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INTERNATIONALIZATION PLAN OF NMUSIC TO INDIA

Thesis by

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Executive Summary

The aim of this thesis was to present an in-depth analysis of the NMusic's internationalization plan to India, a start-up founded in 2010 by Celestino Alves, which provides a catalogue of millions of songs through a revolutionary and unique multi-platform system available on computer, mobile phone, tablet and television.

The report presented initially a brief overview of the start-up, its background, services, values and mission, followed by an explanation of India, the country for the internationalisation plan, through a deeply analysis of all components in the market. At this stage, it was possible to conclude the market drivers and trends of the Indian market. Furthermore, the report also presented the business model that will be applied in India, where it were developed areas such value proposition, product and services portfolio, the revenue and operating model, the value chain and the industry mapping. Then was presented a competitive assessment to understand in which areas NMusic actually creates sustainable competitive advantage, which were the main competitors in that specific market and how consumers perceive the whole companies of this specific market. Furthermore, in order to make global concentration, global synergies and global strategic motivations with the internationalization to India market, the best mode of entry concerning NMusic's vision and objectives was chosen – a partnership with Tata. After, it was exposed the Marketing Mix (7 P's) to describe the company's service in India, and the definition of the strategic objectives for NMusic in its internationalization process. More, deadlines, investment, people and objectives for the implementation plan were defined, using the 4M's. Finally, a risk assessment and recommendations were conducted in order to achieve a successful NMusic's internationalization.

Key words: Digital Music, Implementation Plan, India, partnership.

Literature Review

By the early 1970s, the music industry faced a great revolution with the passage of the analogic audio to the digital audio. Soon it became stagnant until the introduction of the compact disk (CD) in the 80s [Blanchette 2004]. From then on, the concept of listen to music has been constantly changing as the music industry evolves. Ever since the advent of file sharing applications such as Napster back in 1999, music piracy has been on the rise, the sales of CD's has been declining [Liebowitz 2005] and although digital downloads in the form of MP3's are on the up via services such as iTunes, digital sales are not making up for the loss in physical sales – music retail is in somewhat of a dilemma [Digital Music Report (hereinafter DMR) 2013].

With more sophisticated MP3 software and faster modems, the Internet file sharing networks were proliferating and changing over the years. Another huge impact in the music industry was the introduction of a new and innovative MP3, the iPod. With this new launching, Apple open the iTunes music store in 2003, “selling music downloads to increasing number of users, generally at a reduced price relative o a CD.” and the music industry changed completely [Collard 2008]. Consequently, consumers had the option to buy and listen their favourite songs legally with no physical support. This new concept of listen and purchase music create a new problem in music industry – piracy or illegal downloads. However, within 2004 and 2007 the digital music revenues continuously increased and reach almost 3 billion euros in 2008 [DRM 2008]. Despite this fact, in 2008 almost 95% of music downloads were illegal.

Business Opportunity

Many business models were tried and failed in the past few years, as Celestino Alves¹

¹ Celestino Alves Biography in *Appendix 1*

experienced with *MusicaOnline*², competing with illegal platforms was unreasonable. Nowadays, this approach is changing and there are important key drivers that sustain the music subscription business model. With streaming, people do not need anymore to have the digital file stored in the devices, occupying memory space. The customer can listen their favorite songs without downloading it. However, this possibility has to be aligned with the portability concept NMusic has. Meaning that, the subscribers have the possibility to easily access their favorite songs through different devices. NMusic's service of commoditizing music and providing legal content to end-consumers by still being able to pay royalties to copyright holders, responds well to the mentioned challenges. The current players on the music-streaming market are not well established and generate revenue through advertising only. None of the competitors offers the same features as NMusic, and the majority is limited to offer only local music content. Additionally, the aforementioned legal fight against piracy is aggressively targeting illegal downloads, linking Indian websites to foreign IPs to get access to entertainment contents. In the near future, the social effects of the legal actions will manifest in an increased interest to legally purchase movies and music.

Company Background

NMusic was launched in 2010 as part of Diligence Capital SGPS Group³ with the purpose of creating an innovative solution for digital content distribution that was able to please all the major players in the music industry: consumers, artists, partners and music agents or labels. The "N" in the corporate name represents the large, diverse and organized music offer provided in the platform.

² *Musica Online* was launched in 2002 and it was the first online music store in Portugal. After some time, Celestino Alves sold the idea to *Sapo*.

³ Brief Information about Diligence Capital SGPS Group in *Appendix 2*

Before becoming NMusic's CEO, Mr. Celestino Alves was the founder of *MusicaOnline*, the first online music store in Portugal that was created in 2002. Portugal Telecom (PT) bought the store with the intention of using it under their *Sapo* brand and this was when the partnership between Mr. Alves and PT started. The market started to evolve, new trends appeared, and the store was not enough to succeed in the music business. He analyzed the market and recognized that there was saturation in terms of music players and there was a need of renovation in the music industry. Portuguese consumers did not value music so it was necessary to create an innovative business model able to satisfy artists, authors and editors and, at the same time, provide music for free to consumers. Consequently, having PT⁴ as a client, NMusic was founded and the online streaming multiplatform, called *music box*, was created.

In 2011, Pathena SGPS SA⁵ joined the company as an investor being now one of the greatest partners. Additionally, in 2012 the firm was invited to integrate the "StartUp Lisboa"⁶ project with other Portuguese companies, which, like NMusic, present a high potential of growth and internationalization. NMusic's competitive advantage is a combination of their innovative technology with the team negotiation skills, abilities and music industry background. Currently, NMusic's Team is composed by seven members, divided in different departments⁷.

Products and Services

NMusic provides a digital distribution service that works closely with the major *à la carte*⁸ stores, streaming services (Portugal and worldwide) and mobile operators. In

⁴ Portugal Comunicações, owner of *music box* in Portugal and NMusic client.

