTHORS	Demetris Vrontis
ARTICLE INFO	Demetris Vrontis (2006). Warner EMI Music. Strategic Development for the First Decade of the New Millennium. <i>Innovative Marketing</i> , 2(1)
RELEASED ON	Friday, 10 March 2006
JOURNAL	"Innovative Marketing "
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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## Warner EMI Music. Strategic Development for the First Decade of the New Millennium

Demetris Vrontis

### Abstract

This case has been compiled to put forward the author's suggestions for future strategic development open to Warner EMI Music as they develop during the 1<sup>st</sup> Decade of the 21<sup>st</sup> Century.

The case is divided into four main sections. Section one is concerned with an environmental scanning including an analysis of Porters' Value Chain and Five Forces models. This section identifies the key strategic issues for the new company and industry and provides an overview of their internal strengths and weaknesses and external opportunities and threats. Section two provides meaningful recommendations, strategic directions and methods to Warner EMI Music for the key strategies to be followed in the first decade of the new millennium. This is undertaken by utilising a number of respected strategic models including the Ansoff's Matrix, Johnson and Scholes' directions for strategic development and development strategies, and Porters' three generic strategies. Section three deals with the cultural organisational issues that have risen by the formation of the new company and section four examines whether the proposed strategy is feasible, suitable and acceptable to be used by Warner EMI Music.

**Key words:** EMI, Time Warner, Situation Analysis, Strategy, Culture.

### Analysing the Environment and Strategic Models for Warner EMI Music

The music industry is entering a period of fundamental transition. The key drivers include the tremendous opportunities afforded by the Internet and developments in new media, the increasing globalisation of the music industry, as well as constantly evolving consumer tastes and preferences ([www.timewarner.com](http://www.timewarner.com)).

Industry forecasts indicate that nearly 10% of world-wide music sales will be acquired through the Internet by 2004 (The Guardian, 24.1.2000: 5). New media offers music companies the opportunity to introduce targeted marketing initiatives, supply music to new and existing consumers in innovative ways, communicate more effectively and streamline supply chains. The introduction of new media formats and distribution channels continually provides the industry with new opportunities for creative products.

According to Eric Nicoli, Chairman of EMI Group plc and Co-Chairman of Warner EMI Music, "the timing of this agreement could not be better as our industry embraces the digital revolution. Opportunities presented by the Internet and other new media, and it will allow us to deliver all of our main strategic objectives".

#### *Warner EMI Music. An Application of Porter's Value Chain and Five Forces*

Porter's value chain identifies strategically relevant activities that create value and cost in a specific business. In terms of the Value Chain, Warner EMI Music should not have much to change. This is true as both companies (Time Warner and EMI) shared prior to the merger similar behaviour. In terms of primary activities, the operational system of Warner EMI Music should be aimed to compete on costs. The company must reduce manufacturing costs as a result of economies of scale. Dealing with advertising, Warner EMI Music should maintain active in using the Internet as its main promotional tool. With regard to support activities and specifically firm infrastructure, the company should cut down corporate overhead and seek to simplify information system to reduce costs of the accounting department. Further, personnel should be carefully selected by the human resource management and trained to keep up with technological changes and advances in the market place. It is also highly recommended that the Warner EMI Group should

manage the linkages of different departments and activities in the value chain. This is important as it can reassure consistency, effectiveness and pragmatic organisational execution. It is possible to present the above in a graphical form. This is illustrated in Figure 1 that follows.

