

**THE MAKING OF A MUSIC MULTINATIONAL:  
THE INTERNATIONAL STRATEGY OF POLYGRAM  
1945 – 1998**

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AFM Working Paper No. 12 (2003)  
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**Abstract**

Philips Electronics developed Polygram from a small Dutch record distributor into one of world's largest music multinationals. It did so by forming strategic alliances with larger companies, such as Siemens and CBS, and by buying up a string of small and medium-sized companies. Analysing Polygram's international strategy, this paper argues that the firm's major resource was its ability to integrate these companies with distinct creative, corporate and national identities into an effective international structure, without destroying their value. The paper examines the added value of a multinational, rather than independent companies fine-tuned to each local market, and shows that music multinationals increasingly replaced a geographical multidivisional structure by a segment-based one.

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## **THE MAKING OF A MUSIC MULTINATIONAL** The International Strategy of Polygram, 1945-1999

### **1. Introduction**

After the Second World War, the music industry grew rapidly.<sup>1</sup> Demand for music increased sharply, bolstered by the emergence of more affluent and more highly educated young people with more leisure time. Several new recording formats were introduced, such as the LP, the audiocassette and the compact disc. At the same time, the music industry became increasingly internationalised and concentrated. Five to six large multinational record companies came to dominate the international music industry, owning both record ‘labels’ generating and nurturing talent and large international distribution and marketing organisations. These organisations differed from many other multinationals in that they primarily were internationally exploiting copyrights rather than manufacturing and selling products.

Polygram was one of these multinationals. It was built from a small Dutch record companies into a global entertainment company by Philips Electronics, itself one of the largest multinationals of the Netherlands. In the early 1950s, Philips set itself the goal to make Polygram Europe’s largest record company, making software formats compatible with Philips’ hardware, and by the late 1970s Polygram was the largest music company in the *world*, albeit shortly.<sup>2</sup> It had become a global, fully integrated company, encompassing a music publishing division, an artists and repertoire (A&R) department finding and developing new musical talent, a research department developing new recording formats, factories manufacturing them, interests in music retailing, and, finally, a global marketing and distribution organisation.

This paper will examine how Polygram succeeded in this extraordinary growth and transformation. It will examine how it managed to integrate its foreign acquisitions and upstarts into one effective international organisation, while still allowing them their own identities and creative independence. A first set of research questions tries to explain how Polygram could exist, using theory of the multinational enterprise. Given the multitude of differentiated markets Polygram faced, it will try to explain if and how it performed better than a series of national stand-alone companies fined-tuned to each local market and trading with each

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<sup>1</sup> This paper is partially based on Gerben Bakker, “Muziek, Film en de Industrialisatie van Cultuur: Strategische Ontwikkeling van Polygram, 1945-1995,” (Master’s thesis, University of Groningen, 1995).

<sup>2</sup> See, for example, ‘General Meeting PPI 1955’, 21-24 April 1955, PA/D/DsG4 As156, p. 20.

other. The hypothesis is that Polygram existed because scale economies existed in international music distribution; that an integrated international distribution organisation was the best solution to maximise the rents that could be captured from the copyrights to the music; that local A&R (the Research & Development of record companies) worked in two directions (generating copyrights for international markets and adapting/marketing international copyrights to local markets); and, finally, that firm-specific international marketing know-how was a distinctive and unique asset of Polygram. The last two points suggest increasing returns in international music marketing, that knowing about many different markets (both geographical and segments) was disproportionately more profitable than knowing about just one.

A second set of research questions puts the first set into a dynamic, historical perspective and tries to explain how the international organisation that was Polygram could emerge and did emerge. It examines for what reasons Polygram was able to grow and develop quickly, expand rapidly internationally in quite a profitable manner and how the organisational structure and management methods emerged to manage the resulting internationally diverse, creative organisation. In addition, the influence of owners Philips and Siemens on these factors will be assessed. This second perspective will also examine how Polygram, step by step, accumulated distinctive capabilities over time.<sup>3</sup> The hypothesis is that initially, Polygram profited widely from piggybacking on the distinctive capabilities of its owners' organisations (capital, management, international distribution, technological know-how) and by alliances with other companies with these capabilities (creative/music marketing know-how), but that over time, Polygram developed more and more new distinctive capabilities by itself (acquisition capabilities, international marketing know-how, music distribution know-how, A&R copyrights base, A&R capabilities, reputation).

The music industry has been a global industry for a long time, with a few large companies dominating international manufacturing and distribution of records. International expansion and growth have been extremely rapid in the music industry, and from early on, the companies in the music industry were multinational enterprises. Yet, except for a pioneering article by Jones, they have hardly been studied from the perspective of the multinational enterprise.<sup>4</sup> This paper aims to

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<sup>3</sup> On distinctive capabilities see, for example, John Kay, *Foundations of Corporate Success: How Business Strategies Add Value* (Oxford, 1993).

<sup>4</sup> Geoffrey Jones, "The Gramophone Company: An Anglo-American Multinational, 1898-1931," *Business History Review* 59 (Spring 1985): 76-100.

provide more insights into the role of R&D-like activities in explaining the emergence of multinational enterprises.<sup>5</sup>

Second, this paper will add to the business history and strategy literature by examining a specific case from a dynamic, temporal perspective, assessing which role time played in the growth, accumulation and linking of distinctive capabilities. Although critics may say this is just one company, Polygram was one of only five large companies dominating the international music industry, and at times provided 20 - 25 percent of the world's music consumers with music, so the studying of this one company can be expected to gain insights in the international music industry at large.

Third, this research is worthwhile because it contributes to the knowledge about the evolution of the international music industry. Existing works either take a general, wide perspective based on secondary sources,<sup>6</sup> or study the history of a specific company, often focusing mainly on the artistic rather than the business side.<sup>7</sup> Little business historical research has been done on music companies, and especially on music multinationals.<sup>8</sup> The case of Polygram could add significantly to this literature.

What follows will first shortly discuss the theory of the multinational enterprise and its relevance to Polygram. The next sections will analyse Polygram's development, dividing it into several distinct phases: the 'prehistory' (1929-1950), before the consolidation of all Philips' recording interests into one company; the PPI years, after this had happened (1950-1962); the merger with Deutsche Grammophon Gesellschaft, rapid expansion and a tentative peak (1962-1980); crisis and reorganisation (1980-1989), and renewed expansion (1989-1998). A final section concludes.

## **2. Music multinationals and the theory of the multinational enterprise**

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<sup>5</sup> It is assumed here that A&R was an activity that was comparable to R&D in other industries, because the costs to generate the intellectual property right were incurred once, they could be exploited internationally, and the knowledge could be protected against imitation by property law

<sup>6</sup> Roland Gelatt, *The Fabulous Phonograph, 1877-1977* (New York, 1954, 2<sup>nd</sup> ed. 1977); Oliver Read and Walter L. Welch, *From Tin Foil to Stereo: Evolution of the Phonograph* (Indianapolis 1959, 2<sup>nd</sup> ed. 1976); Pekka Gronow and Ilpo Saunio, *An International History of the Recording Industry* (London, 1998); Michael Chanan, *Repeated Takes: A Short History of Recording and its Effects on Music* (London, 1994).

<sup>7</sup> Peter Martland, *Since Records Began: EMI* (London, 1997); John Collins, *The Story of Chess Records* (London, 1998); Michael Brian Kelly, *Liberty Records. A History of the Recording Company and its Stars* (Jefferson, 1992).

<sup>8</sup> The work done so far is Jones, "Gramophone"; Donald J. Mabry, "The Rise and Fall of Ace Records: A Case Study in the Independent Record Business," *Business History Review* 63 (Fall 1990): 411-450; Peter Martland, *A Business History of the Gramophone Company, 1890-1918* (PhD. Diss., Cambridge University, 1992).

Reasons for the existence of multinationals can be divided into cost-of-capital and industrial organisation explanations.<sup>9</sup> A lower cost of capital enables a multinational to outbid local firms for assets and to create new assets. Criticism on this explanation includes that portfolio foreign investment better serves the purpose, that much FDI is locally financed, and that considerable two-way FDI occurs between countries.<sup>10</sup> Macro-economic research on capital costs and FDI, has not yielded unambiguous favourable evidence.<sup>11</sup> The cost of *raising* capital could be more important, because multinationals might obtain capital more quickly and efficiently, while paying the same interest as local companies.

