

A Work Project, presented as part of requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

INTERNATIONALIZATION VENTURE ANALYSIS OF NMUSIC TO THE SPANISH MARKET

From Strategy to Implementation

MARIA INÊS OLIVEIRA RIBEIRO | 935

A Project carried out on the Field Lab in Entrepreneurial Innovative Ventures, under the supervision of:

Professor Filipe Pamplona Castro Soeiro

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Executive Summary

During decades consumers were used to pay to listen to music and artists were recognized by their work. However, a technological shift revolutionized the music industry and the music became digital, which boosted the illegal ways to obtain songs. Nowadays almost nobody pays to listen to music. Several legal business models were tested and one has been firmly proved as the most effective one – music over streaming. That is what Nmusic offers in Portugal and wants to offer in the Spanish market. This work project studies the company and its implementation process to Spain. The objective is to launch the platform in September 2013 and to be one of the most well-known music streaming services in Spain. Thus, after all the internal and external analysis, it was defined the marketing mix, the mode of entry (a joint venture with Telefónica) as well as deadlines, investment, people and objectives. A risk assessment and recommendations were conducted in order to achieve a successful Nmusic's internationalization.

Key Words: Digital Music; Internationalization Implementation Plan to Spain; Joint Venture.

Literature Review

It was in the early 1980s that the concept of listen to music changed in society¹. In 1995, a new digital format, MP3, offered the possibility to convert CDs into digital files, enabling the storage in the computer [Digital Audio 2012]. The “dissociation of the music from the object (CD) takes away from the value of the object and places the emphasis on the music itself reinforcing the view as an ‘experience good’”[Collard 2008]. With more sophisticated MP3 software and faster modems, the Internet file sharing networks were proliferating, which is the example of *Napster*. The music industry was undoubtedly changing, justified by the fall of 10% from 2000 to 2001 of traditional music shipments [Digital Audio 2012] and by the 40% sales rise of blank CDs in 2002 [Mann 2003]. Also, the *Internet Business News* revealed an increase of 300% from 2001 to 2003

¹ It was the first impact in the music industry with the introduction of Compact Discs (CDs), that consumers realized that the shift did not compromise the sound quality.

of web pages and peer to peer (P2P) applications focused on file sharing [Digital Audio 2012]. The industry felt another huge impact with the introduction of iPod in 2002 and the iTunes Music Store in 2003 [Collard 2008]. Therefore, people had the option to legally buy their songs and to transfer them to innumerable devices. Furthermore, the notion of mp3 players was totally established which boosted the legal and illegal digital music industry. Actually, within 2004 and 2007 the digital music revenues increased from 4 million to almost 3 billion euros [Gibbon and Hawkes 2008]. Also, data from IFPI revealed that in 2008 95% of music downloads were illegal. In 2007, the introduction of iPhone opened a new perspective by including musical contents in mobile devices [Digital Audio 2012]. Hence, the market trend of *portability* starts to gain significance for the increasing number of musical digital content in multiple devices.

In 2008, a new business model of music subscription appeared and it has been seen as the most sustainable solution in the music industry for all the stakeholders [Digital Audio 2012]. In fact, the concept of accessing to a specific song was already possible with other tools, like for example *YouTube*, which is considered a platform of music access. Also *Pandora* and *Last Fm* are platforms where consumers can access to their songs in an easy way, without having to own them. However, in 2008 it appeared the concept of subscribing for a music streaming service. Companies like *Spotify*, *Deezer* and *rdio* offered access to a catalogue of millions of songs whenever the clients want, without needing to store the files in the computer, with a specific fee, available in multiple devices. In fact, the concept of music ownership is no longer a reality; instead, the cloud technology as well as the access is seen as the present and future trend [Shreffler 2012]. It is within this context that Nmusic offers music access, competing with illegal downloads by offering a free service² to the final consumer with total availability: anywhere and anytime. Finally, the regulation should be considered, since when the unauthorized download is not

² The service is free for most of the clients of Nmusic's partner. If they are not clients of the partner, they have to pay for the service.

punished, legal music companies are not competing in a fair market. The challenge of the digital music industry is therefore not only guaranteeing the artists rights, but also ensuring what the final consumers want: *portability, multiple devices, cloud* technology, immediate *synchronization* and *free access*.

1. Scope of the Work Project

The aim of this work project is the internationalization of the Nmusic's music player into Spain.

The business opportunity arose from market trends and problems derived by the digital music industry. The digitalism was growing so fast that it ended in a limit: consumers did not want to pay more for music and simultaneously, the artists were not paid for their work. Thus, a different industry mapping was drawn: record labels, artists, authors and all the different stakeholders suffered an adaptation with the changes in the digital music industry. In this context, Nmusic positions itself as a solution by offering to the final consumer a free streaming service, via a B2B2C model, ensuring the music legality, availability, portability and synchronization in all the different devices users can access.

As the company is already operating in the Portuguese market and its business model has been consistently tested and proved as a success, Nmusic does not feel that its next step will be focused only in Portugal. Its partner PT - Portugal Telecom gave to Nmusic brand awareness, attracted complementary partners, captured clients³ and invested in the music player, which was crucial for the establishment of the music player in Portugal. Consequently, Nmusic wants to decrease the dependency that it has with its only client – PT - and to expand the revenues. In addition to that, as the music player is already developed they can easily obtain economies of scale and scope. Negotiating and managing with other representative cultures would also contribute to acquire new competencies and most probable generate new competitive advantages. Thus, and according with

² 80 000 subscribers from an universe of 1,2 millions of Meo's clients and 100 million in PT. Analyzing the Portuguese population, Music Box has a penetration rate of 0,8%.

its vision and what was aforementioned, the internationalization of the player is a reality that must be materialized soon. They want to be present worldwide and moreover the Spanish market is tremendously attractive for its geographical proximity, Iberian culture aspects and the potential access to Latin and South America. Besides, a key note should be done in the sense that Nmusic has signed a contract with a Spanish partner, Telefónica, to start the internationalization process.

The research question to this work project is: *how can Nmusic design, implement and potentiate its value proposition in the Spanish Market?*. To answer this research question, other sub-questions have to be analyzed: *what is the biggest challenge in the digital music industry?*, *how to solve it?*, *what are the key issues to consider when internationalizing?*, *how is the Spanish music market?*, *what are the sources of competitive advantage of Nmusic and how these ones can be potentiate within an internationalization framework to Spain?*, *what are the main factors that characterize the mode of entry?* and *what do Spanish customers want in the music context?*.

2. Methodology

Throughout this work project, the internationalization strategy and implementation plan should follow an approach to firstly better understand the company itself and the industry and finally apply that knowledge into the Spanish market. Following the Resource Based View model, it would be fundamental to intensively study the resources (and capacities) available within the company and finally analyze how those resources can be leveraged in order to be used in a valuable and differentiated approach [Channon 1997]. The resources chosen have to be crucial in strategic terms for having sources of competitive advantages: valuable, rare, inimitable and supported by the organization.