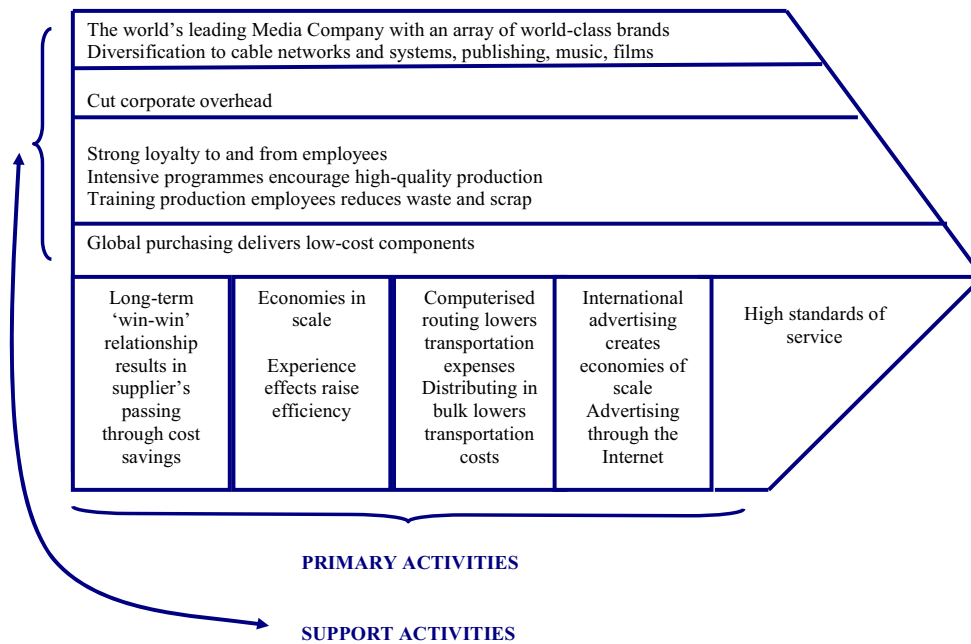


Fig. 1. Value Added Chain Analysis for Warner EMI Music

The next strategic model to analyse is Porter's Five Forces (see Figure 2). Michael Porter's five factor map illustrates what potential threats can impact when a company is trying to segment the market and identify competitive strategies. This is based on the understanding of the ways in which the competitive environment influences strategy (Vrontis *et al.*, 2000).

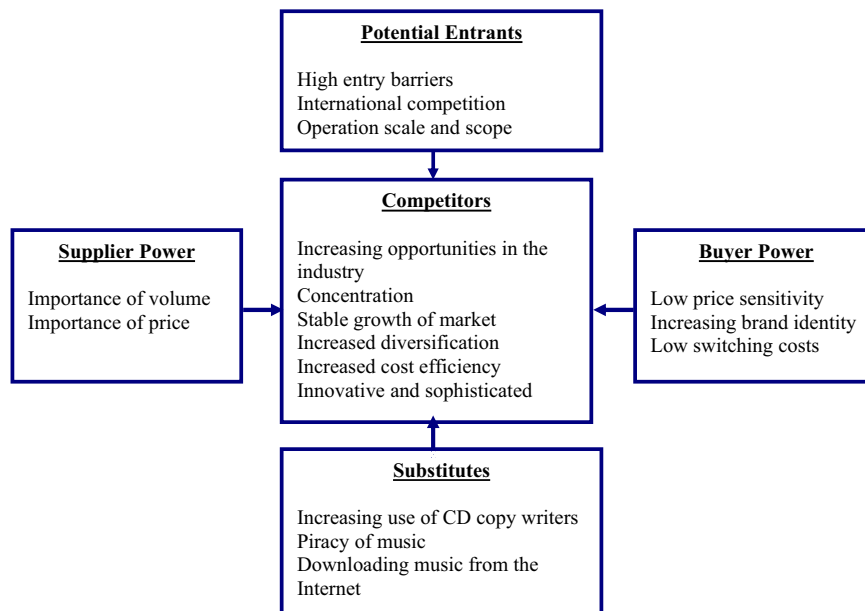


Fig. 2. The 5 Forces (the music industry)

Dealing with the industry in which Warner EMI Music competes, it can be argued that industrial competition is drastically increasing. Competitors are becoming bigger and increasingly sophisticated and innovative. As a result of the nature of the industry, competition arrives from an international perspective. Moreover, the entry barriers of the industry are extremely high as they are monitored by the major players. Suppliers' importance is primarily placed on price and volume, while substitutes mainly emerged as a result of CD copy writers and Internet. Dealing with buyer power, there is low price sensitivity, however, companies should remain marketing orientated, as switching cost is low. As customers have low switching cost, the only way to retain them is by keeping them satisfied and offering them what they want. Therefore, Warner EMI Music should capitalise towards customer satisfaction. To achieve this, the new company should invest more in market research and develop products and services that would satisfy consumer requirements profitably.

