

# Universal Music Group

## Business Plan



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## 1. Executive Summary

### A. The Opportunity

- i. Problem to solve or need to be filled
  1. Mainstream artists require their music to be recorded, produced, marketed, and sold in all major retail outlets. A business entity must be able to distribute the physical media as well as oversee comprehensive publishing operations. In addition, the artist must be able to obtain a substantial amount of monetary funds in order to support their musical careers.

### B. Description of the Business

- i. How the business solves the problem or fills the need
  1. UMG provides the funding to develop, market, and distribute recorded music through a network of subsidiaries, joint ventures and licensees in 77 countries.
    - a. This includes:
      - i. Producing the master recordings
      - ii. Purchasing the reproduction and distribution rights to master recordings
      - iii. Release, promotion, and distribution of sound recordings

### C. Competitive Advantage

- i. Description of the Business Model
  1. Traditional business model in relation to the Big 4
  2. Part of Universal Music Group's diverse business model includes a division known as eLabs
  3. Economic Model
  4. Online Strategy
  5. Customers will have a number of options when it comes to purchasing and obtaining the music itself
  6. Alternative payment options

### D. The Target Market

- i. The 45 years and older age group is rapidly becoming the dominant industry segment
  1. Increased from 15.1% in 1996 to 33.7% in 2009

- a. One Example: In the past 10 years, a significant amount of older music that was previously difficult to locate and purchase has been re-released in new formats

- i. Example: The Beatles

2. The 15 to 49 year-old age group is a key demographic for the music industry. This group tends to buy and listen to more music than other age groups; therefore growth in this age range will cause an increase in demand.

#### E. The Management Team

- i. Management Experience (Key Players)

1. Lucian Grainge: CEO
2. Doug Morris: Chairman
3. Zach Horowitz: President & COO

#### F. Brief Summary of Financial Projections

- i. The industry and nation are in the midst of an economic recovery. IBIS world forecasts that the industry will begin to slowly, but surely turnaround over the next few years and profits will begin to increase.

#### G. Description of what the business needs

- i. Amount of capital needed & what the capital will be used for.
  1. UMG is a private corporation, but they will continue to look for other revenue streams in the form of:
    - a. 360 Deals
    - b. Licensing Deals
    - c. Subscription Services
    - d. Paid Downloading

#### H. Exit Strategy for Investors

- i. Possible Exit Strategies
  1. Liquidate intellectual property
    - a. Selling of copyrights
  2. Consolidation
    - a. Merging with members of the big 4
  3. Acquisition by larger company

- a. UMG would be sold to a purchaser for a specified price

## 2. The Business

### A. The Opportunity

- i. Problem to solve or need to be filled
  1. Mainstream artists require their music to be recorded, produced, marketed, and sold in all major retail outlets. A business entity must be able to distribute the physical media as well as oversee comprehensive publishing operations. In addition, the artist must be able to obtain a substantial amount of monetary funds in order to support their musical careers.
  2. With that said, the industry is in the midst of a digital revolution, which has created a problem as well as an opportunity for new innovation. The industry as well as UMG must adapt to accommodate these changes. Less emphasis is being placed on the physical sales of CDS and more emphasis is being placed on long-term development of artist's careers and the sale of artist singles.

### B. Description of the business

- i. How the business solves the problem or fills the need
  1. Universal Music Group (UMG) is one of the Big Four in the Music Industry (*see appendix 1.1*). UMG is comprised of two core businesses:
    - a. Recorded music
    - b. Publishing
  2. It seeks to:
    - a. Discover new artists
    - b. Develop markets
    - c. Distribute recorded music through a network of subsidiaries, joint ventures and licensees, in 77 countries, representing 98% of the music market. This Includes:
      - i. Production of master recording
      - ii. Purchase of reproduction and distribution rights to master recordings

- iii. Release, promotion and distribution of sound recordings<sup>1</sup>
3. Universal Music Group is the world's largest recording company. Universal is comprised of up to 20 different record labels. Some of these labels include:
  - a. Island Def Jam
  - b. Interscope Geffen A&M Records
  - c. Verve Music Group
  - d. Motown Records
  - e. UMG Nashville
4. In addition to recording, publishing also plays a major role in UMG.
  - a. With over a million copyrights under its control, UMG is the world's largest publishing house.
  - b. In addition, it also owns the largest catalog of recorded music in the world, and includes the world's leading Broadway catalog and contemporary recordings.<sup>2</sup>
5. Universal Music Group's distribution division handles UMG's sales, marketing, and distribution operations.
  - a. Music is not the only thing that is being distributed through Universal.
  - b. DVD products, including music videos, and licensed recordings are also included on the list.
  - c. UMG has lead in distribution for the past ten years and consists of four major divisions: Universal Music Distribution (UMD), Fontana, Vivendi Entertainment (VE), and UMGD Digital.
  - d. UMD handles distribution and sales for not only themselves, but a large diverse roster of other labels. Fontana is the independent part, focusing on sales, marketing and distribution, mainly home entertainment.
  - e. UMGD Digital manages and distributes all of Universal Music Group's digital assets including mobile.<sup>3</sup>
6. In some markets outside of the US, operations are handled differently.

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<sup>1</sup> "Overview|Universal Music." *Home | Universal Music*. Web. 27 Apr. 2011. <<http://www.universalmusic.com/overview>>.

<sup>2</sup> "Overview|Universal Music." *Home | Universal Music*. Web. 27 Apr. 2011. <<http://www.universalmusic.com/overview>>.

<sup>3</sup> "Overview|Universal Music." *Home | Universal Music*. Web. 27 Apr. 2011. <<http://www.universalmusic.com/overview>>.

- a. In some places, UMG handles their own sales and distribution, and in other cases, UMG sub contracts these services to third party companies.
  - b. Merchandising, being a big part of revenue, is dealt through Bravado, a merchandising company.
    - i. Bravado is a high level merchandising company, which provides licensed merchandise to the worldwide market.
    - ii. All merchandise is tailored to the artist or band's needs.<sup>4</sup>
7. Universal is not just based in the United States of America, it is a diverse company located throughout the world.
- a. Universal Music Latin Entertainment, the world's leader in the Latin music, is just one of the many included in this, along with Europe, and Asia.
  - b. Universal International is the division that manages UMG's businesses in countries outside of the North America.
8. Universal Music Group also includes an artist management service.
- a. This aspect is done through companies like Twenty-First artists, Trinifold, and 5B.
  - b. Event production is another division; which is responsible for booking and presenting talent throughout the world.<sup>5</sup>

### C. Competitive Advantage

#### i. Description of the Business Model/Strategy

1. Like many of the Big Four Record Labels, Universal Music Group shares a traditional business model. There are many aspects of their business model that show reasoning for why they are one of the world's leading record labels.
  - a. By participating in a broad range of music revenue streams, UMG is able to maximize their profitability.
  - b. Another way that UMG maximizes their profitability is through efficient cost management, collecting, analyzing, and reporting cost information used for budgeting, estimating, forecasting, and monitoring costs.

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<sup>4</sup> "Overview|Universal Music." *Home | Universal Music*. Web. 27 Apr. 2011. <<http://www.universalmusic.com/overview>>.

<sup>5</sup> "Overview|Universal Music." *Home | Universal Music*. Web. 27 Apr. 2011. <<http://www.universalmusic.com/overview>>.