An important industrial organisation explanation argues that multinationals minimize transaction costs, and that exporting or licensing involve higher costs.<sup>12</sup> Another explanation argues that protection forces companies to produce abroad, and yet another that firm-specific assets and knowledge—such as management methods, reputation, patents, trademarks or copyrights—enable the multinational to reach higher returns on foreign assets than locals.<sup>13</sup> Vertical integration is also mentioned to explain firms becoming multinationals. They integrated backward abroad to guarantee access to critical resources such as metals, agricultural products, patents, trademarks or copyrights,<sup>14</sup> and forward to guarantee access to scarce distribution capacity, and to capture the rents of their assets, especially when manufacturing costs were low compared to sunk costs, such as in R&D and advertising-intensive industries.<sup>15</sup>

For music multinationals, the transaction costs explanation could be important because music is a copyright. The monitoring, administration and protection of this right across many different countries could involve high transaction costs without foreign subsidiaries.<sup>16</sup> Moreover, the foreign popularity of new music is often unknown *ex ante*, complicating the writing of a perfect contract. Protection seems of limited importance, because copyrights involve cross-border payments rather than physical products, the manufacturing of which could be contracted out. An important reason to explain the existence of music multinationals

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<sup>9</sup> Richard E. Caves, "International Corporations: The Industrial Economics of Foreign Investment," *Economica* 38 (February 1971): 1-27; Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States* (Washington, 1991): 27-45.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> On exporting, agents and licensing see Stephen Nicholas, "The Theory of Multinational Enterprise as a Transactional Mode," in *Multinationals: Theory and History*, eds. Peter Hertner and Geoffrey Jones (Aldershot, 1986): 64-79. See also Oliver E. Williamson, "The Modern Corporation: Origins, Evolution, Attributes," *Journal of Economic Literature* 19 (December 1981): 1537-1568; D. J. Teece, "Transaction Cost Economics and the Multinational Enterprise," *Journal of Economic Behavior and Organization* 7 (1986): 21-45.

<sup>13</sup> Sara L. Gordon, *Foreign Multinational Investment In The United States: Struggle for Industrial Supremacy* (New York, 1986): 47-59.

<sup>14</sup> Geoffrey Jones, *The Evolution of International Business. An Introduction* (London, 1996): 68-99, uses the term 'resource-based multinational' for those accessing natural resources.

<sup>15</sup> Alternatively, a firm could have an iron-clad long-term contract with a local distributor, but this may involve substantial transaction costs. See Nicholas, "Theory."

<sup>16</sup> Although these functions could be partially performed by trade associations or rights collection societies.

are firm-specific assets such as their catalogue of copyrights and their international marketing know-how, the ability to judge whether local talent could be popular internationally, and if so in which markets, segments, and distribution channels. The catalogue of rights gives music multinationals scale economies and a strong bargaining position vis-à-vis external distributors. Local companies hardly achieve these economies, because in most countries foreign music constitutes a large part of the market.<sup>17</sup>

The vertical integration explanation is the most relevant to music multinationals, because music is not a product to be sold, but a right to be rented. By making resource-based investments in foreign A&R companies—especially in countries with a regionally or globally popular repertoire—multinationals want to guarantee access to these rights and their creation.<sup>18</sup> Uniquely for music multinationals, foreign A&R companies ('labels') also increases the multinational's knowledge about local tastes, increasing its ability to market its international repertoire locally. In addition, having a foreign label provides information that makes it easier to write contracts with local labels. This reasoning also applies to specific market segments, which are often location-bound in a country or even a city, meaning that foreign labels not only served their country, but often managed the whole segment internationally for the music multinational. Often, multinationals have several labels in a country targeting different segments.

Forward vertical integration, having foreign distribution subsidiaries, enables multinationals to maximise the rents they can capture from their copyrights, and guaranteed distribution access, so that the right record ends up in the right music store in the right neighbourhood. Increasing returns may exist in the international combination of local marketing know-how that accumulates with every new foreign acquisition, enabling the multinational to market its international repertoire more effectively locally, and its local repertoire more effectively internationally. Moreover, for music, marginal revenues partially equalled marginal profits. Most costs consisted of A&R, recording, advertising and promotion. Many records did not recoup these sunk costs, but once they did, marginal revenues largely equalled marginal profits. By distributing internationally, a multinational secured those marginal revenues, establishing a firm connection between production outlays and marginal sales. This increased its incentive to release records with the highest possible

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<sup>17</sup> Local companies could still rent foreign rights, but agency problems would exist and information problems on knowing the rights' true value. See also Nicholas, "Theory."

<sup>18</sup> Contracts provided less of a long-term guarantee and did not control rights-creation. See, for example, the PPI-CBS alliance, below.

selling capacity.<sup>19</sup> Without proprietary distribution, others would capture part of the marginal revenues, and the incentive to increase production quality diminished.<sup>20</sup>

The fact that Polygram could piggyback on Philips' and Siemens' expertise in raising capital and on their world-wide selling organisations, probably lowered its cost of capital and transaction costs. Protection affected record manufacturing, but not the creative side, and became less important over time. Vertical integration, however, was crucial. As will be shown below, Polygram made large resource-based investments in the US, subsequently exploiting them to the limit in the non-US markets where it was strong in distribution.

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<sup>19</sup> Gerben Bakker 'Building Knowledge about the Consumer: The Emergence of Market Research in the Motion Picture Industry' in: *Business History* 45 (January 2003): 101-127, and Gerben Bakker, "The Decline and Fall of the European Film Industry: Sunk Costs, Market Size and Market Structure, 1890-1927," *Working Papers in Economic History* 70 (London School of Economics, 2003), make this point for the film industry.

<sup>20</sup> See also Richard E. Caves, *Creative Industries: Contracts Between Art and Commerce* (Cambridge, Mass., 2000).



### **3. The early years, 1929-1950**

The seed from which Polygram would develop was sowed by Decca Records of London. Decca licensed H. W. van Zoelen, the owner of a small record shop, to distribute its records. Over time, the geographical area covered by the license grew to all of the Netherlands and colonies, and the company, Hollandsche Decca Distributie (HDD), also integrated backward into A&R, recording and manufacturing (table 1).<sup>21</sup> On the eve of the war, all activities had been brought inside the Netherlands and HDD had become a fully integrated Dutch record company. The relation with Decca of London became limited to the payment of royalties and the mutual exchange of Dutch and English master recordings. HDD was quite a small company. In 1938-1939 it sold 80,000 records, gradually increasing to an all-time high of 180,000 records in the war years 1940-1941. Profitability grew from breaking even in 1938-1939, to fl. 25,000 the next year, and a high of fl. 37,000 the year after.<sup>22</sup>

Paradoxically, through its licensing agreement, Decca sow the seeds for its own competitor. It was not uncommon for new entrants into major global industries to begin as joint ventures with market leaders from abroad. Several Japanese companies started this way, such as computer maker Fujitsu (originally, in the 1920s, a Fuji-Siemens joint-venture), electronics company NEC (originally NEC- General Electric) and Sumitomo Rubber (in the 1920s a subsidiary of Dunlop, taking over Dunlop itself sixty years later).<sup>23</sup> Even Philips Electronics started out by manufacturing Edison light bulbs in the 1880s, for which it did not need any joint-venture, since the Netherlands lacked patent legislation. Over the years, the company had expanded in many other areas of consumer electronics, and eventually it would take over HDD.<sup>24</sup> In the 1920s, it started to target the manufacturing of media products. In 1924 it bought the Nederlandsche Seintoestellen Fabriek (NSF), a Dutch radio manufacturer, which in the 1930s built a recording studio.<sup>25</sup> In 1928, Anton Philips founded a division within Philips' research laboratory to focus on television, sound film and electrical gramophones. After having commercialised many innovations of others, Philips aimed to start developing innovations of its own.<sup>26</sup>

Table 1. *Development of Hollandsche Decca Distributie into Philips' Phonografische Industrie, 1929-1950.*

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<sup>21</sup> Transcript interview (TI) K.K. Daan with H.W. van Zoelen, 29-12-1965, PA/D/DsZ1.3/As145.

<sup>22</sup> A. Goudekot, 'Rapport naar aanleiding van een investigation, uitgevoerd bij de Hollandsche Decca Distributie (Decca Dutch Supplies) N.V. te Amsterdam,' 13-12-1941, PA/D/DsZ1.4As34.

<sup>23</sup> Louis Turner, *Industrial Collaboration with Japan* (London, New York and Andover, 1987).

