

Warner music group



**ASSIGN
BUSTER**

WMG Corporation is one of the well established and popular music company. WMG records as well as publishes music. It was founded in 1958 known as Warner Bros. Records. Since 2004 it is known as Warner Music Group.

It operates in more than 50 countries. Many renowned artists are associated with Warner Music Group. It is a third largest recording company after SONYBMG and Universal. It is the first company to come up with digital transformational music. It earns its revenue by offering various services like touring, merchandising, sponsorships, endorsements, providing ringtones to mobile operators.

[Source: www.wmg.com] 2. The Pestel Analysis: The Pestle analysis on Warner Music group leads us to identify three main problems that WARNER MUSIC GROUP faces in face of 1) Piracy , 2)Recession, 3)The Transition Phase of the Music industry. The Profitability ratios of Warner Music Group show a downward trend that can be attributed to the recession, Piracy.

. 1 Countries & Revenues: The variance of the indicators of recession like inflation, interest rates, consumer confidence, level of business investment in these countries have been in synchronisation with the variation of Profitability ratios of WMG. This trend can be clearly observed in the graphs shown in the appendices. ROCE ratio is a measure of the effective use of the resources and the Capital. It has been on the decline since 2006 owing to the global recession which continued till the present time. The Gross profit margin of a company speaks about its profitability; it is influenced by various factors like inflation, consumer confidence levels, and Effective usage of the capital.

As it can be observed from the above inflation graphs of the main markets of WMG there has been an influence of these rates on the profitability ratios. The table below shows the various effects of inflation. So the inflation rates which correspond to recession have a major impact on the profitability of WMG. Mainly after 2007 when the recession started the Profitability of WMG has been on the decline. Though the recession seems to have ended but economies are making up for their lost budgets.

2. 2 PIRACY: Piracy has had its share of toll on the music industry as a whole; though in the main markets of WMG the piracy has not been rampant it can hinder the market expansion which might have an effect on the profitability of WMG. SOURCE: [www. ipi.](http://www.ipi.org)

org So it can be clearly seen that piracy is on the lower side in many of its main markets with the exception of Italy. Piracy in other markets can be a by product of recession and can also boost up recession which again negates the profitability. 2. 3 ADVENT OF DIGITAL MUSIC: The music industry is in a phase of transition from physical music sales to digital music sales the rapid increase in digital music shares, so WMG should try to invest more on the digital front and reduce the investment on the physical music. Digital Music can be susceptible to piracy so technologies like water marking, blue ray that prevent piracy have to be adopted. Source: [www.](http://www.wmg.com)

wmg. com 3. Porter's 5 forces -WMG 3. Intra-Industry Rivalry: WMG's Turnover has been on a decline from 2005 which is in synchronisation with music industry as a whole. The Increase in the digital sales has not been able to compensate for the decline in CD sales.

Dominating the current music industry are four big players: Universal, SonyBMG, EMI, WMG. Competitors have been looking into other ways of monetizing their music like associations with online music streaming companies that monetize through ads. Consumer life styles, consumer confidence and disposable income of consumers have brought about this trend. Many Factors like Recession, Piracy, Consumer tastes, Bankruptcies of record wholesalers and retailers, decreasing retail shelf space have all lead to this decline. 3.

2 Buyers Power The risks are relatively high from buyers; according to the Bureau of Economic Analysis, “ Personal income decreased \$16. 8 billion, or 0. 1 percent, and disposable personal income (DPI) decreased \$20. 3 billion, or 0. 2 percent, in September” (National economy accounts. Available at [http://www.](http://www.bea.gov/newsreleases/national/pi/pi_glance.htm)

[bea.gov/newsreleases/national/pi/pi_glance.htm](http://www.bea.gov/newsreleases/national/pi/pi_glance.htm), accessed on 12/11/2010).

The consequence is that Gross profit margin in Warner music is decreasing like showed in the following table: The consumer confidence levels of main markets of have been cited in the appendix and it has been on the decline in general. 3.

3 Threat of New Entrants “ Although recording technology has become increasingly accessible and CD manufacturing has dropped to historical lows, the recording industry still presents enormous barriers to entry” (Burkhart, P. 2006; p. 26). The music industry is mainly Oligopolistic and the fact that profitability margins are very low has hindered any possibility of new

entrants. The level of Business investment can throw more light into this fact.

Low levels of business confidence mean stronger opposition to new entrants.

3. 4 Supplier Power The Capital supply from the banks has also taken the back seat owing to the high interest rates. Liquidity rates are also low for WMG and the minimal variation can be attributed to cost cuttings, so investment supply has been on a decline as a result. The interest rates of main markets of WMG have been cited in the appendices.

3. 5 Threat of Substitutes Substitutes limit the prices of the product and the profits of the business. There are many substitutes to music in the entertainment industry like Movies, video games etc; so to remain profitable it would help if the companies can associate themselves with the substitutes thus increasing profit margins. WMG has so far failed in this area and this is where its competitors have gained a big market share. 4.

Recommendations: 1. Should widen its range in the entertainment industry to negate threat from substitutes. 2. Should look at other ways of monetizing music. 3.

Should invest more on the digital front to cater better to the consumer tastes. 5.