A 360 degree analysis was conducted: the visits to the business incubator Startup Lisboa, the access to literature review (research studies, papers, case studies and books covering the internationalization and the digital music industry themes), as well as meetings with AICEP,

authors' society⁴ and record labels⁵ involved with Nmusic and accessing the Spanish market were crucial to propose the final internationalization plan. Finally, feedbacks from Spanish customers were considered to design and implement the best strategy in this market. A risk assessment was suggested and, besides main conclusions, a set of recommendations to support the mode of entry and the implementation plan in Spain was developed.

3. Firm Description

3.1 Business Opportunity

With the iPod introduction and the establishment of illegal file-sharing and P2P networks, the music industry experienced a shift from the traditional files to digital ones. For Celestino Alves and from his experience with *Música Online*⁶, selling songs *a la carte*⁷ was unsustainable in the long run, since competing with illegal platforms was unreasonable. The music subscription was though seen as a solution for a legal approach in the digital music industry. Actually, there are important key drivers that sustain the music subscription business model. The first one is the trend for shifting from the music ownership to the music access [Shreffler 2008] - it is no longer a need having the digital file stored in the devices, occupying memory space. However, the driver of music access has to be aligned with the *portability* concept: subscribers have the possibility to easily access their favorite songs through different devices: computer, smartphone, iPod, tablet and television. Moreover, it is implicit an automatic synchronization which solves the difficulty of transferring the files between the apparatuses. Finally, some partnerships have to be made with Internet Service Providers, to ensure a free or lower price charged for the music subscription - *bundling* business model [Digital Music Report 2012].

⁴ SPA – Sociedade Portuguesa de Autores

⁵ Universal Music Portugal

⁶ *Música Online* was launched in 2002 and it was the first online music store in Portugal. Being the responsible for the idea, Celestino Alves, after some time, decided to sell his shares to Sapo.

⁷ *Selling songs a la carte* means that the user does not have to buy the entire album, but rather, he has the opportunity to buy each song separately.

Nmusic offers a free streaming music service, available in all devices (triple play), without internet connection and with the possibility of download an up to ten songs per month. Besides, it is a legal platform that ensures the copyrights and royalties. Therefore, Nmusic presents to the world a different perspective of the music paradigm.

3.2 Historical Background

Founded in 2010 and headquartered at Lisbon, Nmusic is a Portuguese startup emerged from a digital music store - *Música Online*. Even though that the store was getting market share in Portugal, selling more than *Itunes*, the CEO soon understood that the business model was not sustainable in the long run. Portuguese people did not buy songs and consequently, the legal downloads had a residual value. Therefore, Celestino Alves analyzed the business context and Nmusic appeared. The *N* from *Nmusic* refers to the large amount of songs that Nmusic offers.

In November of 2010, Nmusic created with PT the brand in Portugal – *Music Box* and in 2012, was invited to occupy an office in the project *Startup Lisboa* in order to encourage the other rapid growth startups to potentiate their projects. The major shareholder of Nmusic is the group Diligence Capital SGPS SA⁸. However, Pathena SGPS SA⁹ and Celestino Alves¹⁰ (Nmusic's CEO) also have a contribution on the Nmusic's equity.

The team¹¹ is composed by fifteen collaborators, being divided into two main areas: operational and technical. In Lisbon, the operational team has six people and it is responsible for the management of the company, as well as contracts and relationship with record labels and other entities – they manage the product, the contents and the operational part. The technical team is responsible for the development and technical maintenance of the music player and it is placed in Oporto. The fact that both teams are geographically separated is justified by the inclusion of

⁸ Brief information about Diligence Capital SGPS in Appendix 1.

⁹ Brief information about Pathena SGPS SA in Appendix 2.

¹⁰ Celestino Alves Biography in Appendix 3.

¹¹ See in Appendix 4 a graphical representation of the team.

experienced collaborators, who worked with NDrive¹², which was from the group Diligence Capital - Nmusic was avoiding the outsourcing and internalizing a competitive advantage. Three commercial delegates in China, Nordic and South America countries are also part of the team. It is relevant to mention that the team is oriented by Celestino Alves, the CEO, who has two decades of experience in media and music industry and his whole team has a professional background related with music (majors and independent record labels, radio and journalism). Moreover, all of the collaborators show an open, innovative and international culture and focus (e.g. networking in fairs and different nationalities within the team) that reflect on the company's orientation. Additionally, Nmusic is a truly customer-oriented firm, aligned with a constant interest on technology as well as innovation. In what concerns the Spanish market, it is important to mention that Nmusic is already involved with Spanish stakeholders¹³.

3.3 Products and Services Offering

Nmusic developed a multiplatform music streaming (and hereafter a video)¹⁴. It guarantees the access to music as a free good for the final consumers and, at the same time, respects the legality of the industry. The clients have free access to a catalogue of fifteen millions of songs, without occupying any memory size and without transferring to different devices, since Nmusic is the first service in the world being triple-play¹⁵. The player is present in computer (MAC OS, Windows and, in the future, Linux), smartphone and tablets (IOS, Android and Windows Mobile 7) and television (MEO IPTV with box) and it guarantees the immediate synchronization between devices. Clients just have to download the platform and login in. Besides this, the music player allows the social interaction, being possible to see what our friends are listening to. Moreover, it

¹² NDrive is a company from the group Diligence Capital focused on navigation services and GPS, that is truly technological. Being a company from the group that invested in Nmusic and at the same time had the knowledge to maintain the technical requirements, was essential to the development of the music player.

¹³ Nmusic has contact with Telefónica (to be the partner) and the major record labels are iberian.

¹⁴ Consult Appendix 5 to a better description of the music player functionalities.

¹⁵ Triple play is a system that through an 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.

works without internet connection, in offline mode and it offers the possibility to download an up to ten songs every month.

The core business of Nmusic is undoubtedly its music player. However, they have been developing other activities to complement the services offered and to diversify the business dependency, that in the future could have more impact than what it has nowadays. One of them, is the fact of be almost a record label but with a different approach – Nmusic pays to the artist 50% of the revenues for each stream listened by an user. Thus, they have been slowly reducing the dependency on record labels, applying the model of Magnatune⁶ [Fedea 2010]. Nmusic also did the activity of producing the new song for the TMN commercial – ‘*Vamos Lá!*’¹⁶, which was a tremendous success.

4. Mission, Vision and Strategic Objectives

Nmusic’s **mission** is simple and straightforward: “To make music accessible to everybody and everywhere”. As Nmusic did not have a **vision** statement, the following was proposed and agreed: “Be an international reference in the music industry, revolutionizing the way people listen and live the music within three years.”. However, they had a strategic guideline – **triple axis**¹⁷: *listening, sharing and living*.