<sup>24</sup> What follows strongly draws on I.J. Blanken, *De Ontwikkeling van de N.V. Philips Gloeilampenfabrieken tot Elektrotechnisch Concern, 1922-1934. Geschiedenis van Philips Electronics N.V. III* (Leiden, 1992).

<sup>25</sup> *Ibid.*, 199-202, 265-269; Kroniek K.K. Daan, PA/D: 2.

<sup>26</sup> Blanken, *Philips*, 330.

<b>Year</b>	<b>Activity</b>	<b>Character</b>	<b>Remarks</b>
1929	Retail of records	foundation of enterprise	
1929	Distribution of Decca Records	backward integration	For parts of the Netherlands
1931	Distribution for Decca in Netherlands and colonies	horizontal integration	Exclusive distribution.
1931	Recording of Dutch artists in London	backward integration	Recordings done at Decca London studios.
1933	Recording at NSF in the Netherlands	change to local factor	Making of the master record and record manufacturing still by Decca London.
1933	Record factory Amsterdam	backward integration	Both Dutch and Decca London repertoire.
1936	change to Naamloze Vennootschap	change in ownership structure	Limited liability joint stock company.
1939	Making of master records	backward integration	
1940	Collection old records (until 1946)	backward integration	Reprocessing of raw materials.
1942	Take-over by Philips	backward integration	HDD now connected to hardware interests
1945	R&D at Philips	backward integration	HDD now connected to Philips R&D.
1945	Export/international sales through Philips	forward integration	
1947	Modernising of record manufacturing	production improvements and expansion	
1950	Foundation of N.V. Philips'Phonografische Industrie	independent company owned by Philips	

Note: NSF = Nederlandsche Seintoestellen Fabriek

Source: Polygram Archives; Kroniek K.K. Daan, PA D, p. 1; TI K.K. Daan with H.W. van Zoelen, 29-12-1965, PA/D/DsZ1.3As145; *Bijvoegsel tot de Nederlandsche Staatscourant* 167 (27 August 1936).

Also in 1928, Philips started negotiations with Columbia Graphophone Company Ltd., one of the two large British music companies, and among the world's largest three record manufacturers. Philips would manufacture gramophones, to be sold through Columbia's dealer network. Philips, which was manufacturing parts for record manufacturers, knew the market was growing rapidly.<sup>27</sup> Ultimately, the negotiations stalled because Anton Philips feared the dependence on one main customer, and noticed that it was risky to manufacture gramophones without an interest in music recording of music and record manufacturing.<sup>28</sup> Most large recording companies manufactured both gramophones and records and owned A&R companies. Philips, which started to manufacture gramophones on a small scale after failed negotiations, was an exception. Another hardware manufacturer, Radio Corporation of

<sup>27</sup> *Ibid.*, 337-348.

<sup>28</sup> *Ibid.*, 337-348.

America (RCA), moved into software by merging with the Victor Talking Machine Company in 1929.<sup>29</sup>

It was not surprising then that Philips took over HDD, when the opportunity arose in 1942. Philips-manager A. Goudeket, who examined the books,<sup>30</sup> observed that HDD was doing good business, possibly because people longed for distractions from the war, and because of the absence of American and British competition. Van Zoelen wanted to sell to Philips' so HDD would have powerful backing when that competition would re-emerge.<sup>31</sup> Philips paid 300,000 guilders in cash, using an intricate financial transaction to prevent the Germans knowing about it. Because pension funds could still transfer large sums without arising suspicion, Philips' pension fund put a deposit at the Philips' family bank Fred. Philips, in Zaltbommel, a small Dutch town. This deposit was then transferred to Van Zoelen's account at the bank.<sup>32</sup>

Besides opportunism, given Philips' financial resources during wartime, the strategic motive for Philips was probably to make records for its gramophones. Philips' labs were already doing research on magnetic tape and long-playing records.<sup>33</sup> A software division could support the eventual launch of these formats, and would strengthen Philips' hand in negotiations with record companies.<sup>34</sup> In a Organisational Committee meeting Philips top managers noted that the record companies were not enthusiast about new formats, and therefore Philips should move itself into big-time music production and distribution.<sup>35</sup> Philips also could apply its know-how to rapidly build large-scale factories for new technological products to record manufacturing.<sup>36</sup> The move into record manufacturing and distribution completed Philips entry in the music industry.

On an operational level, Philips provided better management to HDD: Van Zoelen reported every Friday evening to Philips' managers at corporate headquarters in Eindhoven, and once a month on a Saturday all Philips' managers involved in sound carriers met. Further,

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<sup>29</sup> Ibid., 339; see also Alfred D. Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass., 1990): 354-356. RCA is now owned by BMG.

<sup>30</sup> A. Goudeket, 'Rapport naar aanleiding van een investigation, uitgevoerd bij de Hollandsche Decca Distributie (Decca Dutch Supplies) N.V. te Amsterdam. 13-12-1941,' PA/D/DsZ1.4As34.

<sup>31</sup> Ibid., 5.

<sup>32</sup> TI K.K. Daan with H.W. van Zoelen, 29-12-1965, PA/D/DsZ1.3As145; TI K.K. Daan with Th. W. Kreek, undated, PA/D/DsZ1.3As147; 'Recapitulatie van de transactie 'Decca', 6-10-1942,' PA/D/DsBa11As33; 'Presentielijst en notulen van de naamloze vennootschap Hollandsche Decca Distributie (Decca Dutch Supplies) N.V. te Amsterdam,' PA/Ds10854, aldaar 5-10-1942; 'Aandeelen-constructie Hollandsche Decca Distributie (Decca Dutch Supplies) N.V., 29-4-1946,' PA/D/DsBa11As35.

<sup>33</sup> During the German occupation, Philips corporate laboratories were placed in a structure under its own control, meaning that Philips was one of the few continental companies that continued fundamental research, which gave the company a headstart after the war.

<sup>34</sup> TI K.K. Daan with J.M. Ledebøer, undated, PA/D/DsZ1.3As148.

<sup>35</sup> 'Uittreksel uit de notulen van de vergadering van de Concern Orco, d.d. 23-9-1947', PA/D/DsC1As32.

<sup>36</sup> TI K.K. Daan with J.M. Ledebøer, undated, PA/D/DsZ1.3As148.

Philips seconded more and more Philips-employees to HDD.<sup>37</sup> Access to capital was also important, as Philips was able to get many times more capital for expansion than Van Zoelen. Philips' experienced international sales network could market HDD's records abroad, which was important in a time of protectionism and regulations. Record sales increased the returns on Philips' pre-existing sales network and also increased profits at HDD.

During the war, Philips limited itself to supplying management and capital. Afterwards, combining HDD's record pressing practices with its mass manufacturing know-how, it quickly built a large factory in Doetinchem, to produce 78 rpm shellac records.<sup>38</sup> Subsequently, a second, larger factory was constructed in Baarn, to which HDD's Amsterdam activities were moved, and which became the headquarters of Philips' record activities. Between 1945 and 1950, initially, export was mostly done through Philips Direct Export in Eindhoven, but gradually, separate foreign record distributors were founded, often beginning as part of the local Philips subsidiary. Thus, while HDD provided Philips with capabilities in A&R and music manufacturing and distribution, Philips brought to HDD capabilities in management, easy access to capital, an international distribution network, international M&A skills, new recording technologies, and mass-manufacturing know-how.

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<sup>37</sup> TI K.K. Daan with Th. W. Kreek, undated, PA/D/DsZ1.3As147; TI K.K. Daan with J. Binsma, 20-2-1968, PA/D/DsG.3As639; TI K.K. Daan with Th. K. P. Van Dongen, undated, PA/D/DsZ1.3As150.

<sup>38</sup> TI K.K. Daan with J.M. Ledebøer, undated, PA/D/DsZ1.3As148.