- c. With the music industry in constant flux, UMG provides leadership of the core business during this transition into the digital age.
  - d. Diversification is also a key in the success of Universal and it is a major role in the strategy:
    - i. UMG is not only diversified on a product front, but also on a geographic front, as the company's operations span the globe.
    - ii. Universal strides to create and sell many different products within the realm of music, including CDs, DVDs, vinyl albums, merchandise, licenses, as well as various downloadable formats including mp3s and ringtones.
    - iii. Not only are they diverse in their products, but also their operations. Universal's global operations has signed artists and sold CDs and other forms of media on every major continent.
    - iv. By creating such a diverse roster, UMG is able to maintain a lot more stability and be subject to less risk compared to other competitors within the music industry.
    - v. eLab's business development staff supports all of UMG's e-business initiatives, including digital downloads, subscription services, webcasting, and interactive radio through all digital channels of purchase.
    - vi. It is with the help of this division that UMG has been able to maintain its market share and save face as the industry's overall sales and attractiveness have declined due to digital downloads and piracy.
2. Part of Universal Music Group's diverse business model includes a division known as eLabs.
- a. This division is responsible for handling the company's electronic commerce initiatives, Internet exploration, and new technology opportunities worldwide.



3. The economic model is another part of the business model.
  - a. Within this model, the investment and return is balanced off of supply and demand.
  - b. The supply of UMG is required to meet the demand of the customers.
  - c. Through the use of marketing, UMG will stimulate and create demand in all areas of their markets.
  - d. Once the record label is no longer able to invest in new artists or groups, the model will be broken.
  - e. Kinks in the model created by new artists who do not have a following to begin with can stimulate high risk.
  - f. P2P provides an outlet for infinite supply and therefore demand will decrease dramatically.
4. Online Strategy:
  - a. Universal aims to license widely and create many new and exciting opportunities for the consumers to “purchase” and enjoy music.
  - b. Wide licensing to many services brings new players into the value chain and supports new business models.
  - c. Universal also has decided to take all anti-piracy measures, including legal action against infringing companies and individuals.
  - d. The real objective of all of this is to balance the level of supply and demand forces within the industry.<sup>6</sup>
5. Customers will have a number of options when it comes to purchasing and obtaining the music itself.
  - a. Three possible types of purchases:
    - i. Stream – one play of a track, with no permanent copy of the song stored on the consumer’s computer
    - ii. Download – a track is transferred to the consumer’s computer and can be played any number of times for a set period or while

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<sup>6</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep. no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

the consumer is a subscriber. Cannot be copied, burnt to CD or transferred to a portable player.

- iii. Burn – a track is transferred to the consumer’s computer and can be copied, burnt to CD or transferred to a secure portable player (available on all three services)<sup>7</sup>

6. Alternative payment options:

- a. Subscription – regular monthly payments or one-off pre-payments giving access to a set amount of content
- b. A La Carte – able to purchase single tracks, without subscribing or pre-paying (available for burns on all three services)<sup>8</sup>

ii. How the business will create a sustainable advantage

1. The music industry is always in constant flux.

- a. Conditions in the music industry, like the operating environment, have forced record labels to change their business model to adjust to the new technologies and evolving customer preferences.
- b. Cost cutting has been seen through the major labels as a way to achieve healthier profit margins.

- i. Cost cutting is just the start to the trends seen in labels.

Expansion of different products and services; including brand management, merchandising, tour support and expanded artist services have also helped to cut costs for labels.

- ii. “The most common example of this trend is the growing popularity of expanded-rights deals between record labels and artists, also known as 360 deals. Through these types of contracts, record labels provide the artist with extra financial backing and representation and in return get a percentage of revenue from all of the artist's interests, including live performances, merchandising and recorded music sales.”<sup>9</sup>

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<sup>7</sup> Wagg, Barney. *Digital Music Distribution*. Presentation. Print.

<sup>8</sup> Wagg, Barney. *Digital Music Distribution*. Presentation. Print.

<sup>9</sup> Wagg, Barney. *Digital Music Distribution*. Presentation. Print.

- c. UMG has worked to expand digital distribution outlets and worked to pursue partnerships as well as collaboration in order to establish a more innovative & profit generative business.
  - d. Major labels have shifted the majority of their budgets to focus more on establishing development in new technologies and partnerships to overcome the transition of digital.
2. Universal holds major advantages over other labels.
- a. UMG is the world's leading record label in almost all aspects of the music industry from recording to publishing, even obtaining an overwhelming amount of catalogs.
  - b. UMG has the most extensive catalog in music in the industry and represents 98% of the music market.
  - c. Universal Music Enterprises (UMe) is the centralized U.S. catalog and special markets entity for UMG.
  - d. UMe provides a cutting edge approach to catalog management.
    - i. This part of Universal is comprised of several sections. "Universal Chronicles, the unit that manages and markets UMG's extensive catalog through retail channels; UTV Records, the television marketing unit; Hip-O Records, its independent label that releases CDs and DVDs from outside sources; New Door Records, a label dedicated to producing new music from historically significant recording artists whose catalog is controlled by UMG labels; UMe Digital, the first all digital label from a major music company; Universal Music Media, a company that produces infomercials and long form music programming; Universal Music Special Markets; and Universal Film & Television Music.
    - ii. UMe's Strategic Marketing unit supports all five areas and is designed to aggressively develop a cohesive and strategic approach to maximizing catalog repertoire by initiating and implementing integrated marketing campaigns, direct to

consumer programs, brand management initiatives and other marketing strategies.”<sup>10</sup>

- e. Outside North America, the Universal Strategic Marketing division of Universal Music Group International works to maximize the profile and value of UMG’s catalogue in international markets.
    - i. “It acts as a service centre, adding value through marketing initiatives and coordination of commercial issues through local and international markets.”<sup>11</sup>
3. Universal’s diverse roster of artists covers a full spectrum of music from all around the world, making Universal the leader in international and local repertoire.
- a. Taking advantage of the full spectrum of music allows Universal to invest money, as well as distribute resources where the greatest ROI is possible.
  - b. Universal has created a competitive advantage in the technological world as well by partnering with VEVO. VEVO is the leading innovative online premium music and entertainment service for consumers, advertisers and content owners that blends the very best in musical content with cutting-edge video technology and a thriving user community powered by YouTube.<sup>12</sup>
4. Lowering of album sales is another competitive advantage of Universal.
- a. Through the lowering of prices (most to \$10 an album), Universal is able to boast its CD sales.

#### D. Current Status & Requirements

- i. Description of where the business stands today
  1. Universal Music Group (UMG) is one of the big four major record labels. UMG has the largest catalog of recorded music and they own and manage 14 major

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<sup>10</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no.51223.2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

<sup>11</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no.51223.2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

<sup>12</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no.51223.2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

recording sub-labels. They hold an estimated 21.6%<sup>13</sup> of the global market share of the physical music market and 30.6%<sup>14</sup> market share in the U.S.

2. Record sales have fallen substantially due to piracy. Record sales will also continue to fall as the sale of digital singles continues to increase (*see appendix 1.2*).
- ii. Description of what the business needs to move forward
1. In order for UMG to move forward, they will need to reduce and attempt to eliminate piracy. There is no doubt with the existence of piracy that music has now become ubiquitous. Major labels will continue to monitor file hosting websites and any other forms of Peer-to-Peer applications, as well as taking legal action when necessary, but realistically, labels will have to adapt in the current state of the music industry in order to move forward. Labels will have to continue to find new and innovative ways in order to increase album sales and maintain market share. For now, buying/downloading music legally or subscription based services are the only alternative options for obtaining music legally.
  2. Individuals can still purchase physical units through stores, however, physical unit sales have dropped and continue to drop at a rapid pace. Record labels will need to continue to sell music through sites like iTunes and Amazon, but will also need to be on the lookout for new sites that allow individuals to purchase digital downloads.
  3. Record labels are also getting revenue through subscription-based services, which have been gaining popularity. Subscription based services will charge monthly fees to the user and artists will gain royalties based on the number of listens they receive. Royalty rates for each subscription-based service vary. Current examples of subscription based services include: Grooveshark, Pandora, Spotify, and Rdio<sup>15</sup> (*see appendix 1.3*).