As mentioned above, Nmusic is in its essence a born global firm, since internationalize is its next step: until the end of 2012, they want to be present in at least one country in South America, Europe and Asia or Africa¹⁸.

Followed by the research question, the following ones are the **strategic objectives** that are SMART¹⁹ and crucial for the success of the implementation plan:

¹⁶ Link commercial on YouTube – Available at <http://www.youtube.com/watch?v=0nbaNOxw9RI>

¹⁷ See in detail the triple axis in Appendix 6.

¹⁸ Manifesto Nmusic – “The service as well as the business model revealed to be viable and profitable, that is why Nmusic wants to internationalize the player to other geographies but always respecting the business model” and “The current negotiations make believe that until the end of the year Nmusic will be present in at least one country from Latin America, other from Europe and at least one more in Africa or Asia”.

- Implementation in Spain of the music player in the 2nd semester of 2013;
- Achieve at least 1% as clients in the Spanish population until the 2nd semester of 2014²⁰;
- Be one of the top 3 music streaming services in Spain, in the 1st semester of 2015;
- Proportionate different experiences to clients related to music behind the music player once a semester, throughout event management activities²¹;
- Assure innovative features and versions correspondent to the market and consumer needs, according to what the majority of consumers consider necessary under a customer analysis report.

5. Business Model

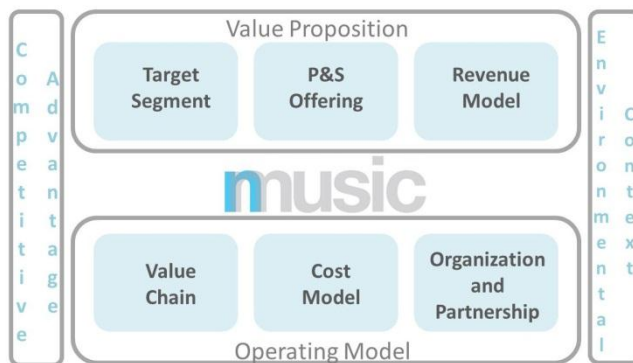


Figure 1 – Nmusic's Business Model

Environmental Context²²

Political	<ul style="list-style-type: none"> - Royalties and copyrights have to be paid to authors, artists and musicians; - Lack of legislation regarding music downloads.
Economical	<ul style="list-style-type: none"> - The illegal downloads contribute to perceive music as a free good; - Economical conjuncture is a threat to the Nmusic's partner and other investors.
Social	<ul style="list-style-type: none"> - Music is seen as a timeless good but with instability of genres trends; - Ownership content concept is established, although streaming is being known; - Illegal downloads not seen as a crime in some countries.
Technology	<ul style="list-style-type: none"> - Technological partnerships are crucial for the music platform; - It requires an internet connection developed; - Availability of the application in different devices (triple play).

Figure 2 – PEST Analysis of the Music Industry

¹⁹ SMART - Specific, Measurable, Attainable, Relevant and Timed

²⁰ As in the Portuguese, Nmusic has a penetration rate of 0,8%, we believe that as the Spanish population knows better the concept of streaming will adopt more easily the service than the Portuguese people.

²¹ In the Portuguese case, show cases just for Music Box clients and the access to a Music Box's tower in music festival Sudoeste TMN are examples of proportionating different experiences linked to the music behind the music player.

²² Please Consult Appendix 7 to a better description of the Digital Music Legislation.

Value Proposition - As Nmusic's objective is offering music like water is offered, the company had to find a sustainable legal strategy to ensure that the final consumer could actually listen to their songs paying nothing, aligned with a high quality sound and no ads. However, that framework implied a strong partnership, preferably, with a telecommunication company interested in music. Therefore, a B2B2C *bundling* business model is applied and the whole strategy is defined, even for the intermediate client and for the final consumer. In Portugal, Nmusic ensures exclusivity for PT with Music Box, which means that PT is the only client that Nmusic has. Even though that Nmusic does not work directly with the final consumers, the business strategy is oriented to them. The music player is mostly consumed by young clients (15 till 35 years old), from all social classes. Moreover, with this approach, Nmusic benefits from brand awareness and marketing resources, because these functions are PT's responsibility within the partnership, that will be discussed later. Also the access to the market and the technological availability to the final users are essential keys when the partner is chosen.

The **revenues structure** of Nmusic is composed by about 99% from PT and 1% from the *stand alone*²³. From PT, Nmusic receives monthly for each subscriber of Music Box and the value is variable, depending on the number of subscribers captured by PT. Currently, Music Box has about 80 000 users and if the number increases, the price paid for each user will be cheaper.

The clients of Music Box can be either clients of PT or not. Not being a PT client means that the consumer pays for the service a value of 9,99€ for month. Being a PT client, usually the user does not have to pay for the service. However, some PT clients do not have their tariff under the package available for Music Box, and thus, a value of 4,99€ per month is charged, even though that the first three months are free.

²³ *Stand alone* refers to the Music Box clients that are non-PT clients.

Operating Model - The **cost structure** of Nmusic includes the costs paid to record labels, artists, logistics and staff. To record labels and digital aggregators²⁴, Nmusic generally established an agreement to pay monthly for each subscriber. This cost is variable with a weight of about 50% on the total costs. However, to independent record labels, the price is paid by each stream listened²⁵. The authors and the artists have also to be paid. In the Portuguese case, to SPA - *Sociedade Portuguesa de Autores*²⁶, for each stream listened by a client it is paid a minimum value of 0,0025€²⁷, which is also considered a variable cost. To GDA - *Gestão de Direitos dos Artistas*²⁸, it is paid a share for all the transactions done. Both costs represent 12% of the cost structure. Finally, 38% is oriented to logistics and personnel costs, which is classified as a fixed cost.

Value Chain Analysis – Nmusic follows a value chain structure defined mostly by the importance of music content and negotiation in its primary activities, because it is organically the raw material/input. In addition to that, as Nmusic is always looking for innovation, the technology development is also considered a core activity. Due to the partnership Nmusic does not have to spend resources on marketing and sales neither in customer services. Financial support, human resources management and maintenance of the music player are the secondary activities. However,

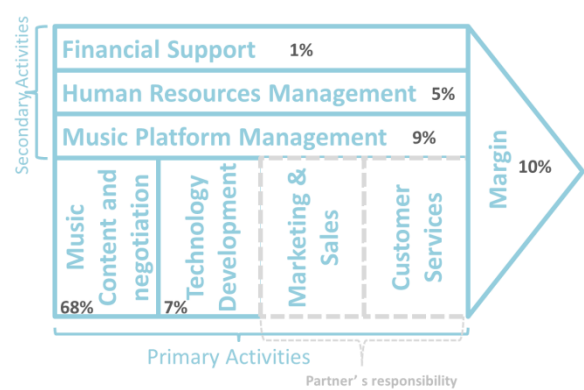


Figure 3 – Value Chain Analysis

this last one has some significance because it requires constant focus and management. As the business has to be sustainable and replicable in the long run, it is estimated that Nmusic obtains a margin of 10%.