#### **4. The PPI years, 1950-1962**

During the late 1940s, Philips combined its divergent music activities into a separate joint-stock limited liability company, Philips Phonografische Industrie N.V. (PPI), of which Philips owned all the shares. Only R&D and manufacturing of sound carriers was to be done outside PPI.<sup>39</sup> Before, the record activities were spread out within Philips, falling under several different managers. Research took place in the Eindhoven research laboratories, development elsewhere in Eindhoven, recording was done in Hilversum, manufacturing in Doetinchem, stocking and distribution in Amsterdam, and exports through Direct Export in Eindhoven.<sup>40</sup>

Initially, sales were tiny. In 1950-1951, PPI's first accounting year, they were just 6.6 million guilders and the profit margin was -7.6 percent. However, in the next twelve years, PPI's turnover grew 31 percent annually, on average, to reach 138 million guilders in 1962. From 1953 onwards PPI started to make profits. The profit margin fluctuated considerably but remained largely within a range of two to six percent of sales. PPI's expansion was mainly internationally horizontal, its manager Schuitema observed in 1955. By using the sales network of Philips and setting up record distributors inside the national Philips' organisations, PPI records reached ever more markets.<sup>41</sup> Nevertheless, the home market remained important in PPI's early years. In 1954, it held sixty percent of it, and had signed all major Dutch talent, which accounted for 46 percent of its Dutch sales.<sup>42</sup>

Polygram's early growth was mainly based on alliances. After the merger of HDD's and Philips' music interests, which was an important alliance in itself, the key thing that was lacking was expertise of and presence in the international music industry. Recognising that this was costly and timely to build from scratch, initially Polygram aimed for a full merger with Decca of London. In late 1945, Philips top-managers travelled to London to discuss a possible 'Decca-Philips Company'. As the discussions advanced a draft merger agreement was made, but Decca-owner Lewis remained reluctant to full merger and preferred a limited merger in the Netherlands and France. A second attempt by Philips manager Ledeboer, in late 1947, did not change his mind.<sup>43</sup> PPI, however, continued to distribute Decca records in the Netherlands well into the 1950s, and in the late fifties Decca accounted still for a quarter of PPI's

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<sup>39</sup> 'Mededeling No. 37 van de Raad van Bestuur, ir. P.F.S. Otten, voorzitter, 7-4-1950,' PA/D/DsG.2As100.

<sup>40</sup> P.R. Dijksterhuis en E.B.W. Schuitema, 'Opzet H.I.G. Muziek. Aan de leden van de Raad van Bestuur,' 5-4-1950, PA/D/DsG.2As99.

<sup>41</sup> General Meeting P.P.I. 1955, April 21-24, PA/D/DsG4As156.

<sup>42</sup> 'Advisory Committee Meeting in Amsterdam, June 9<sup>th</sup> and 10<sup>th</sup>, 1955', P/Ds15730.

<sup>43</sup> Heads of agreement. N.V. Philips' Gloeilampenfabrieken of Willemstad, Curaçao and Decca Record Company Ltd. of London, 6-12-1945, PA/D/DsBa11As106b; 'Bespreking met Mr Lewis, Decca Company London, 19-12-1945,' PA/D/DsBa11As108a. 'Reisbericht J.M. Ledeboer van bezoek aan Decca London, 26,27,28-22-1947, verslagdatum 14-3-1947,' PA/D/DsZ1.3As17.

Dutch turnover.<sup>44</sup> Only decades later, in 1979, did Polygram finally acquire Decca.<sup>45</sup> The failed merger-attempt initially deprived Polygram from important English and American repertoire, widely popular in foreign markets and essential for a music multinational.

Polygram's second attempt for an alliance, aimed to strengthen its position on the continent, involved Deutsche Grammophon Gesellschaft (DGG) from Germany. Founded by Emile Berliner in 1898 in defiance of Edison's phonograph, it had been part of The Gramophone Company, until it was disconnected from its American-British mother in 1917.<sup>46</sup> From 1926, DGG cross-licensed its repertoire with the Brunswick Balke Collander Co. from Chicago. From 1935, DGG licensed both the English and American repertoire of Decca.<sup>47</sup> The Decca alliance had expired in February 1945, which helps to understand why Philips was in a hurry to arrange a merger with Decca during 1945.<sup>48</sup>

On the eve of the war, DGG was one of the two large German record companies, holding a market share of about forty percent.<sup>49</sup> It had subsidiaries in France, Austria, Switzerland, Denmark and Japan.<sup>50</sup> Coincidentally, in the same year that HDD was acquired by Philips, DGG was bought by Siemens. Before, DGG had been part of Telefunken, an R&D joint-venture of Siemens and AEG dating back to 1903. When they liquidated Telefunken Siemens took DGG and AEG Telefunken-Schallplatte, a smaller record company.<sup>51</sup> During the war, DGG had been badly damaged. Philips had helped it to restart production, and informally co-operated. Philips also provided DGG with capital and foreign sales organisations for countries in which DGG offices had disappeared.<sup>52</sup> DGG provided Philips with German repertoire and classical repertoire, and a strong distribution presence in German-speaking countries and Scandinavia.

Shortly after PPI was founded, it made a formal alliance with DGG, agreeing to manufacture each others' records if necessary, to co-ordinate the release of new repertoire and not to poach each others' artists or to bid against each other for new talent. The four-year alliance was replaced by a fifteen year agreement in 1954. In 1962, finally, Philips and

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<sup>44</sup> Hollandsche Decca, 'Notulen', PA/Ds10,854, entry 23 July 1956.

<sup>45</sup> See below.

<sup>46</sup> Gelatt, *Phonograph*; Robert Burnett, *The Global Juke Box* (London, 1996).

<sup>47</sup> Sophie Fetthauer, *Deutsche Grammophon: Geschichte eines Schallplattenunternehmens im "dritten Reich"* (Hamburg, 2000): 98-99.

<sup>48</sup> In 1945 DGG could hardly communicate abroad, not even with its own subsidiaries. The British command did not allow it to contact Decca to renew the agreement. DGG's Hannover factory and Berlin studio and headquarters were even unable to communicate with each other. Fetthauer, *Deutsche Grammophon*, 174, 190.

<sup>49</sup> *Ibid.*, 57.

<sup>50</sup> *Ibid.*, 101.

<sup>51</sup> *Ibid.*, 65-67; Wilfried Feldenkirchen, *Siemens, 1918-1945* (München, 1995): 349-350; —, *Siemens: Von der Werkstatt zum Weltunternehmen* (München, 1997): 223-224, 374-375, 419.

<sup>52</sup> This view emerges from the Daan interview transcripts. The book of Fetthauer, however, which runs up to late 1945, does not mention Philips or HDD, so any contacts have likely been after late 1945. Fetthauer, *Deutsche Grammophon*, 174-202.

Siemens merged PPI with DGG.<sup>53</sup> The alliance yielded three important advantages. First, PPI gained more knowledge about record manufacturing, which helped its plans to build a string of record factories across Europe. Second, DGG assured strong A&R capabilities and distribution access in Germany, Austria and Scandinavia. Third, DGG had a strong catalogue and reputation in classical music, which could be distributed internationally through PPI's sales networks. Several of DGG's recordings were already on audio-tape, a technology pioneered by the Nazis, making recordings easily transferable to the long-playing record. The audio-tape know-how may also helped PPI improve its recording studios.

The DGG alliance still left PPI without the badly needed British and American repertoire, PPI having only access to Decca's repertoire in the Netherlands and colonies. The gap was filled in 1951, when PPI closed a ten-year agreement with Columbia (CBS) of the US. PPI would distribute CBS' repertoire outside the Americas, CBS PPI's inside.<sup>54</sup> This alliance was essential for Polygram to grow from scratch so quickly. A historical factor is EMI's failure to reach an agreement with CBS. EMI, then Europe's largest music company, distributed CBS' repertoire internationally beforehand, and must have been surprised seeing its franchise being taken away by PPI.<sup>55</sup> Had EMI and CBS managed to reach agreement, it remains doubtful whether PPI could have grown so quickly.

PPI and CBS were a good match. PPI was strong in classical but weak in popular music, Columbia had the reverse. Also, Columbia lacked a strong distribution network outside of the Americas. Nevertheless, after a few years into the agreement some PPI managers regretted they could not sell records anymore by themselves in the US, and depended totally on Columbia. In 1961, the agreement expired and new negotiations ran afoul.<sup>56</sup> Columbia set up its own European distribution network, while PPI started to make acquisitions in the US.<sup>57</sup>

Contrary to the creative side, on the manufacturing side protection was an important reason for Polygram's foreign expansion, especially in the early years. Tariffs on records could be substantial, especially considering that a master-recording could cross borders at

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<sup>53</sup> 'Visit to German grammophone record factories between June 12th - 25th 1947,' PA/D/DsZ1.8As142; 'Heads of agreement zwischen N.V. Philips' Phonografische Industrie, Baarn, Alldelphi Verwaltung G.m.b.H., Hamburg, einerseits, und Deutsche Grammophon Gesellschaft G.m.b.H., Hannover, andererseits,' PA/D/DsBa11.2As56.