⁵ Brief Information about Pathena SGPS SA in *Appendix 3*

⁶ Brief explanation about StartUp Lisboa Project in *Appendix 4*

⁷ More details about organizational design in *Appendix 5*

⁸ *À la carte* means that the customer has the opportunity to buy songs individually, instead of buying all the music album

other words, it is a multiplatform system that is available on PC, tablet, smartphone and TV, which provides unlimited access to millions of legal music. Moreover, the platform has an easy and intuitive navigation and allows the consumer to share his/her playlists via Facebook, Twitter and email, as well as, to listen to them offline.

The content is distributed and promoted with no cost towards the artists and is simultaneously worked on to give the best visibility through campaigns above the line and other commercial and marketing plans. In Portugal the *music box* service is distributed by PT. This model offers the consumers free access to unlimited music, since they only have to pay a monthly fee for the data planning to access the service.

Additionally, although the client is responsible for customer service, NMusic provides the technical support, dealing with all the technical problems that the platform may have and making all the changes in terms of innovation or adjusting to client and consumers' demands. When the service was launched in Portugal, Portuguese people were not aware of streaming. Because of that NMusic had to make a huge campaign in all Portuguese media channels to explain to the potential customers what it is streaming⁹ and what the advantages of using it are. However, the surveys to customers that were elaborated in the market research¹⁰ conducted by NMusic, give a clear idea of what products and services they want and what NMusic should design and development. So, NMusic has proposed itself to create an audiovisual multiplatform service that not only ensures the distribution of free content as well as to do it legally.

Nevertheless, in India the platform will have a different name/brand with similar characteristics, where both the content (music) and the features offered are adapted to

⁹ Streaming is a technique for transferring data so that it can be processed as a steady and continuous stream. Streaming technologies are becoming increasingly important with the growth of the Internet because most users do not have fast enough access to download large multimedia files quickly

¹⁰ Market Analysis of the Portuguese market before NMusic enter in the market

the Indian preferences as well as the future client's needs. In India the situation it is different. The results from the informal survey¹¹ revealed that 71% of the population knows what is streaming. This fact is important to NMusic, because the majority of Indian potential clients are already aware about NMusic service. So, NMusic team in India can focus its strengths in developing a innovate platform according to the Indian demands. It is crucial to create innovative features and versions corresponding to the market and consumer needs, evaluated according to what the majority of consumers consider necessary under a customer survey, and a market analysis.

Vision and Mission and Strategic Objectives

NMusic's mission is based on a triple axis¹²: *listening, sharing, living*. However, the company does not have a clear mission statement. So, the proposal one is: **“We drive music addiction towards digital legal content in a practical and accessible way”**.

Concerning the vision, the proposal one for NMusic is: **“In a ten year plan, to be one of the international music and video player references, by offering a multi-platform service that please all the players in the music industry”**.

Intimately linked to the vision of the company are the **strategic objectives**, which are SMART¹³ and essential for the implementation plan success in the next years:

- I. Implementation in India (Mumbai) of the music player in the second semester of 2015;
- II. Get access to the license of the 3 majors record labels before the launch of the service;
- III. Achieve at least 2%¹⁴ as clients in the Mumbai population until the end of 2018;

¹¹ Since the formal survey conducted online, did not have a significant sample, I informally asked to Indian people that I know, living in India. From this 17 people, 12 know what is streaming and already used it. Moreover, of this 17 people, after a brief explanation of the NMusic service, 14 were willingness to try the platform (82%).

¹² See in detail the triple axis in *Appendix 6*

¹³ SMART – Specific, Measurable, Attainable, Relevant and Timed

¹⁴ In Portugal NMusic has approximately 125000 clients. This represents a 1.25% penetration rate in Portugal. So, as Mumbai has 20 million inhabitants and knows better the concept of streaming it is possible to achieve a 2% penetration rate in a medium-term period.

- IV. Create brand awareness in 20% of Tata subscribers through marketing campaigns;
- V. To be present in at least two music festivals in 2016 in Mumbai, aiming to reach at least 20,000 people (brand awareness).

Environmental Context Analysis

A country with population of 1.2 billions inhabitants, India has a stable democratic government and a rising economy. For these reasons, it is a very attractive choice for the international extension of NMusic. Initially NMusic will focus their strengths only in Mumbai¹⁵, and in a medium-term period expand the service to other Indian cities.

To understand the actual market conditions, a wide analysis will facilitate to look at the various aspects of the Indian music industry. The Indian music and entertainment industry embraces television (47%), film (14%), print (28%), radio (2%), music (2%), and gaming (5%) as its main components, valued at \$16.3 billion in 2010 with a growth rate between 11-12%¹⁶. The recent rise in income of the middle class and changing consumption habits can be considered the key drivers of the industry's growth. Streaming services are beginning to take off with young consumers and an expanding middle-class driving digital consumption. Moreover, the Indian recorded music market grew for the third consecutive year in 2012, predominantly through mobile channels.

This change in entertainment market, and more specifically in music consumption, was due to the boom in mobile phones. Currently, India is experiencing a phase of technological transition, with a high rate of exchange from regular cell phones to smartphones, with smartphone sales showing a 9% growth rate. With its advanced

¹⁵ For more details about Mumbai please consult *Appendix 7*

¹⁶ PwC Brand and Communications, India 2011

functionality, the vast majority (77%) of Indian smartphone users install more than 30 mobile applications on their devices¹⁷.