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<sup>13</sup> "Music Industry." *Wikipedia, the Free Encyclopedia*. Web. 26 Apr. 2011. <[http://en.wikipedia.org/wiki/Music\\_industry](http://en.wikipedia.org/wiki/Music_industry)>.

<sup>14</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industryus/default.aspx?indid=1253>>.

<sup>15</sup> "Spotify vs. Grooveshark vs. Pandora | The Danosphere." *The Danosphere*. Web. 26 Apr. 2011. <<http://www.thedanosphere.com/2010/03/27/spotify-vs-grooveshark-vs-pandora/>>.

### 3. The Management Team

#### A. Management Team

##### i. Management Experience<sup>16</sup>

1. Lucian Grainge: CEO
2. Doug Morris: Chairman
3. Zach Horowitz: President & COO
4. Marinus ‘Nick’ Henny: Vice Chairman and CFO
5. Jeffrey Harleston: Executive Vice President of Business & Legal Affairs for North America
6. Brian Lambert: SVP of Music for Film & Television
7. Jennifer Blakeman: SVP of Creative Affairs
8. Kent Earls: SVP of Creative Services, Nashville
9. Eddie Fernandez: SVP of Latin America
10. Ethiopia Habtemariam: SVP of Creative Affairs and Head, Urban Music
11. Tom Eaton: VP of Music for Advertising
12. Gayle Moore: Executive HR
13. Michael Ostroff: General Counsel/Legal Affairs
14. Scott Belmont: Data Processing Director
15. Heather Brown: VP of Marketing and Communications
16. Kim Frankiewicz: VP of International
17. Anthony Saragueta: VP of Royalties
18. Pascal Nègre: President and Chief Executive Officer of Universal Music France

##### ii. Descriptions of Key Players and Technical Experience

1. Lucian Grainge: Chairman & CEO
  - a) Contributed to technological partnerships (VEVO)
  - b) Worked with lyricists and artists at every stage of career (U2, Elton John, Abba, and Amy Winehouse)
  - c) In 2008, he was awarded the prestigious Music Industry Trusts Award Prize

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<sup>16</sup> Universal Music Group. *LexisNexis*. Web. <<http://www.lexisnexis.com>>.

- d) Recognized as one of the most accomplished managers in the world of music
2. Zach Horowitz: President & COO
    - a) Graduate of Stanford Law School
    - b) President of UMG since 1996
    - c) In 1978, began his career in the legal department of CBS (now Sony) Records
    - d) Has been on the RIAA board of directors since 1989
  3. Max Hole: Executive Vice-President (International)<sup>17</sup>
    - a) President of UMG's Asia Pacific region
    - b) Joined Universal's international division in 1998 as a Senior Vice-President for marketing and A&R.
    - c) Became Executive Vice-President in 2004
    - d) Oversees production, promotion and marketing of leading artists including Bon Jovi, Amy Winehouse and Snow Patrol
  4. Pascal Negre: President and CEO<sup>18</sup>
    - a) President of Mediterranean, South America and Middle East Regions of Universal Music Group International Limited, a subsidiary of Universal Music Group, Inc. since August 2005.
    - b) Chairman and Chief Executive Officer of Universal Music France SAS.
  5. Brian Lambert
    - a) Responsible for creatively marketing and pitching the catalogue for use in film, television and advertising.

## B. Board of Directors

### i. Number of Directors

1. Lucian Grainge: Chairman & CEO
2. Marinus 'Nick' Henny: Vice Chairman and Chief Financial Officer

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<sup>17</sup> Patrick, Foster. *Music big shot: Max Hole, Universal Republic*. 2010. Web. <[http://business.timesonline.co.uk/tol/business/movers\\_and\\_shakers/article7061719.ece](http://business.timesonline.co.uk/tol/business/movers_and_shakers/article7061719.ece)>.

<sup>18</sup> Patrick, Universal Music France, *Bloomberg Businessweek*. 2011. Web. <<http://investing.businessweek.com/research/stocks/private/person.asp?personId=23507289&privcapId=6461591&previousCapId=678733&previousTitle=Universal%20Music%20Group,%20Inc>>.

### 3. Doug Morris: Chairman

- b) President of Atlantic Records: 1980-1990, Co-Chairman and Co-CEO of Atlantic recording group 1990-1994, COO of Warner Music U.S. 1994-1995.
- c) Began working with MCA Records in July 1995 by forming a joint venture record label, which became Universal Records when Morris was appointed Chairman & CEO in 1996.
- d) Stepped down as CEO on January 1, 2011.
- e) Morris will become the next CEO of Sony on July 1, 2011.

### C. Board of Advisors

#### i. Number of Advisors<sup>19</sup>

1. The Strategy Committee is currently comprised of five members, four of whom are independent.
  - a. Its members are: Claude Bébéar (Chairman), Jean-Yves Charlier, Philippe Donnet, Aliza Jabès, and Jacqueline Tammenoms Bakker.
2. The Audit Committee is currently comprised of five members, all of whom are independent and have finance or accounting expertise.
  - a. Its members are: Henri Lachmann (Chairman), Aliza Jabès, Pierre Rodocanachi, Daniel Camus, and Jean-Yves Charlier.
3. The Human Resources Committee is comprised of four members, all of whom are independent.
  - a. Its members are: Pierre Rodocanachi (Chairman), Maureen Chiquet, Henri Lachmann, and Jacqueline Tammenoms Bakker
4. The Corporate Governance Committee is comprised of five members, three of whom are independent.
  - a. Its members are: Jean-René Fourtou (Chairman), Claude Bébéar, Henri Lachmann, Christophe de Margerie, and Dominique Hériard Dubreuil.

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<sup>19</sup> *Board Committee, Vivendi*. 2011. Web. <<http://www.vivendi.com/vivendi/Board-Committees>>.



#### D. Key Professional Service Providers

- i. Law Firm
  - 1. Matt Gerson: EVP Public Policy and Government Affairs
  - 2. Jeff Harleston: EVP Business and Legal Affairs and General Counsel
  - 3. Katherine Ann McGowan: Attorney

### 4. **Company Structure, Intellectual Property, and Ownership**

#### A. Organizational Structure/Description

- i. The organizational structure is very important in a large company such as Universal Music Group.
- ii. The organizational chart hierarchy starts with Lucian Grainge being the Chairman and CEO, which then breaks down to President/COO (Zach Horowitz), CFO (Nick Henny), Executive HR (Gayle Moore), General Counsel/Legal Affairs (Michael Ostroff), Data Processing Director (Scott Belmont)

#### B. Legal Structure

- i. Legal Form of Organization
  - 1. Vivedni-Parent Company
    - a. UMG- Subsidiary
      - i. Legal form of Organization- Corporation
- ii. Ownership Structure of the Business
  - 1. Vivendi owns 100% of Universal Music Group and 100% of Universal Music Publishing Group

#### C. Intellectual Property

- i. Patents, trademarks, and copyrights applied for or approved
  - 1. UMG has an enormous list of intellectual property including catalogue, artists, copyrights, trademarks, and licenses.
  - 2. Most strengths of Universal Music Group are the artists themselves and the licensing of the music they own. Their artist roster is comprised of many very talented people that cover the full spectrum of music internationally and domestic.
  - 3. UMG has the most extensive catalog of music in the industry including artists such as ABBA, Louis Armstrong, James Brown, Eric Clapton, Marvin Gaye, Buddy

Holly, The Jackson Five, Jay-Z, Nirvana, The Police, Smokey Robinson, Frank Sinatra (Outside the United States), Cat Stevens, Rob Stewart, Sublime, The Temptations, and plenty more.