²⁴ A digital aggregator combines several small record labels or artists in order to facilitate the negotiations with music companies like iTunes, Spotify and Nmusic.

²⁵ As the value paid for each stream is not revealed by any entity, there are some suppositions that, for example *Spotify* (one of the major competitors of Nmusic) spends about 0,005 USD. Available at <http://spotifyroyalties.blogspot.pt/>

²⁶ SPA - Authors Portuguese Society

²⁷ Meeting with SPA

²⁸ GDA - Artists Rights Management is an entity that manages in a cooperative way the rights of the artists (actors, dancers and musicians).

Organization and Partnerships - With the *bundling* and B2B2C business model, Nmusic receives several advantages, even though that is truly dependent on just one client. Firstly, being an internet service provider enables Nmusic to offer its service without technological constraints. Moreover, Nmusic does not have to invest in brand awareness and it does not have to spend marketing resources on that, since it is partner's management responsibility. Finally, the company should have a high penetration rate on the country and desire to be linked to the music. Nmusic, for example could benefit from the PT's facilities like *TMN ao Vivo, Festival Sudoeste and Radio SWtmn* that can potentiate the music player. Also, for PT it is the first and unique service within the group that covers the three brands: *Sapo, Meo and TMN*.

Competitive Advantage (VRIO) - When analyzing the VRIO framework, it is revealed the competitive advantages that Nmusic has. In fact, these ones should be taken into consideration when internationalizing. The valuable team as well as the knowledge on the customers' needs (for example, free service aligned with high quality) are important capabilities that make one of the most important assets of the company, being though considered as sources of sustainable

advantages. Also, the possibility to tailor made the service to the respective partner is something unique that no other competitor offers, ensuring another sustainable advantage. The case of triple play

Resource/Capability	V	R	I	O	Competitive Implications
Human Capital - knowledge	✓	✓	✓	✓	Sustainable Advantage
Music Player/Platform	✓	✗	—	—	Parity
Partnership	✓	✗	—	—	Parity
Negotiation system experience	✓	✗	✗	✓	Parity
Knowledge of the consumer needs and desires (almost free for consumers)	✓	✓	✓	✓	Sustainable Advantage
Triple Play presence	✓	✓	✗	✓	Temporary Advantage
Tailor made service to the partner	✓	✓	✓	✓	Sustainable Advantage

Figure 4 – Nmusic's VRIO framework

presence is considered vulnerable to imitate and consequently is not a sustainable advantage, but rather a temporary one. In what concerns the competitive implications that are parities, these ones should be avoided or even improved when internationalizing. Thus, the music platform player and the partnership established with an Internet Service Provider – ISP, are not unique characteristics

of a company like that, since for example *Deezer* has also a partnership with *Orange*. It is also on their negotiation experience that they are not so competitive, since they still do not have power to negotiate. Overall, Nmusic follows a hybrid competitive advantage model, but the most relevant ones belong to the differentiation advantage, for the knowledge of the consumers and the tailor made service to the partner. However, a cost advantage is perceived by the extremely high level of human capital knowledge, which increases the productivity and reduces costs and by the possibility to freely offer the music player, which for the partnership established also reduces costs in terms of technology and marketing.

6. Industry Mapping²⁹

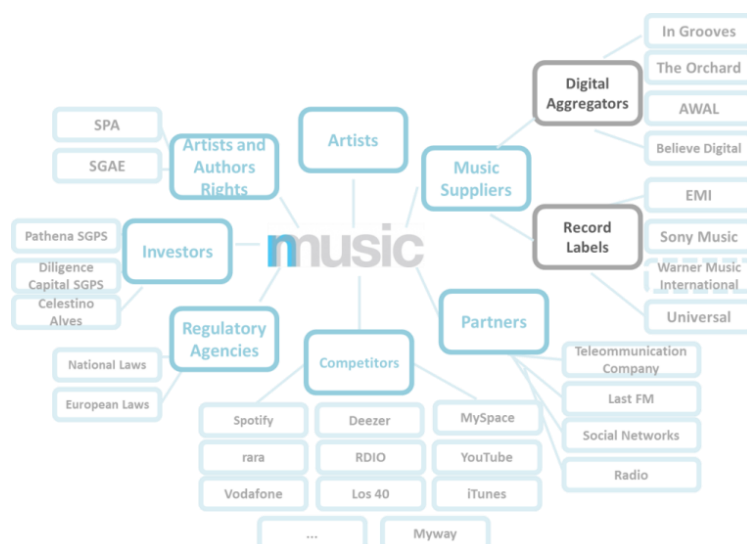


Figure 5 – Nmusic’s Industry Mapping in Spain

It is crucial to identify all the players that interact with Nmusic. As Nmusic is a system that respects the music entities, there are some rules to obey. Firstly, record labels have to be paid for their artists’ presence in the music player. The ones that Nmusic have negotiated are the four majors: *Universal*, *EMI*, *Sony Music* and *Warner Music International* (under negotiation). Secondly, there are digital aggregators – *The Orchard*, *AWAL*, *Believe Digital* and *In Grooves* that

²⁹ Please consult Appendix 8 to see the Industry Mapping of the Portuguese situation.

are the providers for Nmusic. Also, the authors have to be paid, which in the Spanish market, is the SGAE - Sociedad General de Autores y Editores. However, according to Dr. Lucas Serra³⁰, the SPA can be the intermediate player between Nmusic and SGAE, charging the same price. These entities are extremely influential on the Nmusic's business, since half of their costs are applied to buy the songs and the royalties. As aforementioned, a Spanish telecommunications company – Telefónica - will be the most important partner of Nmusic. However, Last FM is also considered a partner, since it contributes with artists' info as well as recommendations in the music player. Moreover, it is foreseen a partnership with some social networks and radios to promote the player. As there are European and national laws regarding the royalties and the distribution of digital music files, they have to be included in the industry mapping of Nmusic.