***Organisational Strengths and Weaknesses (Warner EMI Music) and Industrial Opportunities and Treats. SWOT***

Figure 3 identifies and provides an overview of the internal organisational strengths and weaknesses (Warner EMI Music) and external industrial opportunities and threads at the year 2000.

<b>INTERNAL ENVIRONMENT for Warner EMI Music</b>	
<p><b>Warner EMI Music Strengths</b></p> <ul style="list-style-type: none"> <li>• Huge company</li> <li>• Capable to invest for growth</li> <li>• One of the world's leading music entertainment companies</li> <li>• Cross selling and risk minimisation through diversification</li> <li>• Acquires a number of successful world wide leading brands</li> <li>• Successful in building franchises</li> <li>• Competitive in an international scale</li> <li>• Technologically advanced</li> <li>• Marketing orientated and entrepreneurial</li> <li>• Committed and investing to its employees</li> <li>• Strong both in US and Europe</li> <li>• Considerable potential strength on the Internet</li> <li>• Very active in using the Internet as a means of promotion</li> <li>• It has a substantial network</li> <li>• Developed key relationships with new media companies</li> <li>• Owns stakes in rapidly expanding music companies</li> </ul>	<p><b>Warner EMI Music Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Size may create problems with communicating with customers and being customer led</li> <li>• Potentiality to reduce overheads and economies of scale</li> <li>• May loose market orientation</li> <li>• Certain brands could be further explored</li> </ul>
<b>EXTERNAL ENVIRONMENT</b>	
<p><b>Industrial Opportunities</b></p> <ul style="list-style-type: none"> <li>• The music industry is entering a period of fundamental transition</li> <li>• The increasing globalisation of the music industry</li> <li>• Constantly evolving consumer tastes and preferences</li> <li>• Industry embraces the digital revolution</li> <li>• Internet and other new media</li> <li>• The introduction of new media formats and distribution channels continually provides the industry with new opportunities for creative products</li> </ul>	<p><b>Industrial Threats</b></p> <ul style="list-style-type: none"> <li>• Increasing competition</li> <li>• Competitors are becoming stronger and bigger</li> <li>• Competitors are more creative and innovative</li> <li>• Low customer switching costs</li> <li>• Increasing use of copy writers</li> <li>• Piracy of music, including on the Internet</li> <li>• Downloading music from the Internet</li> </ul>

Fig. 3. The S.W.O.T. Analysis for Warner EMI Music

### Key Strategies to be Followed in the Next Decade

The first section of this case (section one) identified the key strategic issues for Warner EMI Music. This section (section two) seeks to recommend the key strategies to be followed by the newly formed company.

#### *The Ansoff Matrix*

Hussey (1999) presents the way that Warner EMI Music can fill every box in the Ansoff's (1957) expansion matrix (see Figure 4). The discussion that follows highlights the key strategic points to be implemented by the new company during the 1<sup>st</sup> Decade of the 21<sup>st</sup> Century.

		Product	
		Existing	New
Market	Existing	<div>1</div> <p><b>Market Penetration</b></p> <p><i>*Years 2001-2003</i></p>	<div>3</div> <p><b>New Product Development</b></p> <p><i>*Years 2003-2007</i></p>
	New	<div>2</div> <p><b>Market Development</b></p> <p><i>*Years 2002-2005</i></p>	<div>4</div> <p><b>Market Diversification</b></p> <p><i>*Years 2006-2010</i></p>

Fig. 4. The Ansoff Matrix (Strategic Overview for the Years 2000-2010)

1 → Years 2000-2003 Market Penetration

It is recommended that within the years 2000 to 2003 Warner EMI Music should use Market Penetration. Here the company should try to increase purchasing and usage from existing customers, gain customers from competitors and convert non-users into users. This will help the company increase market share and sales volume with existing products in existing markets. It is advised that this can be achieved by an effective use of the A.I.D.A. model (Awareness, Interest, Desire, Action), where a company seeks to increase its present awareness levels so as to induce interest, desire and action on behalf of the customers.

2 → Years 2002-2005 Market Development

At this period (years 2002 to 2005) Warner EMI Music should develop its strategic and business practices in new markets (market development). This is obvious, as the merger has pro-

vided an easier means of entering/exporting existing products in new geographical areas. Consequently, within this period, Warner EMI Music should expand its selling power and sell existing products in new countries (countries which are not currently competing) around the world.