On the one hand, the wireless broadband coverage is expanding for 3G networks, and by the time the 4G networks is introduced, India is expected to experience 166 million wireless broadband subscribers through mobile phones¹⁸. On the other hand, currently India ranks worldwide on the second place in terms of mobile subscribers with more than 750 million registered devices¹⁹. The combination of these two factors, represents a huge opportunity for digital content consumptions, such as applications and mobile web-services. Regarding the Internet infrastructure, at least in urban areas India shows a great Internet coverage – approximately 122 million regular Internet users have been registered²⁰, which is a rather small number considering India population size. About half of the Internet access comes from mobile phone, which is expected to increase in the future. Despite this fact, since NMusic will focus in Mumbai, the lack of Internet infrastructure will not be a colossal problem for the internationalization.

Music plays a key role in mobile operators' customer acquisition, branding and engagement strategies, as smartphone adoption rises. Leading operators such as Airtel, Vodafone, Idea and Tata Indicom, offer a range of music services, such as ringtones. Unlike music offerings from mobile operators, independent services face some key challenges, such as establishing a billing relationship with customers in a country where only one per cent of the population has a credit card. So, for NMusic it is crucial to make a partnership with a company that offers a mobile service.

¹⁷ Spotlight on India's entertainment economy, Ernst & Young Global Limited, 2011

¹⁸ Consult detailed evolution of subscribers in *Appendix 8*, Spotlight on India's entertainment economy, Ernst & Young Global Limited, 2011

¹⁹ Spotlight on India's entertainment economy, Ernst & Young Global Limited, 2011

²⁰ "Is 2012 the year for India's internet?" (<http://www.bbc.co.uk/news/business-16354076>)

However, there is still a huge problem in India – piracy and illegal music websites. IFPI²¹ estimates that more than half of Internet users (54%²²) access unlicensed services on a monthly basis in India – a huge market potential for NMusic, because some of them can migrate to NMusic’s licensed and legal services. Indians are used to the idea of free music and the recent developments of online digital content distribution have fostered this understanding by providing free music with one mouse click.

Musical content in India relies heavily on film production and box office successes. A split up of the main musical genres distributed in India shows that about 68% of music are related to films, and only 6% represents international music²³. In fact, the physical market in India is dominated by local repertoire with Bollywood soundtracks hugely popular. Domestic repertoire accounts for an even greater share of digital sales.

The analysis in Indian market and environmental context clearly supports the business opportunity for NMusic.

Business Model²⁴

For the expansion to India, the Business Model will be supported by four components: **Value Proposition, Operating Model, Competitive Advantages, and Environmental Context.**

Regarding the Value Proposition there are three areas to consider. The first one is the Target Segment, which in Portugal has been B2B2C²⁵. With B2B2C in India, the company is gaining advantage over its competitors once it is specializing and focusing

²¹ The International Federation of the Phonographic Industry (IFPI) is the organization that represents the interests of the recording industry worldwide. It is a not-for-profit members' organization registered in Switzerland. It operates a Secretariat based in London, with regional offices in Brussels, Hong Kong and Miami.

²² Digital Music Report 2013

²³ Consult the graphic in *Appendix 9*

²⁴ To consult the business model framework go to *Appendix 10*

²⁵ Business to Business to Consumer (B2B2C) is an emerging e-commerce model where the two business combine forces and promote mutually beneficial products, services and/or solutions.

on its core competences: technological development and negotiation, and contract management. All the activities related with the final consumer become a responsibility of NMusic's client, the second B in the model. NMusic will ensure exclusivity²⁶ for a partnership company, that is, the company will be the only client that NMusic will have. However, that framework implied a strong partnership, preferably, with a telecommunication interested in music industry with a large support in sales channels management and customer relationship management activities, and know-how. This will represent an opportunity to implement some of lessons learned in Portugal, especially from the negotiation process, contract management and the operational management perspectives in India.

The second one, Products and Services Portfolio, it was already discussed before. Then, the **Revenue Model** of NMusic, which is based in the concept of "Music Like Water". This is a new approach that it is being developed in the music industry, which consists in using a business model that perceives music as a commodity such as water or energy. Currently, consumers perceive music as free and, for this reason, trying to make them pay to have access to music would not work and would foster even more piracy. Using this model, the consumers only have to pay for the data planning of a client that is not a responsibility of NMusic and the actual music is perceived as free. However, not being a PT client and do not have data planning, it is charge a value of 9.99€ per month. Given this, the revenues of NMusic come from the initial fee that the client pays to have the exclusivity of the platform and a percentage per subscriber in a monthly basis.

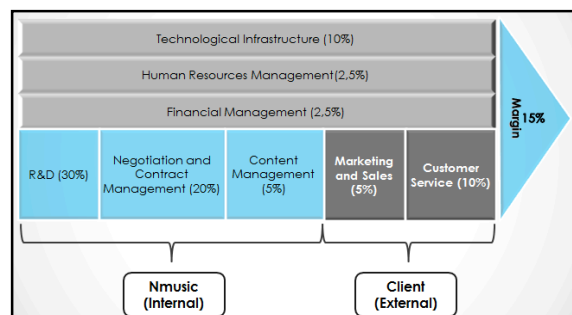
In what concerns the **Operating Model** it can also be divided in three components: Value Chain, Cost Structure and Industry Mapping. Concerning the **Cost Structure**,

²⁶ NMusic ensures exclusivity for PT with *music box* in Portugal, which means that PT is the only client of NMusic.

there are two important costs areas for the company. On one hand, NMusic has to pay for all the licenses to the music suppliers and record labels in order to legally distribute the music in the platform. On the other hand, there are all the operational expenses regarding the office²⁷, the human resources (HR) and the technology infrastructure. The cost structure of NMusic includes the costs paid to record labels, artists, logistics and staff. To record labels and digital aggregators, NMusic generally established an agreement to pay monthly for each subscriber. Moreover, to independent record labels NMusic established with SPA – *Sociedade Portuguesa de Autores*²⁸ to pay a certain value per stream listened in the platform, and to GDA – *Gestão de Direitos dos Artistas*²⁹, it is paid a share for all the transactions done. In conclusion, this cost structure is competitive and sustainable for NMusic in a medium term period.