7. TOWS Analysis³¹

To better understand and potentiate the opportunities in the Spanish market and the risks to mitigate, a TOWS analysis is essential to draw strategies. Thus, one of the most important conclusions is that Spanish people know what is *streaming* and consequently there is no need to educate the users and it boosts the opportunity to implement it in Spain. I would also consider

	<p>External Opportunities</p> <ol style="list-style-type: none"> Spanish people love music Customization to other partners Streaming concept established Good networking in Spain Expansion to South America 	<p>External Threats</p> <ol style="list-style-type: none"> High penetration of illegal downloads Possible streaming service on facebook Possible streaming platform of iTunes High penetration of online radios
<p>Internal Strengths</p> <ol style="list-style-type: none"> Strong bmodel Valuable team Free w/ high quality No ads, offline mode and triple play Legal platform 	<p>SO</p> <ul style="list-style-type: none"> Being the most well known streaming legal platform in Spain; Apply the business model in Spain, since Spanish people love music and there is good networking. 	<p>ST</p> <ul style="list-style-type: none"> Free use with high quality avoids the penetration of illegal music download; Strong brand awareness of the partner in order to reduce the risk of entrance of iTunes or Facebook. Incorporate an online radio in the product
<p>Internal Weaknesses</p> <ol style="list-style-type: none"> High cost weight on record labels No negotiation started with independent Spanish labels Dependency on investors Platform possible to imitate 	<p>WO</p> <ul style="list-style-type: none"> Use the good networking in Spain to gain negotiation power and reduce the dependency on investors; Economies of scale and scope , to expand to South America and to reduce the cost weight on record labels. 	<p>WT</p> <ul style="list-style-type: none"> Strong recognition of the partner minimizes the problems of the possible movements of iTunes and Facebook into streaming; Reduce threat of competition by adding unique characteristics in the platform.

Figure 6 – TOWS Analysis

³⁰ Dr. Lucas Serra, from SPA

³¹ Please consult Appendices 9, 10 and 11 to see the TOWS Analysis in the Portuguese case and the SWOT Analysis in the Portuguese and Spanish markets.

strategic combinations as SO and WO to provide the major guidelines for the Implementation Plan, like the objective of being the most well-known music streaming platform in Spain

and the expansion to South America, and ST and WT for the Risk Assessment, as for example the incorporation of an online radio to not lose the clients that love to listen to music by radio and the differentiation of the product, by adding unique characteristics in the platform.

8. Michael Porter's Five Forces³²

Overall, the most difficult areas are the buyers and suppliers powers, since they actually are the most powerful stakeholders and it contains the key drivers of the Nmusic's business model³³.

The internal rivalry and the threat of substitution have a medium intensity and the threat of new entry is not considered risky for the business (if iTunes and Facebook did not enter in this market).

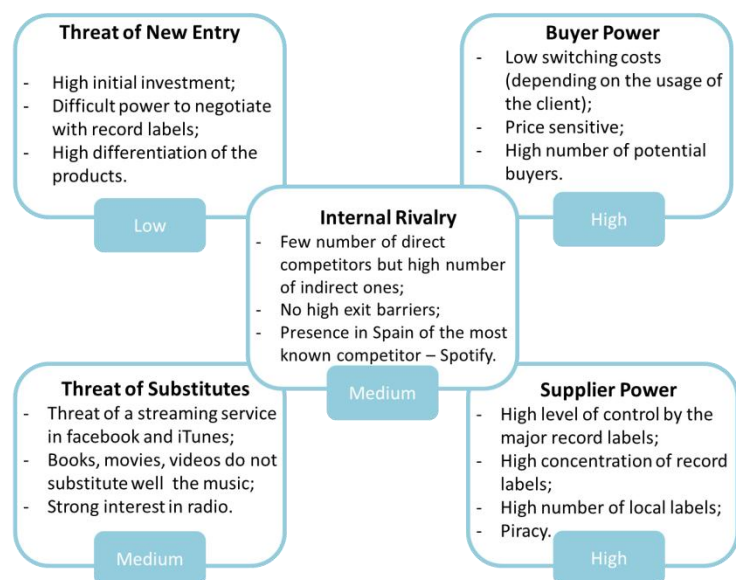


Figure 7 – Michael Porter's Five Forces

9. Competitive Assessment

9.1 International Benchmark

Spotify - *Spotify* is one of the most known music streaming services in the world. It is present in fifteen countries, including USA, France and Spain and it has a catalogue of 15 million songs. Its B2C *freemium* business model has registered negative profits of 45 million euros³⁴ in 2011. *Spotify* offers three alternatives for its clients: *Spotify*, *Spotify Unlimited* and *Spotify Preemium*. In *Spotify*, clients have free access to music but there is time limit and ads. Instead, *Spotify Unlimited*

³² Please consult Appendix 12 for the Michael Porter's Five Forces in the Portuguese situation.

³³ Nmusic always wants to ensure the rights of the artists and authors and at the same time offer the best product to the consumers, respecting their desires (free access, portability, synchronization and multiple devices).

³⁴ PrivCo. Available at <http://www.privco.com/private-company/spotify-ltd>

allows a more accurate experience, by the non-existence of ads neither time limit, with a value of 4,99€ per month. Finally, *Spotify Premium* costs 9,99€ per month but it offers the possibility to use it offline and in mobile mode.

Even though that the number of paying subscribers has being increased, having registered in the first quarter of 2012 3 million of users, comparing with the previous year with 1 million, the fact is that the firm is registering losses. In fact, in 2011, 2% of the revenues came from other services, 15% from ads and 84% from subscriptions³⁵. In what concerns its costs, *Spotify* pays to record labels and authors societies based on the number of streams listened by consumers [Haupt 2012]. The price of each stream is negotiated, variable and confidential. However, some *informal* studies reveal that in July 2012, *Spotify* paid \$0,00726 per stream³⁶.

It is worth to mention that the fact of being connected to *Facebook* allowed *Spotify*³⁷ to reach new customers and to increase its sales as well as brand awareness.

Deezer - In 2007 appeared *Deezer* in France. Currently present in more than 25 countries and expected to be in 80 countries in February 2013, *Deezer* offers a music streaming service.

Similar to *Spotify*, *Deezer* applies a *freemium* B2C business model, with the same prices for the three options: *Deezer Discovery*, *Deezer Premium* and *Deezer Premium +*. The only difference remains on the *Deezer Discovery* which only allows listening to an up of 30 seconds of a track.

However, in 2010, *Deezer* associated with *Orange* in France and offered the mobile *Deezer* to *Origami* clients. The *Origami* clients had the possibility to freely access the mobile application *Deezer* and listen to unlimited songs, without ads and in offline mode. As the strategy was

³⁵ PrivCo. Available at <http://www.privco.com/private-company/spotify-ltd>

³⁶ Spotify Royalties. Available at <http://spotifyroyalties.blogspot.pt/2012/05/spotify-royalties.html>

³⁷ Please consult Appendix 13 to have a look on Spotify's layout.

considered a success, in 2011 both companies drew the plan to enter in United Kingdom for *Orange Panther* clients. Now, they are planning the expansion for Poland and Africa³⁸.

Deezer has more than 20 million users, being 1,5 million of them paying subscribers [Digital Music Report 2012]. *Deezer* also allows the access to the platform without having to download it, being available on its website. Its revenues come from subscribers as well as advertisement and a specific fee that *Orange* pays to *Deezer*. Being present worldwide, allows *Deezer* to benefit from economies of scale and scope.