### 3 —————> Years 2003-2007 New Product Development

In the year 2003, Warner EMI Music should start the development of new products. This is in order to maintain marketing orientation and provide to consumers what they want. This can be achieved either through product modification via new features or by developing completely new products. Generally speaking, it is recommended that in this period the company should develop new products and sell them in existing markets.

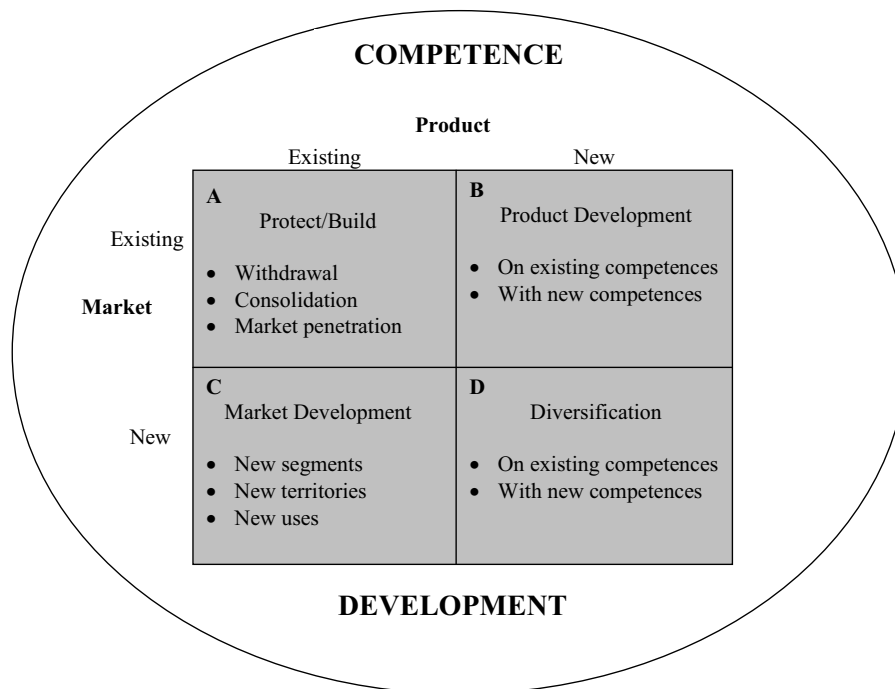
### 4 —————> Years 2006-2010 Market Diversification

Later, within the year span 2006 to 2010, Warner EMI Music should impose market diversification. This is advised as the company can cost effectively create marketing orientated products and enter markets that did not previously compete or had access to. This can be achieved by a further merger, joint venture or acquisition.

#### **Directions for Strategic Development**

The next strategy to be utilised is Johnson and Scholes' Directions for Strategic Development. It aims to summarise the strategic direction of Warner EMI Music for the period of 2000 to 2010.

According to Johnson *et al.* (1999), Figure 5 outlines the broad types of development direction in terms of markets, products and competences. These range from strategies concerned with protecting and building an organisation's position with its existing products and competences, through to major diversifications requiring development and change of both products and competences to enter or create new market opportunities.



Source: Johnson *et al.* (1999: 308).

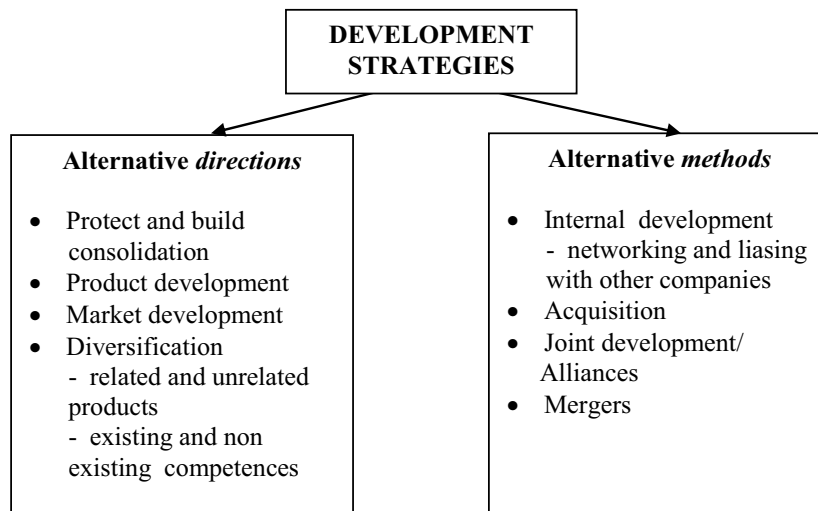
Fig. 5. Directions for Strategy Development