Value Chain

NMusic has, in its value chain, five primary activities and three secondary activities. The primary activities of the company are R&D that accounts for 30% of the costs, negotiation and contract management with 20%, content management with 5%, marketing and sales with 5%, and customer service with 10%. The last two activities are partners' responsibility with a small contribution from NMusic. Moreover, it is visible that together negotiation and contract management and content management account for 50% of the cost and are the activities that will create the major value for the company, which is a consequence of the type of service the NMusic offers.



²⁷ Since NMusic office it is in StartUp Lisboa the cost of the office it is not relevant in the cost structure of the company

²⁸ SPA: Authors Portuguese Society

²⁹ GDA: Artists Rights Management is an entity that manages in a cooperative way the rights of the artists

Regarding the secondary activities, they include technological infrastructure with 10% of costs, HR management and financial management with 2.5% each. Finally, after removing all costs, NMusic will have a margin of 15%. The aim is to have a similar value chain model to India, depending on the mode of entry and collaborative arrangements' negotiation.

VRIO FRAMEWORK

The VRIO Framework provides an analysis of NMusic's resources and competences in terms of their competitive implications for the company. As it can be seen in the table below, most of the company's resources represent a sustainable competitive advantage and these should be taken into account when internationalizing a company. The team's knowledge, and the continuous presence and support to client's needs, are considered as sources of sustainable advantages. Additionally, the possibility to tailor made the service to the respective partner is something unique and ensures a competitive advantage. The triple play³⁰ that NMusic offers is not a sustainable advantage because it is easy to imitate by other competitors in India; thus, it is considered a temporary one.

However, there are some parity that should be avoided or improved when internationalize NMusic to India. The reputation with suppliers is something that needs to be improved, especially with the Indian suppliers, but it is also a resource expected to become much better over the time as the company takes advantage of its learning curve and it is able to improve its connections and relationship with the suppliers. Then, the music platform player and the partnership with Tata are not unique characteristics because other companies present in the market offer the same kind of services.

³⁰ Triple play is a system that through a unique communication channel by broadband combines voice, data, and multimedia. This package offers the possibility to synchronize the information available in multiple devices: smartphone, television, tablet and computer.

| Resource/Competence | Valuable? | Rare? | Difficult to Imitable? | Organized? | Competitive Implications |
|---|-----------|-------|------------------------|------------|---------------------------|
| Human Capital (team's knowledge, skills and background) | Yes | Yes | Yes | Yes | Sustained Comp. Advantage |
| Partnership | Yes | No | - | - | Parity |
| Music player platform- Advanced technology and service innovation | Yes | No | - | - | Parity |
| Tailor made service to the partner | Yes | Yes | Yes | Yes | Sustained Comp. Advantage |
| Reputation and Negotiation with Suppliers | Yes | No | No | Yes | Parity |
| Continuous presence and support to client's needs through the partner | Yes | Yes | Yes | Yes | Sustained Comp. Advantage |
| Sales and Distribution Channel | Yes | No | No | Yes | Parity |

Combining the mentioned components it is possible to conclude NMusic's competitive advantages and it could be a point of differentiation from its Indian competitors. First of all, the current team presents various attributes and characteristics that highly contribute for NMusic's success in this business. The main characteristics are: the extensive background in music industry that is associated with a good reputation with the music suppliers, and consequently facilitates the negotiation and contract management activities; excellent IT skills that allow them to present an innovative and always updated service which match consumers' demands as well as the evolution of the market; and the team's ability to create and foster an excellent client relationship, addressing its needs and balancing both party's objectives and goals for the future.

In addition, the implemented business model also constitutes to a competitive advantage that is not only different from all its Indian competitors but also constitutes to a best fit for the market needs and changes, since it is able to provide to the final consumers exactly what they want – music for free – and at the same time, contributes to the reduction of piracy and illegal distribution of music. Finally, the platform by itself is also a competitive advantage since it is much more complete than competitive products and services as it offers a larger music catalogue, availability on more devices, an offline mode, and no use of ads, perceived most of the times negatively by consumers.

Industry Mapping

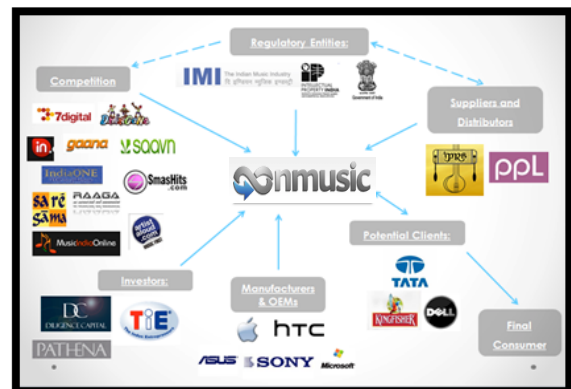
NMusic's Industry Mapping (hereinafter IM) is composed by many players representing different roles in the business.

First of all, there are the **Potential Clients** that can be considered one of the most important players once they generally represent NMusic's mode of entry in India.

Secondly, the **Potential Investors**, which are currently constituted by the Diligence and Pathena Groups, and may also include some Indian investors because the internationalization process will require a big investment.

NMusic's suppliers are only related with the content of the platform. Therefore, the **Suppliers and Distributors** of NMusic are all the entities that possess the music content. These entities are divided in two groups: the authors, composers and publishers; and the artists, record labels and music producers. In India, the first group is represented by the Indian Performing Rights Society (IPRS), responsible for the administration of the music rights and for dealing with all the licensing issues. The second group is in its majority represented by Phonographic Performance Ltd. (PPL), a company created to associate the music producers and to represent their rights, managing the licenses for broadcast and telecasting. Still, India has a peculiar situation regarding this second group because some of

the music labels that have substantial repertoire and share in the Indian music industry chose not to be of PPL. This means that they handle by themselves the legal issues and need to be contacted directly by NMusic.