9.2 Competitors' Analysis

The competitors of Nmusic in Spain are Spotify, *Deezer*, Music Unlimited, *rara*, *rdio*, *Los 40* and *Sonora*. All of them apply a B2C model, in which in some cases the existent free version available is financed by advertisement. The value of 4,99€ ensures the nonexistence of ads, and the price of 9,99€ works in offline mode and multiple devices. Overall, Nmusic offers a very distinctive option, which ensures the success of the implementation in Spain⁴⁰.

9.3 Music Industry in Spain

Spain is a democratic country with political stability and social interest for music that justifies the importance to internationalize the music player to there⁴¹. According to a survey from 2011 in order to evaluate the Spanish cultural practices, 64,8% of the Spanish population assumed that is used to listen to music every day [Encuesta de Hábitos 2011]. 80,7% elects the radio as the most used way to listen to music, followed by the CD or DVD with 32,4%, while the computer and mobile phone register a value of 22,8% and 9,8% respectively. Regarding the places where people listen music, 83,3% listens at home, 43,6% at car, 16,8% at work and 6,2% in public transports. Concerning the proper equipment to listen songs, more than the majority of the Spanish people

³⁸ Orange. Available at <http://www.orange.com/en/press/press-releases/press-releases-2012/Orange-and-Deezer-extend-their-partnership-to-propose-the-best-musical-service-in-several-African-countries-and-in-Poland>

⁴⁰ Please consult Appendix 15 with a descriptive table competitors' analysis.

⁴¹ In order to better analyze the country, please consult Appendix 17 a PEST Analysis for Spain.

have MP3 player and mobile phone with music reproduction. More than a half of the population has access to internet and likes to access it for entertainment motives, especially young people.

The Spanish pop and rock are the most listened musical genres, with 58,2%. The Latin pop/rock and flamenco represent 35% and 21,5% respectively [Encuesta de Hábitos 2011].

Regarding the ownership of music digital files, the piracy is the most used method. In 2011 music piracy achieved a rate of 98,2% and valued 2 746 millions € [Achaerandio and Maldonado 2011].

In what concerns the legal digital market, the downloads increased from 2011 to 2012 15,34%, while the streaming financed by publicity decreased 44,52%. However, the music subscriptions (with internet, mobile phone and bundling) rose 115,16%. The digital legal market increased in two years 7,46% [Promusicae 2012]. In 2010, data from ONO's clients, the percentage of usage of P2P services, like *BitTorrent* and *eMule*, was approximately 19%, comparing with the value of 13,6% of streaming platforms. Nevertheless, the situation changed and in 2011, the P2P services registered a value of 13,74%, while the streaming increased until 17,04%⁴².

In 2011, the record labels with the highest representativeness in the Spanish market were Universal Music with 28,43%, Sony Music with 24,96%, Warner Music with 19,15% and EMI Music with 15,65% [Promusicae 2011].

The results from the survey⁴³ conducted reveal that 84% of the population knows what is streaming. However, even though that 56% prefers download over streaming, the fact is that only 41% did a non-authorized download in the last month. The most known music streaming service is Spotify, with recognition of 87%, in which 82% of the respondents are registered there but 77% are free users. According to the analysis done, 92% of the users would like to have Nmusic in Spain. The analysis in Spanish market clearly supports the business opportunity for NMusic.

⁴² Neo. Available at http://www.neeo.es/index.php?option=com_content&view=article&id=9526:un-17-de-los-clientes-de-ono-copan-el-60-de-la-capacidad-de-la-red&catid=1:noticias&Itemid=1381

⁴³ To a better analysis of the survey conducted please consult Appendix 20.

10. Internationalization Process to Spain

10.1 Mode of Entry

The recommended strategy for Nmusic to enter in the Spanish market is to partner with a Spanish telecommunication company. By applying the *bundling* business model, it allows Nmusic to avoid technological constraints. Moreover, partnering with a company that accedes a significant customer basis, has control on mobile service devices as well as internet connection is essential to sustain and potentiate the Nmusic's business model. However, the appropriate partner has not only to have these characteristics aforementioned, but also to have a strong interest in music as well as a high penetration rate of clients in Spain. According to Dr. Pedro Aires de Abreu from AICEP, to enter in Spain, the partnership with local companies is crucial to obtain success.

In this sense, the most recommendable way to enter is applying the same approach chosen for Portugal. Therefore, a new Spanish 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 monthly paying to Nmusic for each subscriber. On the other hand, Nmusic contributes with its team and know-how as well as the music player already developed. A *joint venture* based on revenues share between these two companies is what it is expected. However, as Nmusic wants to benefit from brand awareness and marketing resources from the partner, an exclusivity contract management is foreseen, which is implicit a *licensing* approach. However, for the exclusivity, the partner has to pay for that. Thus, the new brand will be seen as from the partner's ownership but always with the technological and management of Nmusic behind. However, as Nmusic is selling the brand to the partner (and not selling the business) and licensing the services' access, Nmusic wants to separate the teams involved on both companies.

10.2 Collaborative Arrangements

After an intensive research, the most appropriate company to be the partner of Nmusic is **Telefónica**. Present in 25 countries [Telefónica 2011], this partner offers the possibility to

potentiate the partnership in other countries besides Spain. In March of 2012, **Movistar**⁴⁴ had 36,4% of market share in mobile services and 48,84% in internet broadband connection⁴⁵, being the current market leader. Hence, this partner is considered the most appropriate one for its inherent technology, penetration rate in the Spanish market and the desire to be linked with music. Moreover, the survey concluded that Movistar was the company that more users associate with music, being at the same time the main mobile phone and internet service provider operator of the Spanish respondents⁴⁶.

Other important partners should be added for the marketing approach, which, as it is Telefónica's responsibility, it has to be agreed by both companies. Thus, as the target population is mostly young people, the presence in social networks has to be more intensive – the possibility to see in *Tuenti*⁴⁷ and *Facebook* what our friends are listening to is crucial for the clients' awareness. In addition to that, as the radio is the most used way to listen to music in Spain, a promoting partnership should be done to effectively share the service: the most voted collaborative playlists could be displayed at live in the radio and, at the same time, the radio station could be incorporated online in the platform. The choice would be the most listened radio group, which is *Grupo SER*⁴⁸ with almost 13 000 listeners [EGM 2012].

10.3 Marketing Mix – 7 P's

Product – The music player is the core product of Nmusic. Its *point of difference* is perceived by its business model, in which offers to the consumers a free service aligned with high quality: offline mode, triple play, no ads and unlimited consumption of legal songs. It is a product extremely focused on the consumers, so it will ensure the music desires of the Spanish clients.

⁴⁴ Telefónica's brand in Spain

⁴⁵ Expansión. Available at

<http://www.expansion.com/2012/05/31/empresas/tmt/1338450495.html?a=a1d9aeb68895a289ddd7f219714a6c75&t=1353235935>

⁴⁶ Please consult Appendix 20 to see the survey in more detail.