Box A in Figure 5 represents development options which are concerned with protecting or building on the organisation's current position. These are options built around both the current products and competences of the organisation and how they can be stretched to improve the competitive position of the organisation in its current markets. Within this category we have a number of sub-categories namely: withdrawal, consolidation and market penetration. In relation to this, Warner EMI Music in the beginning of the 21<sup>st</sup> century should use consolidation. The company should try to protect and strengthened its organisational position in their current markets though their current products. It should continue innovating in terms of employing artists that would increase the value of money for the organisation's current products. It should also place its attention to the extent to which the organisation's resources and competences continue to fit the market need or how it should adapt and develop its practices to maintain the competitive position and goodwill of the organisation.

Moreover, in terms of product development (box B), market development (box c) and diversification (box D) with related products and existing competences, Warner EMI Music should invest heavily in a number of other companies and employ new artists. This should be undertaken in order to maintain or increase their existing value and market share. It will enhance its effort to sell existing products in new markets and develop new products to be sold in both existing and new markets. The company should be innovative by exploiting and creating new products and market opportunities. It should be acknowledged as a respected and value offering company while at the same time take advantage of opportunities to spread in new geographical markets. This should strengthen and prepare the base for further expansion plans and desired diversification to unrelated products and new competences after the year 2005.

### ***Development Strategies***

In terms of development strategies, Warner EMI Music should implement internal development after the year 2001. This can be undertaken by developing strategies and building up the organisation's own resource base and competences. In its desire to improve its internal capabilities, the company should liase with a number of other related organisations. This should take place no later that year the 2004 and it concerns the company expanding its networking activities and liase with other enterprises. Moreover, by the year 2006, the company should expand further and liase with other non-related organisations. This can be achieved by a number of mergers or acquisitions. The development strategies for Warner EMI Music are exemplified in Figure 6.



Source: Johnson *et al.* (1999).

Fig. 6. Development Strategies for Warner EMI Music

### The Three Generic Strategies

The following strategy to investigate is Porter's (1985) Three Generic Strategies. Porter put forward his model of generic strategies, which aids firms to achieve industry success by helping them to develop a market strategy that establishes their competitive position in the market. This model provides a framework for the marketer when devising competitive strategy as it combines the target that the marketer has chosen, namely narrow or broad, and the competitive scope i.e. low cost or differentiation (Vrontis *et al.*, 1999).

Based on the environmental analysis it is recommended that the company should follow a cost leadership strategy (see Figure 7). Consequently, it can considerably reduce overheads and allow economies of scale in production, research and development, distribution, operations and promotion. The business should work hard to achieve the lower costs of production and distribution so it is cost effective at engineering, purchasing, manufacturing and physical distribution. Moreover, skills in marketing should concentrate efforts on the Internet.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad target	1. Cost Leadership * Warner EMI Music	2. Differentiation
	Narrow target	3A. Cost Focus	3B. Differentiation Focus

Source: Porter, 1985.

Fig. 7. The Three Generic Strategies (Warner EMI Music)

Therefore, Warner EMI Music should use a cost leadership strategy. Their strategic approach should be not to sell cheaper than their competitors but to cut costs and increase their margins (see Figure 8). This was desired as it could increase their profitability.