<sup>54</sup> 'Uittreksel uit het supplement Algemeen Resultaten Overzicht Hoofdindustrie-groep Muziek mei 1953 t/m april 1954,' PA/Ds10355; Letter J.H.M. Kuijpers, Secretariaat N.V. Philips' Gloeilampenfabrieken, Eindhoven to K.K. Daan, 13-5-1966, PA/D/Ba11.2As65. See also 'Columbia Broadcasting System. Annual report to the stockholders for the fiscal year ended December 29, 1956,' PA/D/Ds10355, p. 39-47; 'Columbia Broadcasting System. Annual report to the stockholders for the fiscal year ended January 3, 1959,' PA/D/Ds10355, p. 43-49.

<sup>55</sup> Information kindly provided by Peter Martland, who is writing a history of EMI.

<sup>56</sup> Kroniek K.K. Daan, PA/D, p. 53.

<sup>57</sup> Mercury was initially bought by North American Philips Corporation (NAPC), which controlled Philips' US and Canadian assets. It was transferred to Polygram in 1972.

little cost. PPI manufactured most of its own records and foreign companies it bought often included both manufacturing and A&R outfits. Between 1950 and 1962, PPI's major expansion was in continental Europe and developing countries. In 1962 the large Baarn factory—next to the headquarters—was the central factory, with a further six European factories in France, Britain, Denmark, Norway, Spain and Italy. In the early 1950s, for example, after careful study PPI decides to manufacture LPs in Copenhagen, to circumvent Danish tariffs.<sup>58</sup> The Baarn factory often delegated export orders to factories in tariff-efficient countries for specific orders, and itself was often used a stand-by factory during peak-times to press records for other companies.<sup>59</sup> PPI also made cross-border agreements with other companies to prevent cross-border trade. In the 1950s DGG, for example, was pressing PPI-records in Germany, while PPI pressed DGG-records in some other countries.<sup>60</sup> The creation of the European Community encouraged PPI to prepare studies on a large-scale manufacturing complex supplying records to all of Europe, the so-called 'Euro village factory'.<sup>61</sup>

PPI also built or bought factories in development countries. In 1959, for example, it bought the small Al Chark Records of Cairo, and soon after received a large government order to release the Koran's full text on LPs.<sup>62</sup> In 1963 Philips opened a factory in Ohnitsa, Nigeria.<sup>63</sup> PPI followed a cautious strategy. In several countries, such as Turkey, Pakistan, Iran and Peru, Philips managers visited several record manufacturers, but ultimately PPI did not make an attempt to enter production.<sup>64</sup> Entry probably only paid off if markets were large enough, tariffs prohibitive and an attractive entry opportunity existed. In 1962, before the merger with DGG, PPI's manufacturing infrastructure consisted of the large Baarn factory and nine 'outside factories' in France, Britain, Denmark, Norway, Spain, Italy, Egypt, Nigeria

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<sup>58</sup> 'Report of discussion with PPI Baarn on Tuesday September 23<sup>rd</sup>', A.G. van der Heijden, Regional Management Europe II', 25-9-1952, P, Ds 15,730.

<sup>59</sup> 'Integratie en conjunctuur. Een blik op de toekomst', Baarn, April 1962, V.d. Wolk, PA D DsBa3 As630.

<sup>60</sup> "Verslag van de 4e bijeenkomst van de Integratie Commissie Muziek op 13-1-1960, genoteerd op 1-3-1960." P Ds15754.

<sup>61</sup> See for example 'Financieel resultaat van een concentratie der productie van 10" and 12" klassieke platen, der Euromarktländ en Engeland, bij pers in Baarn,' V.d. Wolk, 29 February 1962, PA D DsBa3; 'Verslag van de bespreking met de heer Ir. A. J. J. Lambeek op 28 januari 1960 betreffende Europese Integratie', PA D DsBa3 As285; 'Integratie Commissie Muziek. Enkele losse notities inzake Euromarkt - K. K. Daan,' 30 May 1959, PA D DsBa3 As279.

<sup>62</sup> 'Rapport van bezoek van hr. Lambeek aan Cairo van 1/5 tot 5/5', 24-5-1961, PA/D/DsF14.1As434; Brief C.H.F. Maschewski aan K.K. Daan, 15-11-1966, PA/D/DsF14.1As128; *Philips-Koerier* 1-7-1961, PA/D/DsF14.1As667.

<sup>63</sup> 'Report JIA record factory,' 3-5-1957, letter from H.H. van Doorn to D. Brink, PA/D/DsF16.1; 'Verslag van het bezoek aan Nigeria van 3-10 juni 1961 door ir. A.J.J. Lambeek,' 26-6-1961, PA/D/DsF16.1As435; A.J.J. Lambeek, 'Beschouwing over het vestigen van een grammofoonplatenfabriek in Nigeria,' 6-7-1961, PA/D/DsF16.1As435; —, 'Verslag van bezoek aan Ohnitsa en Apape - Nigeria van 3 tot 9 september 1962,' 17-9-1962, PA/D/DsF16.1As441.

<sup>64</sup> C. Solleveld to Mr. Sterneberg, Philips Electrical Cy of Pakistan Ltd., 16-8-1951, PA/D/DsF15As517; — to L. Koornneef, Türk Philips Ltd., Istanbul, 16-10-1952, PA/D/DsF11As515; 'Oriëntatie-calculatie. Brief J. Halm, Gem Belangen aan Kayinan Caglayan, Melodi Records, Ankara, september 1962,' PA/D/DsF11As908; 'Samenvatting van het verslag over het bezoek aan Turkije van 13 tot 20 november 1962,' 4-12-1962 PA/D/DsF11As443. 'Report on visit by general P. Garcia of Peru on 15-6-1964,' PA/D/DsF19.2As906.



and Brazil.<sup>65</sup> By 1976, Polygram had acquired additional record pressing factories in Nairobi and Tanzania.

One of the strengths of Polygram as a multinational was building and combining knowledge on an international level. The Polygram Archives contain numerous reports by local Polygram/Philips/Siemens managers on foreign record factories and markets, and reports on approaches by foreign businessmen. From a visit to Houshang Reshad, managing director of Iran Gramophone Plants, Polygram manager J. Halm noted, for example, that the company had 14 presses with total daily capacity of 30,000 45-rpm records, and that it planned to buy six new presses, bringing capacity to 50,000, for markets in Iran, Turkey, Saudi Arabia, Kuwait and Pakistan.<sup>66</sup> Together, these reports have given Polygram important international intelligence about markets and producers.

PPI took some time to master the record manufacturing technology. Initially, the old 78-rpm shellac record was the only product, but gradually it began to manufacture new formats, compatible with new hardware. PPI played an important role in the introduction of the LP standard into Europe. The company was doing research on a long-playing record already since 1946.<sup>67</sup> In 1947, J. M. Ledebøer, the manager of Philips' Technical Gramophone Department visited record factories in the US, and observed that several companies were doing research on a vinyl long playing record.<sup>68</sup> When Columbia launched the long-playing record in 1948,<sup>69</sup> Philips was in a good position to rapidly develop the production technology necessary to manufacture large quantities. In 1949, Ledebøer presented the first Philips 33-rpm 'unbreakable' LP's at a convention of record retailers.<sup>70</sup>

Philips' commitment to the LP technology was an important factor for Columbia's willingness to enter the long-term alliance with PPI in 1950. In the US, since 1948 a 'battle of the speeds' had been going on between Columbia's LP and RCA's 45-rpm 'single' standard,<sup>71</sup> inhibiting market growth because consumers were delaying purchases until a clear winner emerged.<sup>72</sup> In 1952, the battle ended with Columbia and RCA cross-licensing their technologies and introducing players playing both formats. This was the start-sign for the

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<sup>65</sup> Annex to 'H.I.G. Muziek. 10 jaar ontwikkeling,' 1963, PA/D/DsG2As631Annex, p. 3.

<sup>66</sup> 'Bezoekrapport J. Halm; bezoek Houshang Reshad, managing director Iran Gramophone Plants, 24 August 1965,' 7 September 1965, PA/D/F14As862.

<sup>67</sup> PA Kroniek Daan, entry 3 April 1946; the Philips patents department is filing patents on long-playing technology.

<sup>68</sup> TI K.K. Daan with J.M. Ledebøer, undated, PA/D/DsZ1.3As148; TI K.K. Daan with Th.K.P. van Dongen, PA/D/DsZ1.3As150.