⁴⁷ Tuenti is the Spanish social network, like Facebook. In June 2012, Tuenti had 8,9 million of unique Spanish users (users who only have one account in the social network), while Facebook had 17 million. In 2010, Telefónica bought Tuenti.

⁴⁸ Grupo SER is the leader radio group in Spain and it is composed by SER, C40, DIAL, Máxima FM, M80 and Radiolé stations.

As the streaming concept is already established in Spain and it is not a totally innovative product, it is expected that in terms of *product diffusion theory* [Bygrave and Zacharakis 2011] the product will be perceived by at least the early majority of the Telefónica's clients. In what concerns the *product life cycle* Nmusic is undoubtedly in the growth stage, as their revenues are expected to increase with the new internationalization processes.

Price – In what concerns the pricing strategy as Nmusic applies a B2B2C business model, it is important to distinguish the prices paid by the final consumer and the price paid by the partner. Thus, for the final user, a *penetration pricing* strategy is applied since the product is free. However, it has to be established a *discrimination* strategy, in which the clients of Telefónica pay 0€ for the product and the no-Telefónica clients pay 9,99€. Regarding the price paid by the partner, that price is computed by the *cost based method*, by defining the variable and fixed costs and a profit margin.

Place – As the product is internet based, the channel coverage is *intensive*. Moreover, as it is benefited from the Telefónica's brand awareness Nmusic has a more effective placement.

Promotion – Since the strategy chosen is B2B2C, the promotion is Telefónica's responsibility. As they can reduce the price paid by each user when the number of clients increases, they have incentives to promote the product. Hence, a *push strategy* is foreseen. It is expected that Telefónica will communicate by advertising, public relations and direct marketing. However, Nmusic will have an advisory role and it will recommend some strategies, like presence in music festivals, exclusive *intimate show cases* and connection with radio and social networks.

People – Economies of scale will be obtained with the current team. However, it is required at least three more employees to work on the contract management and the technical service and to establish the relationship with the Telefónica's team involved with the music player, as it will be discussed in chapter 11.1.

Process – In what concerns the technical part, given the current experience with PT in supplying the service at high standards, it is expected that Nmusic can respond to the needs, complaints and desires of the clients. In this sense, it is important to analyze the efficiency and consequently the response time. However, the customer satisfaction has to be evaluated by Telefónica, in which is foreseen a trimestral report on customer satisfaction. Moreover and regarding the music suppliers, annual meetings with them would be needed to measure the level of satisfaction of all these stakeholders on the Nmusic’s music player.

Physical Evidence – As the music player has to be installed before using, it is recommended that the clients could have a first impression on how the service looks like. Moreover, the peer evaluation and the testimonials’ analysis are extremely important for the positive feedback of the service. After installing and becoming clients, it is crucial to ensure their retention in the service as well as their desires through consumer satisfaction reports.

11. Implementation Plan

In order to the internationalization to Spain of Nmusic succeed, it is needed an accurate implementation plan, covering personnel, time, objectives and financial issues and a rigorous risk assessment with a contingency strategy planned in case of failure.

11.1 Four M’s

Man - Besides the team already established in Portugal, whose work has to expand to cover the internationalization requirements, the team has to augment in the Spanish environment. According to Celestino Alves, there are needed at least three new employees, preferably Spanish, as it was suggested by AICEP.

Task	Function
Technical Spanish Manager	Responsible for the technical maintenance of the music player in Spain as well as achieving the technical requirements of the Spanish consumers. It is foreseen a constant intermediation with the technical team placed in Oporto and with the final clients.
Contract and Content Spanish Manager	Responsible to negotiate with record labels and collecting societies as well as updating the content desired by the Spanish users.
Public Relations in Spain	Represent Nmusic in official events and meetings and it is his responsibility to establish the link between Nmusic and Telefónica.

Figure 8 – Implementation Plan - Man

Money⁴⁹ – It is foreseen an investment of about 80 000 to 100 000€⁵⁰ that includes the trips, the design of the platform as well as its incorporation on the operator system and the training of the new team. However, it is not only the investment that takes part of the monetary issues: the other costs regarding operational and structural items have to be considered. After considering all the costs, the net income for 2013 is 97 156,25€, with a predicted increase in the following years. It is worth to mention that the setup fee that Telefónica will pay, will be greater than the initial investment, in order to cover it.

Minute – As the objective is to launch the platform in September 2013, all the negotiations with Telefónica and record labels have to be done before this deadline as well as being financially prepared to pay to record labels. Moreover, once the contract signed with Telefónica, Nmusic has to rent an office in Madrid (because it has to be closer to the Telefónica’s headquarters), recruit and train the team, customize the platform for the partner and start negotiating with *Facebook*, *Tuenti* and *Grupo Ser* radio. After September, it is foreseen meetings with Telefónica and

Code	Activity	Duration	Dependency
Act. 1	Negotiation with Telefónica	2 months	
Act. 2	Meetings with Telefónica	Initially 4 months and after that periodically once each 2 months	Act. 1
Act. 3	Sign the contract with Telefónica	-	Act.1, 2
Act. 4	Gather financial support to advance with the money to record labels	3 months	Act.1
Act. 5	Negotiation with record labels and collecting societies	4 months	Act.1,2
Act. 6	Negotiation with Facebook and Tuenti	3 months	Act. 3
Act. 7	Negotiation with Grupo SER radio	3 months	Act. 3
Act. 8	Rent an office in Madrid	2 months	Act. 3
Act. 9	Recruitment of the new team	2 months	Act. 3
Act. 10	Alteration and development of the new platform	3 months	Act. 3
Act. 11	Training the new team	2 months	Act. 8
Act. 12	Market Research to ensure the needs and desires of the users	Continuously	Act. 2
Act. 13	Update the content of the platform	Continuously	Act. 2
Act. 14	Launch of the platform	-	Act. 1-12
Act. 15	Marketing Campaigns (Telefónica's responsibility)	Continuously	Act. 13
Act. 16	Reports from Telefónica	Continuously	Act. 13

Figure 9 – Implementation Plan – Minute: Activities Description and Dependencies

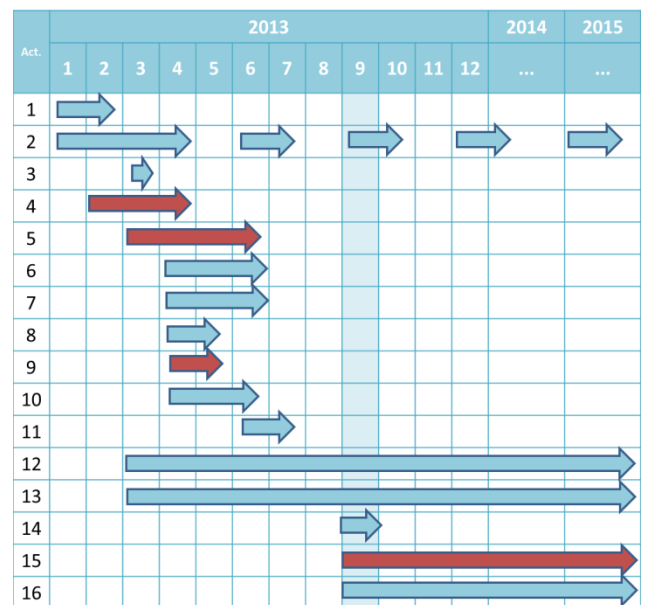


Figure 10 – Implementation Plan – Minute: Chronogram

⁴⁹ Please consult Appendix 21 to better understand the monetary issues in the implementation plan.