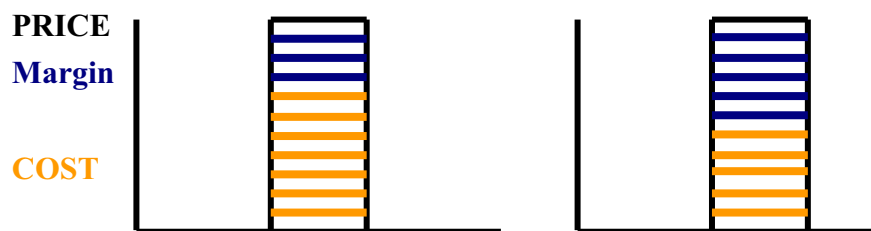


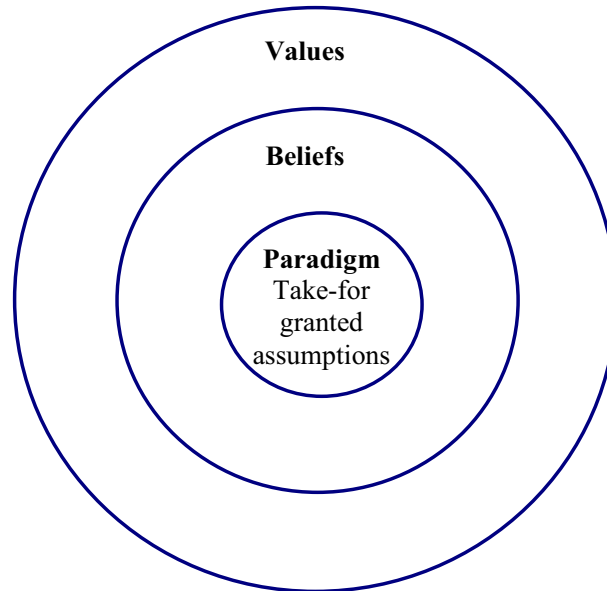
Fig. 8. Lower Costs and Higher Margins (Warner EMI Music)



## Organisational Cultural Issues

*“Goering is caseed to have said: When I hear the word culture I reach for my gun” (Rosen, 1995).*

Culture refers to the basic values, assumptions and beliefs of a group that provide a template for their members’ values, norms, attitudes perceptions, ways of thinking and behaviour. Moreover, Schein (1984) (In: Johnson *et al.*, 1999) conceives organisational culture as consisting of three layers. These are illustrated below in Figure 9.



Source: Schein (1984).

Fig. 9. Culture in Three Layers

It is obvious that the merger between the two companies (Time Warner and EMI) and the formation of Warner EMI Music brought in the surface some cultural issues. This was expected, as the two companies’ organisational cultural backgrounds were diverse.

The existence of these diverse cultural components presents a dilemma for Warner EMI Music. The new company should work right from the beginning (Year 2000) to make visible its carefully considered public statements of its values, beliefs and purposes. For example, the company should aim to develop its new culture and promote it through its annual cases, mission statements and business plans. The company should understand that the new culture should be designed in a way to enable individuals to excel, with the company providing the support that made this possible.

Culture should be carefully designed as it can act as a filter to perceptions, and could – either deliberately or quite unconsciously – colour, distort, or block inputs to a decision-making process if they are contrary to the basic assumptions and beliefs of the organisation. It is therefore recommended that Warner EMI Music focuses attention on explaining to employees ‘how things should be done around here’. It should not only provide a detailed outline of the culture but at the same time attempt to make organisational culture strong enough to prosper. This is apparent as a strong culture can foster loyalty to, and identification with, the group, hence encouraging co-operation between subgroups, while the nature of the culture can itself promote the organisation’s mission. Deliberately developing a strong and relevant culture will be a powerful aid to giving sense of direction or fostering a particular distinctive competence that provides a competitive advantage.