<sup>69</sup> Gelatt, *Phonograph*, 290-301; Irving Kolodin, "The vinyl decade," in "Ten years of recordings," *Saturday review* 41-120 (1958): 41-43.

<sup>70</sup> TI K.K. Daan with J.M. Ledebøer, undated, PA/D/DsZ1.3As148.

<sup>71</sup> Gelatt, *Phonograph*, 290-301; Kolodin, "Vinyl decade."

<sup>72</sup> See also Gerben Bakker, 'Setting the Standard: Path Dependence and the Economics of Standardisation in the Music Industry', Annual Conference of the Economic History Society, Birmingham, 4-6 April 2002.

largest expansion ever of the US music market, which, with the emergence of many new music genres, transformed the popular culture of the Western World.

Philips, however, was little affected by the ‘battle of the speeds’, as it only began to turn out both LP and EP records in large quantities after the battle was over. An important factor in PPI’s rapid embrace of the LP was probably that it lacked large back-catalogues of three-minute tracks, which the LP would devalue.<sup>73</sup> Further, PPI’s focus on classical music made the LP desirable. Initially, PPI produced 10-inch and 12-inch LPs, the two-track 45-rpm ‘single’, and the 4-track 45EP. Eventually, the 12-inch LP and the single became the standard products. The European incumbent, EMI, waited long with releasing music on LP and missed substantial additional turnover.<sup>74</sup> Thirty years later, it made the same mistake with the compact disc.<sup>75</sup> Decca had developed an LP-record of its own, which was ready in 1950, but ultimately failed.<sup>76</sup>

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<sup>73</sup> “Geboorte van de langspeelplaat. ‘Weg met dat ding, riep Sir Compton Mackenzie’,” *Polygram Krant* (December 1976): 2-3.

<sup>74</sup> Gelatt, *Phonograph*.

<sup>75</sup> Erik Gruijthuijsen and Peter Junge, *De Revolutie van Jan Timmer* (Naarden, 1992): 26-27.

<sup>76</sup> H. Baudet, *Een Vertrouwde Wereld: 100 Jaar Innovatie in Nederland* (Amsterdam, 1986): 68.

## **5. Merger in Europe and expansion in the US, 1962-1980**

In 1962 PPI and DGG merged to form the Gramophon-Philips Group (GPG). Siemens and Philips each took a fifty percent stake in each others' subsidiaries.<sup>77</sup> PPI and DGG remained separate entities, but now had a unified management directing the two companies. Gradually the co-operation intensified until in 1972, a formal merger took place to form Polygram, of which both Philips and Siemens owned fifty percent. Finally, in 1977 both organisations fully merged operationally, integrating recording, manufacturing, distribution and marketing in one organisation. Only on the creative side, the different labels remained independent.<sup>78</sup>

The merger was a good fit. Besides scale economies in manufacturing and distribution, DGG's network was strong in Germany, Austria and Scandinavia, and Philips in most of the rest of the world. Further, GPG could rely on support of both Siemens and Philips. The only thing missing was a strong position in the US. The alliance with CBS had expired in 1961, and attempts to replace CBS by Decca failed.<sup>79</sup> Moreover, since 1955, American record companies had been founding their own distribution subsidiaries in Europe.<sup>80</sup>

The US music market was the world's largest and also generated easily exportable repertoire. In line with a resource-based FDI motive, Polygram needed access to US copyrights, essential 'raw materials' for a music multinational, and it also needed US distribution capabilities to prevent American distributors capturing the rents of Polygram's copyrights and guaranteeing access to US distribution capacity and shelf space.

GPG's main expansion therefore was in the US (table 2). The first step was the take-over of Mercury Records in Chicago, a medium-sized producer. GPG expanded the firm and exported its repertoire abroad. The next major take-over was in 1972, when Polygram bought MGM Records and Verve Records from Metro-Goldwyn-Mayer, followed by the acquisition of UDC, a large distributor, finally giving Polygram a major US distribution network. Because UDC's capacity was substantially above Polygram's US turnover, initially distribution was expensive. In 1976, utilisation came closer to capacity when Polygram started to distribute for Twentieth Century Records, a subsidiary of the Hollywood studio, when the Robert Stigwood Organisation (RSO) expanded to the US.<sup>81</sup>

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<sup>77</sup> Kroniek K.K. Daan, PA/D: 59. Daan refers to 'Orco Notulen (Raad van Bestuur) d.d. 26-6-1962'.

<sup>78</sup> Jaarrapport 1978/79, PA/D/Ds8701.

<sup>79</sup> 'Verslag van de directie-bespreking op 13 December 1961 te Baarn' [Report of the directors meeting on ...] PA. It was agreed that Hartog, a PPI manager, would go to see Lewis, the owner-manager of Decca.

<sup>80</sup> 'Inleiding over PPI voor nieuwe werknemers. Vakgroep III en hoger', ['Introduction for new employees, level III and up'] July 1963, PA/Ds641.

<sup>81</sup> See Table 2.

Robert Stigwood was an Australian record manager who came to Britain in the late 1950s. His British company went bankrupt in 1965, and in 1967 he teamed up with Beatles manager Brian Epstein and soon after founded RSO, with the backing of Polygram. In 1970 he took the company public, but shares plummeted, and Polygram purchased all stock at \$1, slightly above market price, paying \$8 million in all, of which Stigwood received \$1.5 million. In the early 1970s RSO made large profits with the musical, film and multiple soundtracks of *Jesus Christ Superstar*. As he would prove many times over, Stigwood was a master in exploiting all possibly synergies between musical, film and records.<sup>82</sup>

In 1976, RSO set up a US subsidiary, half-owned by Polygram, and quickly made enormous profits with film, musical and soundtrack releases of *Saturday Night Fever* and *Grease*. In 1978, at its peak, RSO had less than sixty staff, over half of them in promotion.<sup>83</sup> It had many different departments, varying from personal management and theatre to television, film and music publishing.<sup>84</sup> In 1977, it earned more than \$100 million in US revenues alone,<sup>85</sup> and in 1978 the whole organisation had revenues of \$480 million and profits of \$120 million.<sup>86</sup>

In 1976, Polygram also closed a deal with MCA, the music subsidiary of Universal Studios, to do all its marketing and distribution outside of the US. In 1977, finally, Polygram bought half of Casablanca Film and Record Works. Outside of the US, Polygram mainly expanded through autonomous growth and smaller take-overs. It also used the Philips and Siemens sales networks for distribution and marketing. A few notable acquisitions were done in Britain, probably because British repertoire was easily exportable. In 1979 Polygram finally bought Decca Records, 34 years after the first talks started.<sup>87</sup> It also bought London Records, specialised in classical music. In all, the 1970s were a period of rapid expansion for Polygram. Between 1968 and 1978 its turnover had quintupled, and grew twice as fast as the entire music market.<sup>88</sup>

Polygram also expanded into music publishing. Music publishing was an important activity within the record industry. Music publishers held and administered the rights to song texts and music.<sup>89</sup> Their relation with record labels worked in two ways. Whenever a label had produced successful talent with original repertoire, it could license the rights to music and

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<sup>82</sup> R. Serge Denisoff, and William D. Romanowski, *Risky Business: Rock in Film* (New Brunswick, 1991): 208.

<sup>83</sup> *Ibid.*, 224.

<sup>84</sup> *Ibid.*, 254.

<sup>85</sup> *Ibid.*

<sup>86</sup> *Capital*, October 1979, PA, Ds642.

<sup>87</sup> Entry 'Polygram' in *International Directory of Company Histories*, ed. Thomas Derdak (Chicago, 1988).

<sup>88</sup> *Focus on Siemens*, September-October 1979: 26-29.

lyrics to a music publisher which then exploited it internationally. Alternatively, when a label used pre-existing repertoire, it licensed this from a music publisher. This two-way relationship with labels helped music publishers to maximise the rents they could capture from the rights, and profits in the industry could flow to this part in the product chain. In the mid-1960s, therefore, GPG decided to integrate backwards and founded the music publisher Intersong. It also bought the world's largest music publisher, the US Chappell, in 1968.<sup>90</sup> In this way, in only a few years time, GPG had become the world's largest music publisher, and was better able to capture the rents of the copyrights on its recordings.