Another relevant group is the **Competition**; what can be perceived from the IM that the Indian market has already many players, which means NMusic will face a fierce competition, like Gaana.

The Indian **Regulatory Entities** also influence NMusic's business either as a direct relationship or through the Suppliers and the Competitors. The music industry legal issues are regulated by the Government's Copyright Act, which establishes the rules and laws. These norms are enforced by the Government of India but with the help of the Indian Music Industry (IMI), an association composed mostly by the members of PPL. The IMI represents the Indian recording industry distributors, protecting copyright, tracking down infringements, developing anti-piracy campaigns and supporting the growth of music entertainment industry.

Finally, the **Manufacturers and Original Equipment Manufacturers (OEMs)** have also to be included in the IM once they might influence the future of NMusic in the sense that define the next technologies and innovations. The company is offering an online music platform, which highly depends on its availability and accessibility features to succeed in meeting consumers' demands. So, it is essential for NMusic to be aware of the future innovations in the manufacturing market.

SWOT/TOWS Analysis

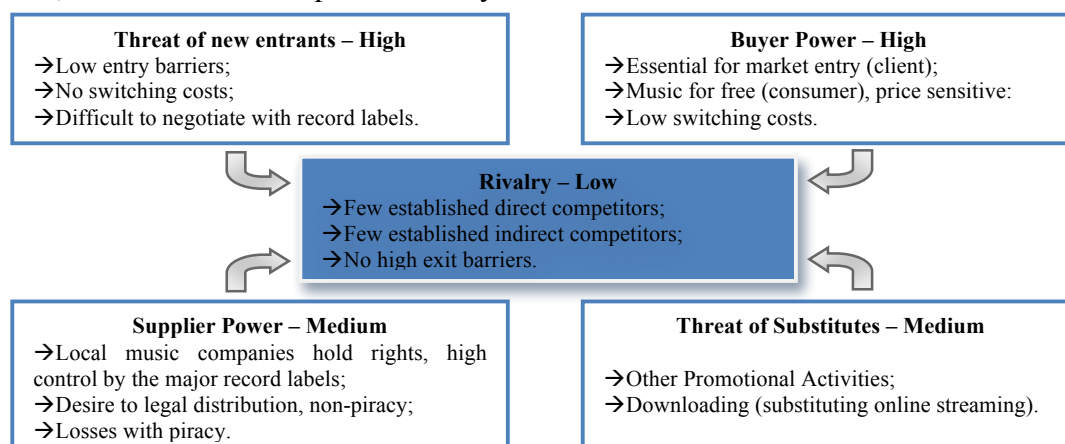
A SWOT/TOWS analysis is crucial to draw strategies in order to better understand and potentiate the opportunities in the Indian market and reduce the inherent risks in a internationalization process.

| | Strengths | Weaknesses |
|--|---|--|
| | 1. Available in more devices and no ads 2. Solid platform development (improved through customer feedback) 3. Team has background in various aspects of music industry 4. Promotes distribution of legal content 5. Unique Business Model | 1. Possibility of imitation by competitors 2. No direct knowledge about Indian music (content management) 3. Limited number of People 4. Lack of Brand Awareness in India 5. Dependency on Investors, and even though, few financial resources |
| Opportunities | SO | WO |
| 1. Rapid technological development 2. India is one of the fastest growing markets in the world in mobile penetration 3. Market Drivers pushing towards legalization 4. Society interested in mobile and instant access to music, concept of streaming established 5. Economies of scale to expand to other markets | → Launch services in multiple devices → Ensure to provide legal content only → Being one of the most known streaming legal platform in India | → Economies of scale and scope, to expand to other Indian cities and other Asian countries → Form partnership with Indian investors to gather more financial resources and support in market entry |
| Threats | ST | WT |
| 1. Significant competition 2. High piracy rate (90-95%) 3. Consumer mindset is to own music 4. Movie Industry owns the lion's share of copyright 5. Low entry barriers | → Take Advantage of team's skills and connections to establish successful negotiations → Educational campaigns to promote legal distribution of music → Focus on communication of competitive advantages | → Strong recognition of the partner minimizes the problems of huge and well-known companies, enter in Indian Market → Form partnership with Indian Company to take advantage of its brand recognition and networks |

These combinations of SO and WO will provide a guideline for the 4M's implementation and what the company has to do to achieve its strategic objectives. Furthermore, ST and WT will be helpful for the risk assessment.

Porters 5 Forces

To understand market conditions and the industry structure that NMusic has to face in India, it is crucial to interpret and analyze the Michael Porter's five forces.



Despite the fact that the market does not look very attractive at first glance, the Indian music industry offers great potential for NMusic and its business model. It is essential

for the company to stifle the market factors that pose great risks. The first step should be the establishment of a partnership with a client who agrees to promote and distribute the platform to its end-consumers. By having a partner by its side, NMusic has tremendously decreased the buyer power and increased its leverage in supplier negotiations. By convincing the client to a partnership, NMusic also eliminates the risk of being substituted by other promotional activities.

The combination of the client partnership and the consequent increased negotiation power with suppliers gives NMusic not only a competitive advantage, but also imposes some form of entry barrier on new organizations. Having developed strong bonds in the industry, it will be more difficult for other companies to establish their business, dealing with the same suppliers and having to face NMusic's client partnership.