4. UMG also shows strengths and legacy through their diverse family of record labels, which include Interscope Geffen A&M Records, Island Def Jam Music Group, Machete Music, Mercury Records, and many more.

## 5. Industry Analysis

### A. Industry Description

#### i. Industry Trends

##### 1. Piracy and Peer-to-Peer Sharing

- a. The International Federation of the Phonographic Industry (IFPI) estimates that 95% of music downloaded worldwide online is done so illegally. This number has remained unchanged during the past years.
- b. A 2007 study by the Institute for Policy Innovation (IPI) concluded that illegal piracy of music costs the broader United States' economy as much as \$12.5 billion in losses and 71,060 jobs annually.
- c. More recently, industry operators and trade associations are focusing on broader legal actions against illegal activities. This includes participating in legislative efforts to protect intellectual property worldwide, public relations and education, and technical countermeasures such as updated digital file encryptions and blocking of known pirate systems (servers & websites).

##### 2. Consumer Value of Music

- a. Without knowing the consumer's true value of music, the demand will continue to decrease.
- b. The fact that music has become ubiquitous in this current age has driven the demand very low for recorded music. Consumers no longer value recorded music in the way they used to. Record labels are struggling to find a way to add perceived value to their products. The effects of this

devaluation are filtering through all aspects of the industry and driving revenues down for all major record labels, not just Universal Music Group.

### 3. Individual Track Purchases

- a. Since 2005, consumers increasingly have turned to individual track purchases instead of bundled albums.
- b. The dominance of single-track downloads over album sales through the digital retail market has led to tighter margins for labels, causing revenue to fall and margins on new sales to narrow.

### 4. Free Streaming and Subscription Based Services

- a. These operators pay digital distribution rights to record labels through advertising revenues.
- b. While these digital service providers pay licensing fees, free streaming services devalue music in the eyes of the consumers and contribute to the industry's falling profit margins.
- c. Major record labels are working with a number of partners in order to create and grow subscription-based streaming models that provide users with more access than free services. This will increase revenue from digital distribution rights for labels.

### 5. Bright Horizons

- a. Labels will benefit from their successful cost-cutting measures, new revenue streams and improvements in consumers' disposable income levels.
- b. IBISWorld projects the industry revenue will increase at an average rate of 1.7% per year, totaling \$8.2 billion through 2015.
- c. The industry's profit performance is also expected to improve, increasing from 2.3% of revenue in 2010 to 5.8% in 2015.

### 6. Industry Size

- a. \$7.6 Billion
- b. Projected annual growth of 1.7%
- c. Profit: \$188.1 Million
- d. Wages: \$982.5m

- e. Businesses: 556<sup>20</sup>
- ii. Industry Attractiveness (Growing, Mature, In Decline)
  - 1. The Industry is in a Decline
    - a. The Internet has shifted the public's music consumption, how artists promote themselves and the channels through which major record labels make money (*see appendix 1.4*).
    - b. Compact Disc sales are in a downward spin as the medium is quickly growing obsolete, and the escalating popularity of digital music has done little to impact the lost revenues.
    - c. The industry is dominated by the big four record labels: EMI, Universal Music Group, Warner Music Group, and Sony Music Entertainment. These companies have been vulnerable to the industry's troubles.
    - d. By 2010, each of the big four labels have overhauled their business models, cut costs and shifted their resources to improve profit margins while capitalizing on new consumer trends.
    - e. As a result, the industry employment is projected to fall at an annual rate of 3.3% to total 7,362 jobs during the five years to 2010.
    - f. Industry participation has fallen at a rate of 4.1% per year to total 236 enterprises during the five years to 2010.
    - g. The major label era will continue to be weakened as increasing numbers of independent labels continue to grow and take the market share away from major labels.
    - h. With advancements in technology, it is becoming even easier for independent artists to record, market, and distribute their art/music on their own. However, major labels still have the most control and the funding to decide what music goes mainstream.

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<sup>20</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep. no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

### iii. Profit Potential

1. The music industry is in a decline, however, there is still potential to make a profit. In order for record labels to make a profit, they are re-aligning business strategies (*see appendix 1.5*).
2. 360 artist deals have now become an industry norm in order to make up for lost profits from artists.
3. As the economy stabilizes, this will allow labels to regain balance as consumer spending increases.

## B. Target Market

### i. Description of Target Market

1. The 45 years and older age group is rapidly becoming the dominant industry segment.
  - a. Increased from 15.1% in 1996 to 33.7% in 2009
  - b. One example of this growth: In the past 10 years, a significant amount of older music that was previously difficult to locate and purchase has been re-released in new formats.
    - i. Example: The Beatles
2. The 15 to 49 year-old age group is a key demographic for the music industry. This group tends to buy and listen to more music than other age groups; therefore growth in this age range will cause an increase in demand<sup>21</sup> (*see appendix 1.6*)

## C. Competitive Position within Target Market

### i. Competitor Analysis

1. Direct Competitors- EMI, Sony, Warner Music, Independent Labels, and Live Nation
  - a. EMI, Sony, and Warner Music are three of the big four record labels in the industry. They are in direct competition with UMG for similar resources like artists, radio play, promotion, advertising, etc.

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<sup>21</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industryus/default.aspx?indid=1253>>.

- b. Independent Record Labels make up the rest of labels in the music industry. They are also in direct competition with major labels for artists.
  - c. Live Nation is a concert promotion company. Artists like Madonna and Shakira have signed with them, doing this gives artists another option besides signing with a major label.
2. Indirect Competitors- Grooveshark, Pandora, Peer-to-Peer File Sharing, YouTube and iTunes
- a. Grooveshark provides its users a way to stream any music they want at any time for free or through paid subscription. They also allow users a way to create their own playlists. Because this provides consumers another way to obtain music for free, this makes them a clear indirect competitor to UMG.
  - b. Pandora provides users a way to stream music at any time on many different devices including computers and mobile. Users can create their own radio stations based off artists or songs they like.
  - c. Peer-to-Peer File Sharing is a way for individuals to share music for free. This gives individuals another way to obtain music without having to buy the music through a digital or physical outlet.
  - d. YouTube provides individuals a way to listen to music online for free, providing a way to listen to music without having to purchase it.
  - e. iTunes receives a commission for each individual track sold through their service. This can be seen as competition because they are taking away profit from the labels with the commission they receive.
3. Future Competitors- Cloud Software, Spotify, Independent labels, Entrepreneurial Musicians, New Technologies, and RBC Records
- a. With the development of Microsoft's cloud software, users will be able to access music on remote servers 24/7 at their own convenience.
  - b. Spotify poses a major threat to major labels with its future release in America, it provides users with a new way to stream music.
  - c. Independent Labels are beginning to grow while the major labels are shrinking. They could become a bigger threat to major labels in the future.

- d. Entrepreneurial Musicians could become a threat in the future with the innovation of new technology; giving Musicians the ability to record and distribute their music independently.
- e. Forms of new technologies can and will develop causing even more problems for record labels.
- f. RBC Records: Even though they have not been around for very long, they seem to be setting the path for the future of the music industry. One might say they're flipping the script on the traditional business plan. While most record labels are downsizing and watching their record sales take a hit, RBC has posted digit growth in all but one of its 10 years in business. RBC provides general management for artist owned independent labels such as Tech N9on's Strange Music. Artists are able to do their own thing and have the ability to tap in to RBC's expertise supervision department. This department places clients in films, TV, and video games while overseeing merchandising deals.<sup>22</sup>

## 6. Marketing Plan

### A. Product Feasibility and Strategy

1. Product Strategy Product: The product of Universal Music Group (UMG) is the collection of recorded music. With numerous musical artists, UMG records and produces music that is offered to the world through various forms of media, including CDs, digital downloads, streaming music, radio, music and video websites, etc.
2. Price: Pricing varies depending upon the type of media format. Recorded music can be as cheap as \$0.69 per song to upwards of \$20 or more for a specialized collection.
3. Place: Physical CDs are typically sold in retail stores such as Wal-Mart, Target, and Best Buy. Digital downloads can be purchased through online music stores such as iTunes from any computer or mobile device that can access the Internet.