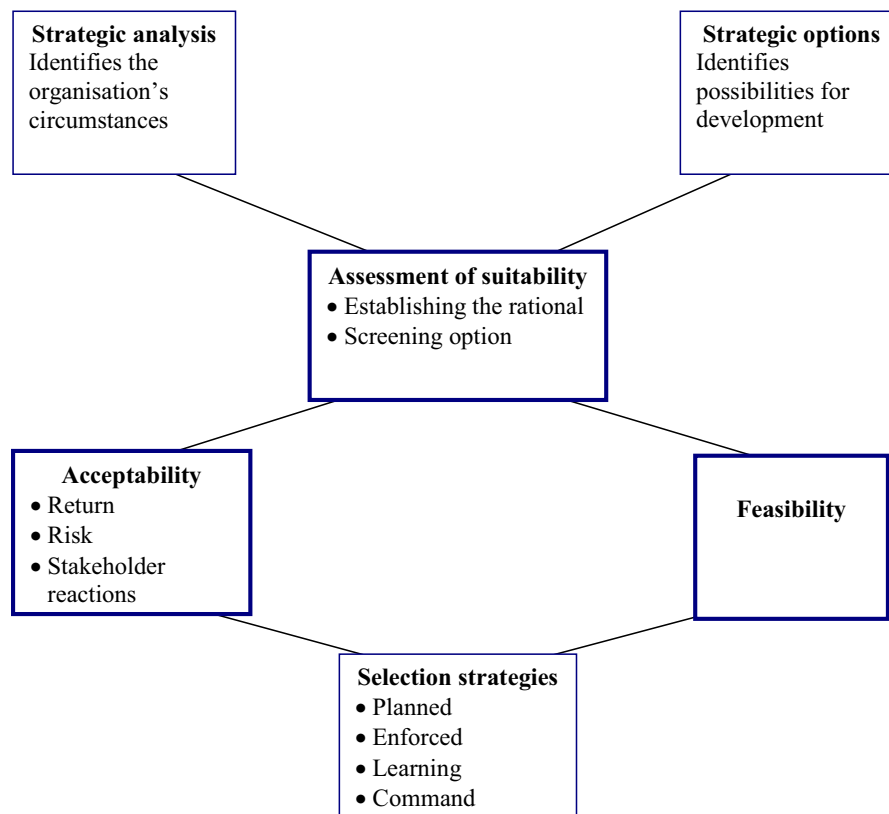
The firm's culture must be industry and technology oriented. Warner EMI Music has to find ways to make it easy to adapt to change and maintain market orientation. This is true as market-oriented cultures, being outward looking, are usually more flexible in meeting a changing environment. The company's organisational culture should therefore be customer oriented, cost conscious, entrepreneurial and prepared to take risks.

If the top management group in Warner EMI Music want their company to be successful and prospect over the next decade, it has to issue edicts which say things such as:

*Our culture will be open and honest, giving appropriate recognition to and respecting the rights of the individual. The company puts the customer first, and makes decisions as low down the organisation as it can. It is dedicated to creating an environment which encourages entrepreneurial attitudes and individual creativity.*

### Suitability, Acceptability and Feasibility

After discussing the strategic direction and methods available to the company it is now time to assess and evaluate whether the proposed strategic approach is suitable, feasible and acceptable for Warner EMI Music. Figure 10 shows how these various aspects of evaluation can be fitted together to assess the selection of the strategic direction.