⁵⁰ 82 850€ is the value obtained for the initial investment. Please consult Appendix 21 to see the justification of this value.

trimestral reports from the company to ensure the marketing campaigns, the quality and needs of the consumers. The most critical activities are represented in red in Figure 10, and they include the financial preparation to pay to record labels, the negotiation with them, the recruitment of the new team and the marketing campaigns⁵¹.

Memo – In order to monitor the implementation process, it is crucial to define the most important objectives within each strategic area and to establish initiatives:

Strategic Theme	Objectives	KPIs	Target	Initiatives
Financial	Increase revenues and profitability	Number of subscribers	Achieve 1% of the Spanish population	The more subscribers Telefónica has, the cheaper it is (in agreement).
Customer	Create brand awareness and ensure customer retention	Reports from Telefónica; Retention rate	40% of Telefónica's client awareness	Phone promotion; advertising in television; exclusive access in concerts and festivals just for Nmusic clients.
Internal	Recruitment of Spanish collaborators with background in music industry; training	Certificates and Recommendations on CV; Level of training	Three Spanish collaborators with background in the music industry	Application process open to everyone (possible inclusion of networking in the music industry); Development of training workshops.
Learning	Learn about the Spanish music and consumers tastes.	Reports from Spanish cultural habits and tastes	Knowledge of the Spanish market in order to leverage the content in a more customized view	Feedback from clients' desires; Research on Spanish cultural habits.

Figure 11 – Implementation Plan - Memo

11.2 Risk Analysis and Contingency Plan

In what concerns the inherent risks that could happen in this implementation plan, they basically cover five important areas, in which the most special one is the risk of possible imitation of the business model by other competitors. In this situation, the contingency strategy to apply is not only to have the first mover advantage, but also to offer a differentiated product, customized to the final client. The financial item has the highest impact in the risk analysis⁵².

⁵¹ Please consult Appendix 22 for a better description on how those critical activities can be monitored.

⁵² Please consult Appendix 23 to analyze the impacts and the probability of the risk's categories.

	Risk Analysis	KPIs	Contingency Plan
Business Model and Partnerships	1. Telefónica does not accept the partnership agreement; 2. Possible imitation of the business model, by other players.	1. Outcome of the meetings 2. Penetration rate of the users; competitors' research	1. Negotiate with other partner or applying a direct B2C model 2. Ensure product differentiation to diminish the possible competition.
Financial	3. Lack of liquidity of Telefónica.	3. Profitability from Telefónica from last year and financial forecasts	3. Charge a value for the service instead of being free for Telefónica's users or find other partner.
Operational	4. Inability to capture good Spanish music releases; 5. Incapacity to support independent Spanish music artists.	4. Time spent to negotiate and its outcome; 5. Service awareness and profitability	4. Partnership with local record labels and radios; 5. Promote their activity of supporting artists in its website;
Commercial	6. No clients' penetration, not achieving the strategic objective of 1% of Spanish population as clients.	6. Number of users, page views, number of downloads of the platform.	6. Improve the incentives of Telefónica to capture more clients, in order to implement more marketing campaigns.
Implementation	7. Marketing campaigns not launched, because it is Telefónica's responsibility that consequently does not create brand awareness	7. Number of promotions launched by Telefónica; number of users.	7. Improve the incentives of Telefónica to capture more clients; ensure that all the Telefónica's resources are being used.

Figure 12 – Risk Analysis and Contingency Plan

Conclusion and Recommendations

In order to correctly implement the music player in Spain, Nmusic should follow some final recommendations regarding different areas:

Product – As proved in the previous analysis, Spanish people love to listen to music, especially radio. In this sense, it is highly recommended a partnership with a radio group as well as the incorporation of online radios into the music platform. Moreover, as the consumers are price sensitive, with a high penetration of illegal downloads, the possibility to freely access the platform is essential to the business sustainability. Additionally, a really differentiated product has to be developed to increase the switching costs for the user, by including exclusive music content and distinguished playlists. A final note should be done to the customization of the music platform, since it is a sustainable advantage and guarantees that the product is a partner's brand, which benefits from the partner's brand awareness.

Company – Being a total innovative and open company, Nmusic should not lose this spirit, in order to better internationalize. Moreover, a recommendation should be done in what concerns the new collaborators recruited for the team. Since the existent Portuguese team is already a sustainable advantage, the company should pay attention to the new elements in the team in order to recruit the best candidates to not lose the inherent competitive advantage.

Competitors – As one of the objectives is to be on the top 3 music streaming services in Spain, in which Spotify is included, an intensive promotion should be done by Telefónica to ensure brand awareness. Nmusic will assume an advisory role, potentiating the activities to develop in order to achieve the penetration rate of 1% of the Spanish population in the second semester of 2014.

Financial – Since more than a half of the costs are related to record labels, the profit margin of 10% could be increased in the value chain. In this sense, not only the negotiation with these entities should be improved (by negotiating the catalogues in an international level), but also the independent support of the artists should be potentiated.

Political – Being a music entity that respects the industry, Nmusic should adopt a more active role in the music legislation, so that the illegal downloads reduce and consequently the competition.

Partnerships – The partnership with Telefónica should be solid and successful in order to sustain the business model and to increase the possibility to expand to the countries where the company is already present, namely in Latin and South America. Moreover, the registration process (download of the platform) has to be facilitated, since in the Portuguese situation, the download of Music Box implies a registration and proof of the PT client number. Even though that the product is free for them, the time spent to search for a bill, that proves the client number, certainly loses customers, who do not want to search for that. Thus, the process has to be more agile to ensure a higher number of users (e.g. by registering just with the mobile phone number.)

The key to success is undoubtedly to understand the digital music industry and to offer what the consumers want. Nmusic was one of the pioneers to propose a technological and commercial solution that respects the specific music industry (in the Spanish case, radio and Spanish songs) and the market trends: digital, portability, cloud technology, multiple devices and free cost. As long as this strategic behavior continues, Nmusic will be able to successfully establish in the Spanish environment.

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