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<sup>22</sup> Carter, Lauren. "MO' MONEY." *XXLMag* Apr. 2011: 30. Print.

Music can also be heard continuously through streaming websites like Pandora and Grooveshark.

4. Promotion: UMG uses a mix of formats to promote music. Through websites, purchasing online advertisement space, social networking websites, airplay on the radio, television & radio commercials, and live performances, the music supported by UMG is able to take prominence in the marketplace.

#### ii. Concept Testing

1. In April 2010, UMG decided to try an “across-the-board price cut” and began selling CDs for within a \$6 and \$10 range. Although \$10 is said to be the maximum price, even for new releases, there are still a few exceptions. The report on MyCE.com compares this strategy to the concept tested by Subway with their \$5 Foot-Long campaign, which was started by a Florida franchise on a slow weekend. When sales skyrocketed, the concept was applied nationwide. UMG has the opportunity to revolutionize the compact disc once again by recognizing the needed boost in CD sales.<sup>23</sup>

#### iii. Usability Testing

1. With UMG’s main product being recorded music, the product is not “usable” per say. Rather, being a music production company, they offer an experience through music and other digital media. UMG’s usability testing is a collection of the responses generated by music consumers about artists. They are able to project the success of a particular artist once music is released to the public and they are able to gauge the popularity, or lack thereof.
2. Through sales, UMG has been able to figure out whether or not the usability of the physical compact disc versus digital downloads is more profitable and substantial.
3. Usability testing can also be attributed to the helpfulness, informativeness, and ease of use of their various websites, to include artist sites and social networking sites. Accepting user feedback and making website alterations accordingly will aid in making each site’s navigation and layout more intuitive. Users should have no qualms clicking through a site, and if they do, they are less likely to return.

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<sup>23</sup> Newman, Jared. "Universal Music Cuts CD Prices to \$10 Max." *MyCE – My Consumer Electronics*. 19 Mar. 2010. Web. 21 Apr. 2011. <<http://www.myce.com/news/universal-music-cuts-cd-prices-10-max-27361/>>.



## B. Pricing Strategy

- i. Compact Disc: \$6 - \$10 (with some exceptions). With CDs typically being priced no lower than \$10 and upwards of \$20, UMG is at the start of a new pricing strategy to help increase CD sales, which have been declining since the age of iTunes and other digital music stores, as well as piracy.<sup>24</sup>
- ii. iTunes Singles: Singles once sold for 99 cents a piece, but in 2007, iTunes developed a scale of 69 cents to \$1.29 depending upon factors such as artist or song popularity.<sup>25</sup>
- iii. iTunes Album: Based on browsing the iTunes Music Store, albums typically range from \$9.99 to \$11.99. Some albums fall outside of this pricing scale if they have fewer or significantly more than 10 songs

## C. Channels of Distribution

- i. In the United States, Universal Music Group Distribution (UMGD) has been the industry market share leader for the past ten years and consists of four major divisions: Universal Music Distribution (UMD), Fontana, Vivendi Entertainment (VE), and UMGD Digital. UMD handles distribution and sales for Universal Music Group's (UMG) diverse roster of labels as well as a wide variety of associated labels. Fontana is the company's independent sales, marketing, and distribution arm. VE is the theatrical and home entertainment distribution division, and UMGD Digital manages and distributes all of UMG's digital assets, including mobile.
- ii. In some markets outside of the United States, UMG handles their own distribution and sales. In other markets, UMG have sub-contracted services to third parties or have centered into distribution joint ventures with other record companies<sup>26</sup>

## D. Promotions and Advertising

- i. UMG "Wireless"
  1. UMG uses mobilized websites of artists for tech savvy consumers to access on mobile devices. Additionally, they offer SMS alerts to inform fans of when artists will be performing in their respective areas.<sup>27</sup>

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<sup>24</sup> Newman, Jared. "Universal Music Cuts CD Prices to \$10 Max." *MyCE – My Consumer Electronics*. 19 Mar. 2010. Web. 21 Apr. 2011. <<http://www.myce.com/news/universal-music-cuts-cd-prices-10-max-27361/>>.

<sup>25</sup> Chimielewski, Dawn C. "iTunes Pricing - iTunes Embraces 3-tier Pricing, Will Remove Anti-copy Software - Los Angeles Times." *Featured Articles From The Los Angeles Times*. 07

<sup>26</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep. no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industryus/default.aspx?indid=1253>>.

ii. Social Networking Sites

1. UMG has joined the rapid rise in Facebook use among businesses. Through this social network, UMG is able to gain more exposure and have an additional means of communication with the public through the popularity of cyberspace.
2. Facebook essentially provides free advertising to an extremely large network of people around the globe, and for a fee, a businesses can buy advertisement space on the website.
3. Through the Facebook wall, UMG is able to collect current and relevant comments and concerns from consumers and artist's fans and not have to wade through emails or take phone calls. They also have the ability to post videos to increase traffic flow and views when new music videos debut.
4. Facebook now has a new polling system called "Questions" that allows users to ask questions for the public of Facebook to answer. UMG has utilized this feature to ask questions as simple as "What's your favorite genre of music?" and "How do you buy your music?" The answers to these questions may provide insight on further business ventures and decisions.
5. YouTube is very popular among record labels. Nowadays, music videos often premiere online as opposed to MTV or VH1. Access is immediate and available 24/7 for anxious fans. Through counting views, UMG can see which videos/artists are being played most. They also have different playlists for specific music genres, so that a country lover or a rock lover can find a list of videos that they would be most interested in watching without having to browse through videos of other genres.
6. With well over 78,000 followers, UMG uses Twitter to market new music, concerts, live television appearances, prizes, etc.

iii. Public appearances and performances by UMG artists

iv. Magazines, radio, television, etc.

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<sup>27</sup> T sirulnik, Giselle. "Universal Music Group Unveils 360-degree Mobile Strategy for Artists - Mobile Marketer - Music." *Mobile Marketer - The News Leader in Mobile Marketing, Media and Commerce*. 1 Feb. 2010. Web. 21 Apr. 2011. <<http://www.mobilemarketer.com/cms/news/music/5254.html>>.

## 7. Operations Plan

### A. Method of Production or Service Delivery

#### i. Supply Chain<sup>28</sup>

(see appendix 1.7 and 1.8)

#### ii. Major Physical Retailers

1. Best Buy
2. Barnes & Noble
3. FYE
4. Wal-Mart
5. Target

#### iii. Major Digital Retailers

1. iTunes
2. Amazon
3. Napster
4. Rhapsody

### B. Business partnerships

#### i. Types of Business partnerships

##### 1. VEVO

- a. VEVO is a music video website. It was launched on December 8, 2009 as a joint venture between Sony Music Entertainment, Universal Music Group, and Abu Dhabi Media with EMI licensing its content to the group without taking an ownership stake. Short advertisements before the music videos provide income for the labels and allow fans to access the service free of charge. Since its launch, VEVO has already grown to the #1 music video website, receiving 44.7 million unique viewers in July 2010. UMG has also been an active proponent of litigation in an effort to prevent the illegal spread of its intellectual property.<sup>29</sup>

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<sup>28</sup> "Music Record Industry: The Industry: Supply Chain 2." *Sociology Department :: Duke University*. Web. 27 Apr. 2011. <<http://www.soc.duke.edu/~s142tm01/chain2.html>>.