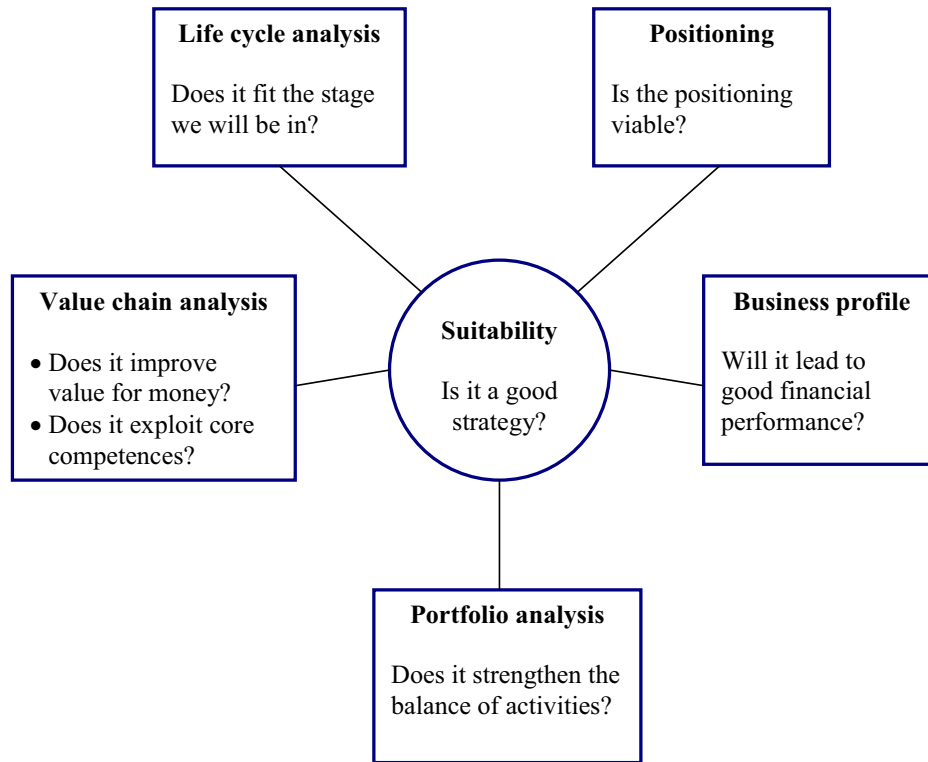


Source: Johnson *et al.* (1999: 354).

Fig. 10. A Framework for the Evaluation and Selection of Strategies

It can be argued that the strategic approach proposed in this case is suitable as it addresses the circumstances in which the organisation is operating. This includes the extent to which the new strategies would fit with the future trends and changes in the environment and also the way the strategy exploits the core competences of the organisation. It is suitable, as it is detailed after an in-

depth investigation and strategic analysis of the situational environment both internally and externally to the organisation. It can be stated that the proposed strategy it sufficiently exploits the opportunities in the environment and avoids the threads. It also capitalises on the organisational strengths and core competences and avoids the weaknesses. It can be said that the strategy is appropriate given the growth stage of the product life cycle. Moreover, it improves value for money and exploits the core competences in the value chain, strengthens the balance of activities as detailed by the portfolio analysis, reinforces the selected strategic positioning approach and leads Warner EMI Music towards a better financial performance. This is illustrated below in Figure 11.



Source: Johnson *et al.* (1999: 356).

Fig. 11. Testing Suitability

Establishing the suitability of options is useful to an evaluation as it establishes the rational and strategic logic behind the proposed strategic direction. However, strategies also have to be acceptable to a variety of stakeholders (managers, workforce, public, government, shareholders, suppliers, customers). Acceptability is therefore concerned with the expected performance outcomes (such as return or risk) if the strategy was implemented, and the extent to which these would be in line with the expectations of stakeholders. It can be said that the strategic direction and methods desired by Warner EMI Music are acceptable as different analytical methods illustrated that the return, cost benefit, risk and shareholders values are positive. It will improve working conditions for managers and workforce, increase supplies for suppliers, offer a better product/service to customers and increase dividends and shareholders' wealth.

Finally, feasibility is concerned with whether the strategy could be made to work in practice. Assessing the feasibility of a strategy requires an emphasis on more detailed, often quantitative, assessment of practicalities of resourcing and strategic capability. It can be argued that Warner EMI Music has the resources and competences to deliver the proposed strategies. As a result of an assessment of its financial feasibility, it is evident that the new company has the financial re-

sources to implement the desired strategic direction. Moreover, it is capable in promoting it, in terms of human resources, as its employees acquire the relevant expertise, competences and skills needed.

## Conclusions

This case has been compiled to put forward the author's suggestions for future strategic development open to Warner EMI Music as they develop during the period of 2000-2010.

The case was divided into four main sections. Section one was concerned with an environmental scanning including an analysis of Porters' Value Chain and Five Forces models. This section identified the key strategic issues for the new company and industry and provided an overview of their internal strengths and weaknesses and external opportunities and threats. The second section provided meaningful recommendations, strategic directions and methods to Warner EMI Music for the key strategies to be followed in the first decade of the new millennium. This is undertaken by utilising a number of respected strategic models including the Ansoff's Matrix, Johnson and Scholes' directions for strategic development and development strategies, and Porters' three generic strategies. Section three dealt with the cultural organisational issues that have risen by the formation of the new company and section four examined whether the proposed strategy is feasible, suitable and acceptable to be used by Warner EMI Music.

Generally speaking, it can be argued that Warner EMI Music is an organisation, which if carefully and appropriately managed would be very profitable. The company has to consider its environment, both internally and externally, and implement the recommended strategic direction and methods proposed in this case for the 1<sup>st</sup> Decade of the 21<sup>st</sup> Century. The strategic approach is suitable as it addresses the circumstances under which the organisation is operating, acceptable in terms of return, risk and stakeholder reactions and feasible as Warner EMI Music has the resources (financial and human) and competences to deliver it.

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