Competitive Assessment

In general, NMusic has direct and indirect competitors in the Indian market. All types of music consumption can be considered competitors. Some people continue to buy CDs because they prefer to maintain traditional habits or are not familiar with new technologies. Others use web services like YouTube³¹ or NokiaMusic, amongst others, to listen and share music. Those can be considered NMusic's indirect competitors since they are not a close substitute neither a similar representation of NMusic's service.

Considering direct competition in India, NMusic has to consider the companies that offer a service with similar characteristics. The majority offers a similar platform that allows consumers to listen to music online and on other devices, such as mobile phones, tablets and computer, but not on TV, one of the most competitive attributes of NMusic. Its consumers also have an advantage in the music downloads when comparing with

³¹ YouTube platform allows consumers to create their favourite playlists

others. NMusic's platform does not have a limit to listen and has also a larger variety of music. In addition, NMusic decided not to use web advertisement in the platform, something that many consumers perceived as annoying, although is the current revenue model for all other streaming platforms in India. So, it constitutes another positive point of differentiation from its competitors³², following referred:

Saavn – A platform that gives access to music library anywhere, with millions of songs, albums, and playlists, including the best of Bollywood, *bhangra*, *bhajans*.

Gaana – A music streaming service launched by Times Internet Limited, the digital arm of the Times Group. With a library of close to a million songs, the application offers users music from a wide range of genres from the oldest Hindi films hits, world music, regional and folk songs to the latest Bollywood chart toppers. *Gaana.com* became India's most visited music streaming site within the first four months.

Dhingana – The largest online collection of Indian music, with a catalog that gives instant access to music from every corner of India, be it Hindi, Tamil, Punjabi or any other language. They have premiere access to songs from the Bollywood films.

Indiaone – One place with all the sounds of India, designed exclusively for iPad or iPhone, or Blackberry, for free.

Raaga – A platform with a big list of Indian music (Hindi, Tamil, Telugu, Malayalam).

Internationalization Strategy and process implementation to India

Mode of Entry

Entry modes will help NMusic to determine goals, resources and policy, and choose the

³² The picture in *Appendix 11* presents the principal competitors of the company, the main attributes of each one and a short description of the direct competitors.

appropriate channel that allows it a sustainable internationalization growth. The recommended strategy for NMusic to enter in the Indian market is to partner with an Indian telecommunication company. According to AICEP³³, to enter in India, the partnership with local companies is crucial to obtain success. Therefore, a new Indian brand has to be created by these two companies, both contributing to the initial investment. The partner would have to pay a setup fee to initiate the project as well as do monthly payments to NMusic for each subscriber. Moreover, the team of NMusic in Portugal will contribute with its experience and market knowledge of music and take advantage of the music player already developed for the Portuguese market. NMusic wants to benefit from the brand awareness and marketing resources of the new partnership and therefore must be made a contract of exclusivity in India, with a new client, and must be created a new brand, different from *music box* used in Portugal.

Regarding legal issues, NMusic should use a licensing approach, which will allow making agreements with music producers, in order to use legally NMusic's platform for a certain period of time.

In order to create more brand awareness within Indian consumers, another idea is to create a partnership with a recognized Indian festival. With this partnership, festivalgoers can listen the music of the artists that is performing in the festival for free and try the platform of NMusic.

Since 61% of the music that Indian used to listening is related to movies, it is crucial for NMusic to obtain some kind of partnership with an audiovisual industry. For that, one suggestion is to create a partnership with an Indian movie producer.

³³ AICEP- Trade & Investment Agency is a government business entity, created in 2007, focused in encouraging the best foreign companies to invest in Portugal and contribute to the success of Portuguese companies abroad in their internationalization processes or export activities.

Collaborative Arrangements

After the evaluation of the potential clients (described above in the industry mapping) the first option is Tata as main client in India. Tata is one of India's largest and most respected business conglomerates. It comprises diversified businesses in sectors such as materials, engineering, services, energy, information systems and communications, consumer products and chemicals. The combined capitalization of all the 31 listed Tata companies was \$76.76 billion as of July 2012³⁴, which demonstrates the high diversification of their business portfolio and the power that Tata has in the Indian market. Tata is ranked in third place for mobile phones and one of the main players in TV sector with *Tata Sky*³⁵, which matches NMusic's services. Tata has excellent brand equity and image in India market and it is focusing on new technologies and innovation to drive its business in India. NMusic service might be in the interest of Tata, and so to make a partnership with the Portuguese company, in order to create a differentiation factor in the telecommunication and TV sectors, and consequently increase Tata's subscribers in these two sectors. Moreover, this partnership will allow NMusic to apply the same business model and achieve a significant customer basis, has control on mobile service devices as well as Internet connection. Regarding the partnership with the Indian festival, the event that most fits NMusic values and ideas is Seagram's *100 Pipers India Music Week*³⁶ festivals in Mumbai. This festival is a showcase of different genres to provide an all-inclusive Indian contemporary urban music experience. The opportunity for NMusic is to make a partnership with the owners of the festival, through Tata, and offer an exclusive experience to all festivalgoers. The point is, when a customer buys the festival ticket s/he receives a voucher that can be used to listen for

³⁴ Tata Financial Report 2012

³⁵ TATA Sky is a direct broadcast satellite television provider in India

³⁶ More about the festival in *Appendix 12*

free all songs that will be played in the festival. This will create brand awareness for many potential clients, since this festival has a great attendance by all music lovers.

Concerning the movie producer partnership, the idea is create an agreement with Hindi Cinema³⁷. This partnership will give cinema costumers the chance to listen the music from the movie with exclusivity. Explicitly, when a customer buys a cinema ticket s/he receives a voucher to access NMusic platform and listen for free the movie soundtrack for 48 hours after entering the code. This has the purpose of create brand awareness within the cinema fans and allow NMusic increase its recognition in the market.