<sup>29</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industryus/default.aspx?indid=1253>>.

## 2. Bravado

- a. Bravado, the only global, 360° full service merchandise company, develops and markets high-quality licensed merchandise to a worldwide audience. The company works closely with new & established entertainment clients, creating innovative products carefully tailored to each artist or brand. Products are sold on live tours, via selected retail outlets and through web-based stores. Bravado also licenses rights to an extensive network of third party licensees around the world. The company maintains offices in London, Los Angeles, New York, San Francisco and Stockholm, and partners with companies in Germany, France, Japan, Australia and South America. Now under the Universal Music Group umbrella, Bravado is able to leverage a global sales and distribution network from the world's largest record company, as well as the group's significant marketing strength. Bravado artists include Kanye West, Gwen Stefani, Beyonce, Rolling Stones, Elton John, Guns 'N Roses, Metallica, Led Zeppelin, Tina Turner, Iron Maiden, Alicia Keys, New Kids on the Block, Nine Inch Nails, Dolly Parton, The Killers, among many others.<sup>30</sup>

## 3. Accenture

- a. Accenture is in charge of digital supply chain management for Universal Music Group. This contract is designed to assist the Universal Music Group to further optimize its business processes in order to continue remaining ahead of high demand for the digital services and content.<sup>31</sup>

## 4. Elabs

- a. As stated by crunchbase.com, “eLabs, a division of UMG, is responsible for handling the company’s electronic commerce initiatives, Internet exploitation, and new technology business opportunities worldwide. eLabs’ business development and business affairs staff supports all of UMG’s e-business initiatives, including digital download, subscription, webcasting,

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<sup>30</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industryus/default.aspx?indid=1253>>.

<sup>31</sup> *Accenture Provides Digital Supply Chain Services to Universal Music*. April 2008. *Big4*. Web. <<http://www.big4.com/news/accenture-provides-digital-supply-chain-services-to-universal-music-505>>.

interactive radio and pay-per-play through all digital channels of purchase. eLabs works closely with and supports all UMG's record labels and other businesses to enhance opportunities for music driven by new technologies, while protecting the value of recorded music.”

### C. Customer Support

- i. Customer Support Strategies and obligations
  - 1. Email - communications@umusic.com
  - 2. Phone 212-841-8000
  - 3. Web- www.universalmusic.com/faq

## 8. Financial Plan

### A. Public or Private Corporation

- i. Private

### B. Overview of Financials

- i. The sale of digital singles is significantly less profitable for labels than physical album sales, which has impacted the industry dramatically
- ii. Pirating and peer-to-peer are obviously the main causes of this dramatic profit loss for major labels creating tighter profit margins
- iii. Major labels will continue to find other forms of revenue streams/cost cutting in order to make up for the losses that they will occur.
- iv. The industry and nation are in the midst of an economic recovery. IBIS world forecasts that the industry will begin to slowly, but surely turnaround over the next few years and profits will begin to increase.<sup>32</sup>

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<sup>32</sup> Ripley, Kathleen. *Music Publishing in the US*. Rep.no. 51223. 2010. *IBISWorld*. Web. <<http://www.ibisworld.com/industry/default.aspx?indid=1253>>.

C. Past Performance**Vivendi (UMG music publishing segment) – financial performance\***

Year	Revenue		EBIT		Assets	
	(\$ million)	(% change)	(\$ million)	(% change)	(\$ million)	(% change)
2006	510	N/C	83	N/C	6,096	N/C
2007	807	58.2	122	47	7,797	27.9
2008	953	18.1	302	147.5	8,680	11.3
2009	919	-3.6	300	-0.7	8,053	-7.2
2010**	938	2.1	303	1.0	8,828	9.6

\*Assets: Music catalogs and publishing rights; \*\*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

D. Industry Data**Industry Data**

	Revenue		Establishments	Enterprises	Employment	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic	
	(\$m)	IVA (\$m)							Demand (\$m)	CD Sales (\$ million)
2001	14,438.1	3,551.8	610	305	15,615	-	-	2,006.8	-	12,909.4
2002	12,781.6	3,214.6	606	315	13,976	-	-	1,766.0	-	12,044.1
2003	12,936.7	3,143.5	646	290	11,446	-	-	1,525.8	-	11,232.9
2004	13,219.9	3,106.7	667	299	10,120	-	-	1,368.2	-	11,446.5
2005	12,508.2	2,889.4	646	290	8,726	-	-	1,123.7	-	10,520.2
2006	11,783.3	2,592.4	640	281	8,818	-	-	1,135.8	-	9,372.6
2007	9,406.6	2,417.0	627	270	7,859	-	-	1,032.8	-	7,452.3
2008	8,748.1	2,253.5	599	254	7,764	-	-	1,014.8	-	5,471.3
2009	7,812.0	2,001.8	556	246	7,415	-	-	992.4	-	4,274.1
2010	7,523.0	1,940.7	556	236	7,362	-	-	982.5	-	3,509.0
2011	7,696.0	1,908.7	545	231	7,408	-	-	993.2	-	-
2012	7,919.2	1,934.3	564	236	7,467	-	-	1,015.1	-	-
2013	7,966.8	1,959.5	583	231	7,511	-	-	1,035.6	-	-
2014	8,054.3	1,982.4	596	226	7,556	-	-	1,057.2	-	-
2015	8,175.2	2,010.0	611	222	7,602	-	-	1,071.2	-	-

E. Annual Change**Annual Change**

	Revenue (%)		Establishments	Enterprises	Employment	Exports (%)	Imports (%)	Wages (%)	Domestic	CD Sales (%)
	IVA (%)	(%)	(%)	(%)	Demand (%)					
2002	-11.5	-9.5	-0.7	3.3	-10.5	N/C	N/C	-12.0	N/C	-6.7
2003	1.2	-2.2	6.6	-7.9	-18.1	N/C	N/C	-13.6	N/C	-6.7
2004	2.2	-1.2	3.3	3.1	-11.6	N/C	N/C	-10.3	N/C	1.9
2005	-5.4	-7.0	-3.1	-3.0	-13.8	N/C	N/C	-17.9	N/C	-8.1
2006	-5.8	-10.3	-0.9	-3.1	1.1	N/C	N/C	1.1	N/C	-10.9
2007	-20.2	-6.8	-2.0	-3.9	-10.9	N/C	N/C	-9.1	N/C	-20.5
2008	-7.0	-6.8	-4.5	-5.9	-1.2	N/C	N/C	-1.7	N/C	-26.6
2009	-10.7	-11.2	-7.2	-3.1	-4.5	N/C	N/C	-2.2	N/C	-21.9
2010	-3.7	-3.1	0.0	-4.1	-0.7	N/C	N/C	-1.0	N/C	-17.9
2011	2.3	-1.6	-2.0	-2.1	0.6	N/C	N/C	1.1	N/C	N/C
2012	2.9	1.3	3.5	2.2	0.8	N/C	N/C	2.2	N/C	N/C
2013	0.6	1.3	3.4	-2.1	0.6	N/C	N/C	2.0	N/C	N/C
2014	1.1	1.2	2.2	-2.2	0.6	N/C	N/C	2.1	N/C	N/C
2015	1.5	1.4	2.5	-1.8	0.6	N/C	N/C	1.3	N/C	N/C