Polygram's expansion strategy involved buying many different labels and leaving them with independent creative management. This strategy reflects a major shift in the recording industry after the Second World War. Distribution capacity became less scarce and consumer expenditure on music boomed, leading to increased market segmentation. The time of the bureaucratic, centrally managed record multinational was over. Instead, the successful recording multinationals set up or acquired divisions which were fine-tuned to each market segment. While generic corporate functions such as rights management and finance and accounting were transferred to corporate headquarters, segment-specific functions such as A&R and promotion remained inside the labels, and the label-managers had a lot of independence on these creative issues.<sup>91</sup> This shift to a multidivisional structure fits well into the framework of Chandler's modern business enterprise and at the same time adds an industry-specific nuance to it.<sup>92</sup> The shift compares a bit to a geographical M-Form, with the difference that the divisions here are not tied to geographic markets, but to market segments of a world-wide market. Each label managed its segment in order to get products for the world-wide market for that segment. It is this strategy that has led to the interesting paradox in the international music industry of sharply increasing concentration, coinciding with increasing musical diversity and variety of the music available to consumers.<sup>93</sup> This shows that the rise of the modern business enterprise does not necessary coincide with increasing standardisation and homogenisation—and in this specific case a decrease of artistic freedom.

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<sup>89</sup> A general overview of music publishing is Geoffrey P. Hull, *The Recording Industry* (New York, 1998): 46-72.

<sup>90</sup> TI K.K. Daan with de heer Ter Haar, 27-8-1968, PA/D/DsD1As752. This interview took place a few weeks after the takeover.

<sup>91</sup> General overviews of A&R-management are Hull, *Recording*: 123-148; Antoine Hennion, *Les Professionnels du Disque. Une Sociologie des Variétés* (Paris, 1981).

<sup>92</sup> Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass. 1977).

<sup>93</sup> Paul D. Lopes, "Innovation and Diversity in the Popular Music Industry, 1969 to 1990," *American Sociological Review* 57 (February 1992): 56-71; T. J. Dowd, "Diversificazione Musicale e Mercato Discografico negli Stati Uniti, 1955-1990," *Rassegna Italiana di Sociologia* 41 (2000): 223-263. Some older, non-quantitative sociological works on the music industry are Richard A. Peterson and David G. Berger, "Entrepreneurship in Organisations. Evidence from the Popular Music Industry," *Administrative Science Quarterly* 16 (March 1971): 97-106; Paul M. Hirsch, "Organizational Effectiveness and the Institutional Environment," *Administrative Science Quarterly* 20 (1975): 327-344.

The multidivisional modern business enterprise may actually have increased variety in the case of the music industry.

The shift is illustrated by the fact that Polygram was not alone in its expansion strategy to acquire many labels. In the same period, EMI bought important labels such as Capitol and UA Records, while Warner Music bought Reprise, Elektra/Asylum and Atlantic.<sup>94</sup> The fact that music multinationals kept buying independent labels over the entire post-war period shows that they could add value over independent labels, for the reasons mentioned above.

Besides mergers and acquisitions, the audiocassette, a new standard introduced by Philips in 1963, was another factor that boosted Polygram's expansion. Several standards for audio-tape existed, such as 8-track, 4-track and Fidelipac, and Philips had been selling reel-to-reel tape recorders since 1952.<sup>95</sup> Already during the war, Philips had done research on magnetic audiotape as well as its own optical Philips-Miller system. Directly after the war, the Philips board was pondering whether to further develop audiotape or Philips-Miller, but found a major disadvantage the high equipment costs of Philips-Miller, although it held more patents to its technology.<sup>96</sup> From 1955 onwards, sales of reel-to-reel recorders increased sharply, because they could play stereo sound. The recorders were marketed as a premium product: recorded reels cost four times as much as an LP. When in 1958 the first stereo LP-players came onto the market, sales of reel-to-reel tape recorders collapsed.<sup>97</sup>

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<sup>94</sup> Burnett, *Global Jukebox*, 50-54.

<sup>95</sup> Gelatt, *Phonograph*, 312-323.

<sup>96</sup> 'Uittreksel uit de notulen van de vergadering van de Concern Orco, d.d. 23-9-1947', PA/D/DsC1As32.

<sup>97</sup> In the US in 1955, for example, a stereo-tape cost \$18.95, while the same recording on (mono-)LP cost just \$3.98. Gelatt, *Phonograph*, 315.

**Table 2. Major acquisitions of Polygram (PPI, GPG, Polygram), 1962-1980.**

<b>Year</b>	<b>Company</b>	<b>Country</b>	<b>Share</b>	<b>Price</b>	<b>Activity</b>	<b>Character</b>	<b>Remarks</b>
1950	Deutsche Grammophon Gesellschaft	Germany/ Europe	cntret		Recording, A&R, R&D, manufacturing, distribution	horizontal integration	four year agreement renewed for 15 years in 1954.
1951	Columbia	US/World	cntret	Roylty	distribution	horizontal integration	Philips gets CBS' rights outside Americas, and v.v.
1961	Melodica	Italy	100		A&R, manufact., distribution	horizontal integration	
1962	Mercury Records	US	100		production	horizontal integration	Bought by NAPC. To Polygram 1972
1962	Grammophon - Philips Group (GPG)	Germany/ Europe	mergr		Recording, A&R, R&D, manufacturing, distribution	horizontal integration	Philips + Siemens hold half of PPI and DGG. Full merger in 1972.
1967	RSO	UK	100	8	Records, musicals, films	horizontal integration	First a stake, in 1970 100%.
1968	Chappell Music Publishing	US UK	100	42.5	music publishing	backward vertical integration	Bought by NAPC (50%), Siemens (30%) GPG (20%). to Polygram in 1972
1972	MGM Records	US	100		production	horizontal integration	Bought from MGM.
1972	Verve Records	US	100		production	horizontal integration	Bought from MGM.
1973	United Distribution Corporation (UDC)	US			distribution	horizontal integration. US: vertical integration	Capacity too high for Polygram's US turnover, initially.
1976	RSO (US)	US	50		production	horizontal integration	RSO US founded in this year.
1976	Twentieth Century Records	US	Distr.		distribution	horizontal integration	Capacity UDC now better utilised.
1976	MCA	World excl.US	Distr.		distribution	horizontal integration	
1976	Polygram Video	Internat.	100		recording+distrib.	set-up new co.; diversification	Videotapes
1977	Casablanca Film and Record Works	US	50		production	horizontal integration	
1978	Barclay	France	stake		A&R, distrib.	horizontal integration	B. had 6-7 % market share, P. 27-28% (before)
1979	Decca Records	UK	100	£5.5-15.5	production and distribution	horizontal integration	Payments above £5.5 million depend on performance.

Note: share in percentage, price in millions of dollars. NAPC=North American Philips Organisation.

Source: Polygram Archives; Polygram Jaar-rapport 1976, PA/Ds7780; Polygram Jaar-rapport 1978/79, PA/Ds8701.

Polygram had had close contacts with the German firm Grundig on the development of a one-reel cassette,<sup>98</sup> but in the end, the Philips board green lighted a two-reel cassette, developed at its Hasselt factory. The Philips audiocassette was compact, played longer than an LP, used a small and portable recorder, was shock-resistant and could play stereo. These advantages and Philips' liberal licensing policy made the audio-cassette a success.<sup>99</sup> Only 8-track lasted a while as competing standard, mainly in cars, until it finally disappeared in the 1970s, when Philips' car cassette-players robbed 8-track of its last competitive advantage.<sup>100</sup> To help Philips' audiocassette, Polygram only released on 8-track in markets where the format had a large market share, such as North America.<sup>101</sup> Gradually, the audiocassette was contributing more and more to Polygram's turnover. Initially, Polygram was also recording other companies' repertoire on audiocassette. In 1965, the audio-cassette accounted for three percent of revenues, growing to eight percent in 1968 and 10.6 percent in 1970.<sup>102</sup>

In the late 1960s, GPG diversified into film and television.<sup>103</sup> It feared the competition of the video-tape or video-LP with the LP in the home entertainment market, and Philips was doing research on a consumer video player-recorder. The TV and film division consisted of local subsidiaries producing for national markets, and the central Polytel International, who traded internationally in the rights to these productions. Polytel also invested in co-productions with broadcasters like BBC and NBC, in return for international rights. Polytel had subsidiaries in Sweden, the Netherlands, Germany, Austria, Britain, France, Italy and Japan. It largely made quality productions, contracting directors like Stanley Kubrick, Claude Chabrol and Federico Fellini, and also educational children cartoons, such as *Barbapapa* and *Dr. Snuggles*.<sup>104</sup> In 1976, when home video was introduced, Polygram founded Polygram Video, to record and distribute videotapes.<sup>105</sup> Polytel's focus on often monopolistic public broadcasters may have made its products less suitable for the more competitive US market. Polygram's major European competitor, EMI, also diversified into audiovisual media. In 1969 it acquired Associated British Picture Corporation, including a film production company and Thames Television.<sup>106</sup>

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<sup>98</sup> Kroniek K.K. Daan, PA/D, p. 54.