Summarizing, the most recommendable way to NMusic enter in the Indian market is applying the partnership with Tata, complementing it with Indian music week and Hindi Cinema to create great advantages in the Indian market, such as brand awareness, services that match its offer, easier expansion through diversification, and growth of sales (Tata’s customer base).

Marketing Mix- 7P’s

The marketing mix will be described through the 7 P’s:

| The 7 P’s | |
|----------------|---|
| Product | <ul style="list-style-type: none"> ▪ Platform with unlimited access to millions of LEGAL songs on TV, PC, tablet and smartphone; ▪ Easy and intuitive navigation; ▪ Share the playlists via Facebook, Twitter and email; ▪ Offline mode; ▪ Music content adjusted to Indian's music industry; ▪ Possible to listen music’s in the Indian music week festival in Mumbai and some Bollywood movies according to the partnerships. |
| Price | <ul style="list-style-type: none"> ▪ Client (Tata): (pay per subscriber + initial fee³⁸); ▪ Final Customer: does not pay for the music only data planning (not to NMusic). |

³⁷ Bollywood is the informal term popularly used for the Hindi Cinema film industry based in Mumbai. Bollywood is the largest film producer in India and one of the largest centers of film production in the world.

³⁸ Concerning the B2B, the client will have to pay an initial fee for the platform itself and all the technological development. In this case, Tata will buy the service and use it as their service in a certain amount of years, depending of the contract and the negotiations ended

| | |
|--------------------------|---|
| Place | <ul style="list-style-type: none"> All the distribution process is done by NMusic's client, Tata, which will use its resources and networks to reach the final consumers and provide them access to the platform. |
| Promotion | <ul style="list-style-type: none"> B2B: Demonstration edition of platform, customized to Tata³⁹; B2C: <ul style="list-style-type: none"> Tata offers to their clients three months access for free; Education campaigns (ads); Word of mouth; Possible to listen all music of the artists that will perform in the Indian music week festival in Mumbai for free⁴⁰; Regular campaigns in events sponsored by Tata with stands to try out the service and presence of artists. |
| People | <ul style="list-style-type: none"> For India: NMusic will need to expand in terms of HR with people that understand how music industry in India works and what the consumer's preferences are. It is crucial to hire the best professionals available in the market. |
| Processes | <ul style="list-style-type: none"> Customer support: Regular feedback reports from Tata to NMusic; Marketing: Meetings for advise in campaigns; Music suppliers: Reports with feedback from NMusic to Artists (once a year), Blog, regular communication. |
| Physical Evidence | <ul style="list-style-type: none"> The platform should be constantly updated with the recent releases (adapted to the consumer's preferences). In addition, the design must be attractive and innovative in order to keep the customer's satisfaction. |

Implementation Plan

The implementation plan to the new target market was made according to the four M's:

Memo – It is defined all the objectives and initiatives in the plan divided in four key areas – Financial, Consumer, Internal and Learning – developed below:

| Strategic Themes | Objectives | Measurement | Target | Initiative |
|------------------|--|---|--|--|
| Financial | Establish and grow sales/ # of subscribers through Tata | Number of subscribers | Achieve 2% of Mumbai Population | Marketing strategy- offer new experience to consumer |
| Consumer | Create brand awareness Ensure customer satisfaction | Market research Reports by Tata | 20% of consumer awareness of the service in introduction phase | Exclusive access in concerts for NMusic clients; Offering months of the service for free |
| Internal | Recruit Indian employees with know-how in music industry; training | Number of employees Level of training (CV) | Five Indian employees with background in music industry | Training workshops; Social activities to create a good environment |
| Learning | Improve internal communication Improve skills of team | Efficient communication, reports Success of negotiations | Satisfaction of both teams in terms of communication | Cultural training Training for current team on Indian music |

Man – In terms of the team in India the workforce needed is specified as well as the tasks performed by each member. It was suggested by AICEP that NMusic should hire

³⁹ NMusic has to promote its product to Tata in order to convince them to buy it and form a partnership with Nmusic

⁴⁰ After the festival all customers can insert a voucher number in a website provided and have Tata service for free 2 months.

at least three new Indian employees, one team Indian manager, a contract and content manager, and a marketing manager and public relations.⁴¹

Money⁴² – Includes all the costs the company is expected to have with this expansion, and is divided in three areas: investments, HR and operational expenses. It is foreseen an investment of 65000€ to 75000€. It is also important to mention that the setup fee Tata will pay would be greater than the initial investment, in order to cover it.

Minute – It is developed the time schedule towards complete implementation in India. Thus it will take several steps before NMusic can actually start the business process, as there is activities requiring some previous conditions to the implementation proceed. This includes core matters such as Market Research, Promotion, choosing the partnership or providing constant evaluation and follow-ups. So, in the **Minute**, all the activities of this implementation plan are divided into periods – before launching the platforms and after entering the market. Firstly, there are the activities related with negotiation both with Tata and with new suppliers (Indian Record labels). Secondly, NMusic needs to apply for the patent and register the company in India, and posteriorly rent an office in Mumbai. Third, after reaching an agreement with Tata, NMusic has to expand its HR for India in order to training them, and also to start developing the platform adapted to Tata's demands and requirements, with the support of its IT experts, and take care of the design. Once the platform is operational and tested and the team is prepared the service is launched. After that all activities are mainly related with marketing advice for Tata and content management. The expectation in terms of the timeline is that the first period before the launching will last approximately two years.