F. Key Ratios**Key Ratios**

	IVA/revenue (%)	Imports/ demand (%)	Exports/ revenue (%)	Revenue per employee (\$'000)	Wages/ revenue (%)	Employees per est.	Average wage (\$)
2001	24.6	0.0	N/C	924.6	13.9	26	128,517.5
2002	25.2	0.0	N/C	914.5	13.8	23	126,359.5
2003	24.3	0.0	N/C	1,130.2	11.8	18	133,304.2
2004	23.5	0.0	N/C	1,306.3	10.3	15	135,197.6
2005	23.1	0.0	N/C	1,433.4	9.0	14	128,776.1
2006	22.0	0.0	N/C	1,336.3	9.6	14	128,804.7
2007	25.7	0.0	N/C	1,196.9	11.0	13	131,416.2
2008	25.8	0.0	N/C	1,126.8	11.6	13	130,705.8
2009	25.6	0.0	N/C	1,053.5	12.7	13	133,836.8
2010	25.8	0.0	N/C	1,021.9	13.1	13	133,455.6
2011	24.8	0.0	N/C	1,038.9	12.9	14	134,071.3
2012	24.4	0.0	N/C	1,060.6	12.8	13	135,944.8
2013	24.6	0.0	N/C	1,060.7	13.0	13	137,877.8
2014	24.6	0.0	N/C	1,066.0	13.1	13	139,915.3
2015	24.6	0.0	N/C	1,075.4	13.1	12	140,910.3

## G. Payback and Exit Strategy

### i. Possible Exit Strategies

1. Liquidate intellectual property
  - a. Selling of copyrights
2. Consolidation
  - a. Merging with members of the big 4
3. Acquisition by larger company
  - a. UMG would be sold to a purchaser for a specified price

## 9. **Critical Risk Factors**

### A. Management Risk

- i. One possible management risk is to have poor management. This could come in a number of different ways. One way is that the management team does not work well together. If the management team does not work well together, then the company as a whole will not be as successful. Another way is having someone on the management team who does not do his or her job well. Having one person on the management team who is not good at their job could hurt the company as a whole.
- ii. Another possible management risk is that the music industry is ever changing. The management team needs to be able to think on their toes and adapt to changes. These changes are normally new technology that the management needs to deal with promptly. If the management team is slow at adapting, they could suffer the consequences.

### B. Marketing Risks

- i. One possible marketing risk is that it costs money to market. Some marketing is cheaper and some more expensive. If the marketing is not successful, making a profit may not occur.
- ii. Another possible risk is finding out what marketing works where. There are risks when using new marketing techniques in new markets. Marketing plans can backfire if they are not properly implemented.



1. One example of a backfire is using the same slogans in the United States as in Europe. Language barriers could cause issues with these slogans because in translation they may not mean the same thing.

#### C. Operating Risks

- i. One possible operating risk is that it costs a lot of money to operate a record label. If a record label is not able to make enough money or maintain enough money to operate a record label, the label could end up going under.
- ii. Another possible operating risk is that it requires connections to operate a record label. If a record label is not able to make the connections needed or maintain the ones that it has, then it could end up going under.
  1. Connections are important in the music industry because no one entity is able to do everything by itself; other companies or people are needed. Reputations are important in selling products.

#### D. Financial Risks

- i. One possible financial risk is making a profit. The industry is in a decline, so it is financially a risk to be in the industry. In order to make money in the music industry, money needs to be spent.
  1. If the money put into the label's artists is not made, then the label will be in debt and could possibly go bankrupt.

#### E. Intellectual Property Infringement

- i. One possible risk is Universal Music Group could have difficulty enforcing its Intellectual Property Rights. Electronic devices, computer equipment, and other related technology has made it easier for individuals to make unauthorized copies of music related items produced by Universal Music Group, such as CD's, mp3's, and DVD's.
- ii. Also, advances in Internet technology has made it easier for individuals to share music without permission of the copyright owners and without paying royalties. The results and financial position of Universal Music Group may suffer if it is unable to protect its intellectual property rights effectively.
  1. Many of Universal Music Group's activities are heavily dependent on the intellectual property rights that it owns or for which it holds a license.

## F. Other Risks as Appropriate

i. Universal Music Group conducts its business in various markets around the world.

The main risks associated with conducting its business internationally, according to Vivendi.com, are:

1. Fluctuations in currency exchange rates and currency devaluations.
2. Restrictions on the repatriations of capital.
3. Unexpected changes made to regulatory framework.
4. The various tax systems that have an adverse effect on the results of Universal Music Group's activities or on its cash flows, including regulations relating to setting transfer costs and withholding tax on repatriation of funds and other payments made by joint ventures and subsidiaries.
5. Tariff barriers, customs duty, export controls and other trade barriers
6. Insufficient coverage for pension liabilities

## 10. Appendix

### A. Supporting Documents

Diagram 1.1

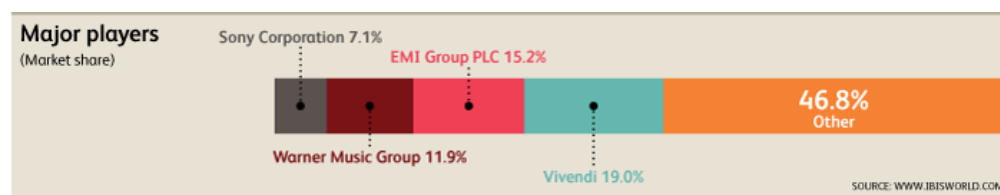


Diagram 1.2

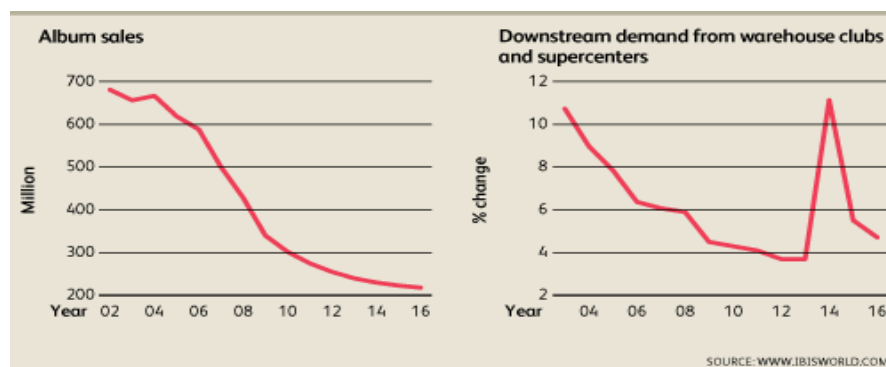


Diagram 1.3


			
Web Client	●		●
Desktop Client	for paid users	●	for paid users
Mobile Client	for paid users iPhone/Android/Palm/Blackberry	for paid users iPhone/Android/Symbian	● iPhone/Android/Palm/BB/WinMo
Music On Demand	●	●	
Music "Discovery" Service	●	●	●
Subscription Cost	\$3/mo or \$30/yr	\$13.26/mo	\$36/yr
Usage Limits (for free users)	None	None	40hrs/mo + limited skips
Ads (for free users)	Banner	Audio + Banner	Audio + Banner
Create Your Own Playlists	●	●	
Purchase Songs (from 3rd party)	●	●	●
Social Sharing (Twitter/Facebook etc.)	●		●
Upload Your Own Music	●		
Other Subscription Benefits	No ads, access to new features first	No ads	No limits, no ads higher quality audio

Diagram 1.4

Barriers to Entry checklist	Level
Competition	High
Concentration	Medium
Life Cycle Stage	Mature
Investment Requirements	Low
Technology Change	Medium
Regulation & Policy	Heavy
Industry Assistance	None

SOURCE: WWW.IBISWORLD.COM

Diagram 1.5

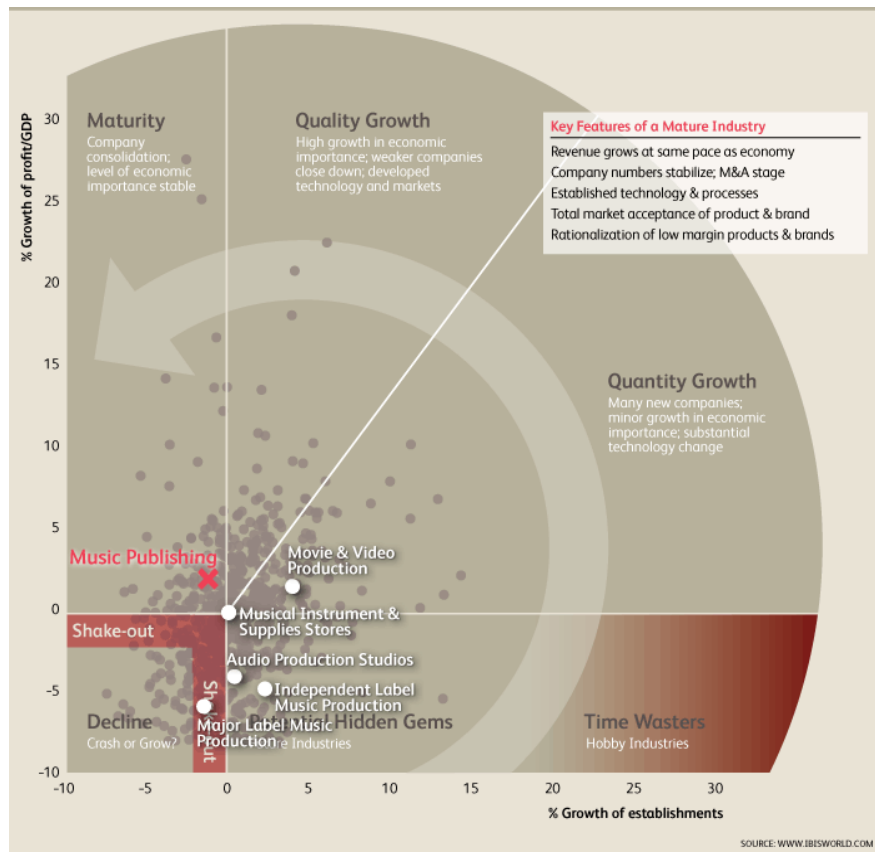


Diagram 1.6

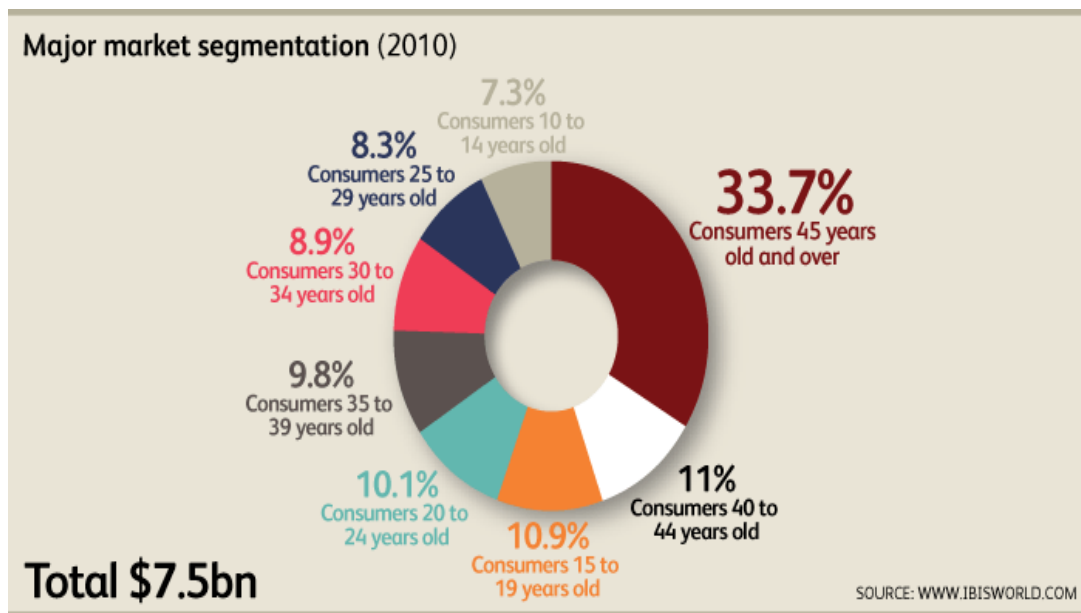


Diagram 1.7

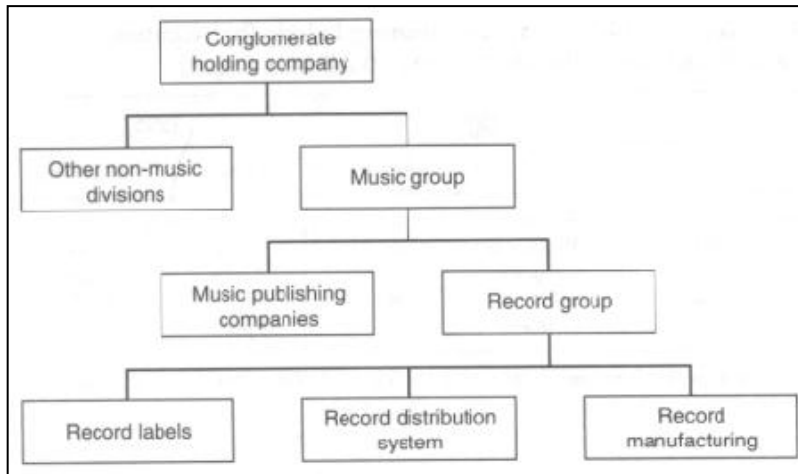
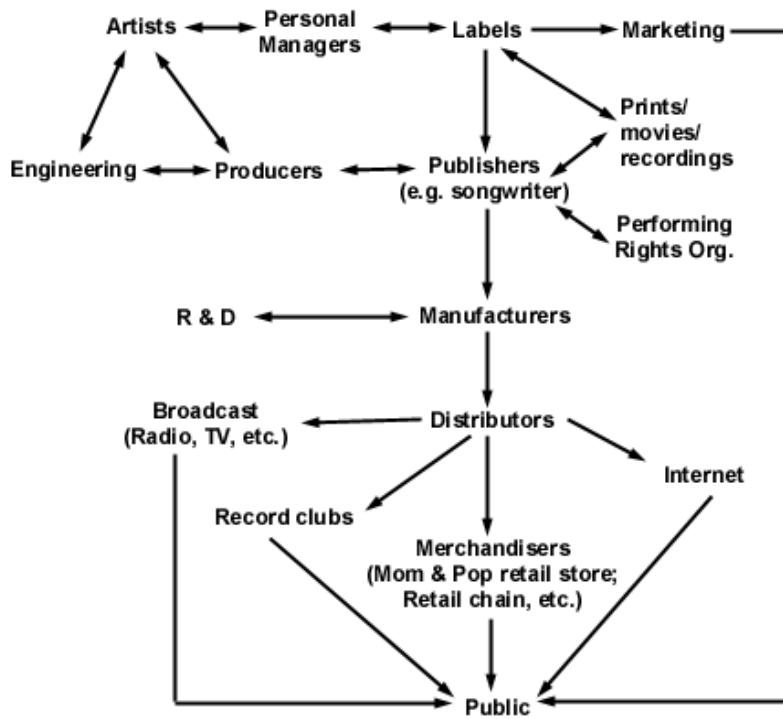


Diagram 1.8



B. Pictures of products and prototypes