⁴¹ Please consult the *Appendix 13* to better understand all the new employees functions

⁴² Please consult the *Appendix 14* to better understand all the components of monetary issues

| Act | Before enter the market | Time in months | Dependent of Activity: | Act | Before enter the market | Time in months | Dependent of Activity: |
|-----|---|----------------|------------------------|-----|---|----------------|------------------------|
| 1 | Negotiate with Tata | 3 | | 9 | Implementation / Testing of new design of platform | 2 | 2 |
| 2 | Sign the contract with Tata | - | 1 | 10 | Training course for the new team | 2 | 6,7 |
| 3 | Negotiations with record labels | 4 | 1-2 | 11 | Marketing Research to provide that all of the consumers desires are satisfied | Continuously | 1 |
| 4 | Negotiations Hindi Cinema | 3 | 2 | 12 | Update the content of the platform | Continuously | 2 |
| 5 | Negotiation with Indian music festival | 2 | 2 | 13 | Launch the new platform in India | - | 1-11 |
| 6 | Register NMusic in India and rent an office in Mumbai | 2 | 2 | 14 | Marketing campaigns (Tata responsibility) | Continuously | Activity 13 |
| 7 | Recruitment of the new team | 3 | 2 | 15 | Constant market research and keep the platform updated | Continuously | Activity 13 |
| 8 | Changes and Development of new platform's design | 3 | 2 | 16 | Briefing sessions about updates and changes with Tata | Continuously | Activity 13 |

Risk Analysis

The potential risks of this implementation plan are mainly covered in the following analysis that will provide a detailed overview of what might go wrong, as also a contingency plan for each possible risk.

| | Risk Analysis | KPI | Contingency Plan |
|------------------------|---|---|---|
| Client and Partnership | - The possibility that negotiation with the Tata Group fail, and the companies cannot agree on common conditions; - Possibility of the failure of the negotiations with Indian Music week and Hindi Cinema. | - Reports by Tata; - Competitors Research. | - Negotiate with other partner ⁴³ ; - Try another Indian music festival ⁴⁴ and another movie producer. |
| Financial | - Possibility of lack of financial support of Tata; - Possibility of not being able to get support from Portuguese or Indian investor. | - Number of subscribers; -Profitability from Tata. | - Charge a value for the service instead of being free for Tata subscribers; - Advertisements on the platform could generate additional financing; |
| Commercial | - Not achieving the strategic objective of 2% of Mumbai population as clients. | - Number of downloads of the platform. -Number of web site viewers | - Implement more marketing campaigns through other Tata Group companies. |

⁴³ Other options include beverage companies, such as Kingfisher, India's most popular beer brand, branded by the United Breweries Group, which is partially owned by the Heineken Group. Another potential client is the computer manufacturer Dell, who sponsors various musical festivals in India and also fits smoothly with NMusic's services and values

⁴⁴ Sunburn festival it is another option- www.sunburn.in

| | | | |
|------------------|---|--|---|
| Operational | <ul style="list-style-type: none"> - Possibility of the failure of the negotiations with Indian record labels and a licensing agreement cannot be created with them; - Inability to capture good Indian music releases | <ul style="list-style-type: none"> - Time spent in the negotiation; - Success in the negotiations. | <ul style="list-style-type: none"> - Partnership with local record labels and radios; - Promote local artists through Tata channels. |
| Culture / Habits | <ul style="list-style-type: none"> - NMusic's innovative business model cannot be well perceived by the market and clients; - Overcoming the cultural differences between Portugal and India could be a great challenge for; - The challenge to change consumers' attitude toward streaming over owning music. | <ul style="list-style-type: none"> -Reduction of illegal downloads percentage | <ul style="list-style-type: none"> - Improve the incentives of Tata's to capture more clients in order to create more brand awareness; - Support campaigns the benefits of streaming service instead of download. |

Conclusions and Recommendations

The main question for NMusic is whether India is an attractive market for the company's market expansion. NMusic is facing a wide variety of critical success factors which all have a crucial impact on the successful market entry. The main recommendations are highlighted below.

First of all, as Indian consumers are not used to pay for music, with the high levels of piracy, it is critical for the business sustainability that the access to the platform (**service**) is always provided free.

NMusic's efforts are profoundly connected with **partnerships** in the industry. Without the support of strategic alliances, NMusic will not be able to enter India with their current business model. The partnership with Tata should be solid and successful in order to sustain the business model and to increase the possibility to expand to other Indian cities in a medium term period. Since NMusic is not directly responsible for the consumer relationship, it is important to have an efficient and constantly communication between Tata and NMusic. Tata can do this through reports on a weekly basis to NMusic office.

Additionally, it is crucial for NMusic to understand the **culture differences** between India and Portugal. Especially when it comes to music, which is a strong artifact of culture, differences in ways of doing business, but also in the understanding of music

and its consumption, can make or break NMusic's success in India. Since India has a wide variety of local music, which is the main preference of the consumers it is fundamental to NMusic to develop strong partnerships with local music producers. Accordingly, it is very important for the NMusic to acquire knowledge and skills through its **team** to manage this new market and be able to succeed in its negotiations with Indian music suppliers. This passes through hiring new Indian people with know-how and experience in Indian music industry. A new team should create be a sustainable source of competitive advantage in India.

Furthermore, being a music entity that respects the industry, NMusic should adopt a more active role in the **music legislation**, so that the illegal downloads in India reduce and consequently the competition. NMusic should has an active role in this area and support all the initiatives to reduce piracy.

As one of the objectives is create brand awareness in 20% of Tata clients, it is crucial to implement an intensive **promotion** plan in association with the partner. NMusic will assume a counseling position in order to achieve the penetration rate of 2% in Mumbai. This will allow the company to be recognized in the market, and fight against the Indian **competitors** already present in the market.

In conclusion, if NMusic manages to secure **financial support**, establish strong partnerships with strategic alliances and uses its strength in negotiations, the company has already one foot in the Indian market.

Concluding, when NMusic manages to secure financial support, establish strong partnerships with strategic alliances, uses its strengths in negotiations, accepting the lack of cultural knowledge and be able to face all the competitors NMusic is ready to establish in India and be successful there.

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