<sup>99</sup> Marcel Metzke, *Kortsluiting: Hoe Philips zijn Talenten Verspilde* (Nijmegen, 1991): 147-148.

<sup>100</sup> Gelatt, *Phonograph*, 321-322.

<sup>101</sup> Drs. W.J. Eisses, 'Punten voor toespraak hr. Solleveld tot genootschap van jonge academici in Eindhoven op 21 mei, 16.00 uur', 27-4-1970, PA/Ds641.

<sup>102</sup> Ibid.

<sup>103</sup> 'Oprichting Polytel Film NV,' persbericht, 22-10-1969, PA/Ds8712As18.

<sup>104</sup> Jaarrapporten 1976 (PA/Ds7780), 1978/1979 (PA/Ds8701); 'Polytel International. A group of companies to serve the needs of film and television,' brochure, PA/Ds8701; 'Film-TV legt accent op co-producties' *Polygram krant* (January 1980): 12.

<sup>105</sup> 'Knipsels Polygram Video', PA/Ds8251.

<sup>106</sup> Burnett, *Global Jukebox*, 53.



Polygram also financed music films. Polygram-label Polydor, for example, advanced \$1 million for the soundtrack rights to *Tommy*, a 'rock opera' of *The Who*, and, in a time when quadraphonic sound was a novelty, helped to install 'Quintaphonic' sound systems in landmark theatres, placing a fifth speaker behind the screen.<sup>107</sup> *Quadrophenia*, based on another *The Who* album, was a hit in Britain, although soundtrack sales were disappointing.<sup>108</sup> Except for some co-operation on rights and distribution, the film activities of RSO and Casablanca remained separate from Polytel. During the disco rage of the late 1970s, the two companies showed how film and music could work together to boost sales. After producing hit musicals such as *Jesus Christ Superstar*, *Hair* and *Evita*, Stigwood tried to repeat his success in film. *Saturday Night Fever*, starring John Travolta on music of the *Bee Gees*, was released late December 1977, and became a huge hit film and soundtrack. Stigwood rushed out a sequel, *Grease*, equalling *Night Fever's* success. Stigwood first released the music on singles, yielding lots of free publicity, then launched the movie, and after many people had seen it, a double-LP would be available. Stigwood exploited his acts to the point of saturation. Directly after *Grease* he released yet another *Bee Gee* vehicle, the \$12 million *Sgt. Pepper's Lonely Hearts Club Band*, which 'flopped', its soundtrack being labelled the 'worst album of the decade' by *Rolling Stone*.<sup>109</sup> RSO spent \$1 million promoting the sound-track.<sup>110</sup> US box office revenues for *Night Fever* and *Grease* were \$142.5 and \$ 160.5 million, the soundtracks sold 25 and 22 million double-LPs each.<sup>111</sup> This is even more remarkable given the low production costs. *Grease*, for example, cost only \$6 million.<sup>112</sup> The demand for disco music was so high that Polygram's record factories could hardly keep up with it. Polygram's soundtrack revenues were DM 200 million in 1978.<sup>113</sup>

Polygram's other US joint-venture, Casablanca, also connected to the disco-craze with acts such as *Kiss*, *Donna Summer* and *The Village People*. Its manager, Neil Bogart, followed the example of Stigwood and released the disco-film *Thank God It's Friday*, also in 1978. The \$2.2 million film was torn to pieces by the critics, but still did moderately well, probably because of the music, which consisted of 32 songs from the Motown and Casablanca catalogues.<sup>114</sup> The sound track sold millions. *Last Dance*, sung by *Donna Summer*, even

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<sup>107</sup> Denisoff, *Risky Business*, 215.

<sup>108</sup> *Ibid.*, 190-191.

<sup>109</sup> *Ibid.*, 243; Fredric Dannen, *Hitmen: Power Brokers and Fast Money inside the Music Business* (New York, 1990, 2<sup>nd</sup> ed. 1991): 175.

<sup>110</sup> Denisoff, *Risky Business*, 244, 246, 287. Denisoff notes soundtrack sales were profitable.

<sup>111</sup> Gruijthuijsen, *Jan Timmer*; Dannen, *Hitmen*, 172-176; Polygram Jaarrapport 1978/1979, PA/Ds8701.

<sup>112</sup> Paramount, the distributor, spent another \$3 million on promotion Denisoff, *Risky Business*, 236.

<sup>113</sup> 'Teruggang Wereldmuziekmarkt treft ook Polygram', *Polygram Krant* 6 (September 1980): 1-4.

<sup>114</sup> Denisoff, *Risky Business*, 250-1. It earned 7.8 million in distribution revenues, suggesting box office revenues of \$13.0 to \$19.5 million. The promotion campaign, however, cost \$3 million.

received an Oscar for best film song.<sup>115</sup> In 1980, Polygram became full owner of Casablanca and moved its film activities into Polygram Pictures, which concentrated most film activities. From that point onwards, the film and television activities were declining. Reportedly, Polygram Pictures lost \$140 million in total during the early 1980s.<sup>116</sup>

## **6. Crisis and reorganisation, 1980-1989**

During the disco-boom, Polygram's US market share had jumped from five to twenty percent.<sup>117</sup> For a few years, it was the world's largest record company. CEO Coen Solleveld relocated his office and residence from the small and sleepy Baarn to Greenwich Village in New York.<sup>118</sup> Soon, his portrait was on the cover of the *New York Times* as the magical Dutchman outbeating the American record industry. Solleveld even paid Henry Kissinger \$15,000 to appear briefly at the presentation of Polygram's annual report for 1979, in West Palm Beach, Florida.<sup>119</sup>

However, below the polish, a crisis loomed. Before 1978, the American distribution organisation was too large, and Polygram was compensating American losses with profits made elsewhere. When in 1978 finally American operations were running at full capacity, the overconfident Polygram expanded it aggressively, constructing three large, fully automated distribution centres in California, New Jersey and Indianapolis. Managers optimistically ordered large numbers of records in advance, without knowing the demand.<sup>120</sup> During 1978, all of this was going fine, but when in late 1979 the disco-boom busted, everything went wrong. Polygram managers used a pipeline metaphor: the distribution pipe-line was six inches high, while products took up only two inches.<sup>121</sup> The over-optimistic ordering of managers further aggravated the problem. Although the *Sgt. Peppers* film flopped, the album still sold

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<sup>115</sup> Dannen, *Hitmen*, 161-181; Jaarrapport 1978/1979, annex Casablanca Film and Record Works, PA/Ds8701.

<sup>116</sup> "Polygram turns up the volume," *Business Week* (25 April 1994): 52-53.

<sup>117</sup> Dannen, *Hitmen*, 174-175.

<sup>118</sup> "Disco Dutchman," *Forbes* (5 februari 1979): 100; "Polygram Tops Charts in Year of 'disco fever'," *Greenwich Time* (9 August 1979); Kathryn Harris, "Polygram: That's Entertainment - Conglomeratized," and —, "U.S. Business Practices Baffle Dutch Trader: Polygram's Chief Enjoys Country, not Custom Regulations," *New York Times* (30 September 1979). Also in the Netherlands Solleveld attracted media attention. See for example "Peetvader van de Platenindustrie: Platenbons Coen Solleveld: 'Publiek bepaald succes'," *Elseviers Magazine* 8 (December 1979): 153-155.

<sup>119</sup> Gruijthuijsen, *Timmer*, 17.

<sup>120</sup> Dannen, *Hitmen*, 161-181; Jaarrapport 1978/1979, annex RSO, PA/Ds8701.

<sup>121</sup> *Ibid.*, 176.

three million copies. However, Polygram had pressed and distributed eight million, and US retailers could return any unsold copies.<sup>122</sup>

Problems also appeared further upstream in A&R. Polygram gave its US labels a large amount of autonomy, which could work when they were successful, but could also lead to disaster.<sup>123</sup> In October 1980, for example, the *BeeGees* filed a \$200 million lawsuit against RSO and Polygram, and settled out of court a year later, reportedly for \$70 million.<sup>124</sup> Casablanca's headquarters at Sunset Boulevard in Los Angeles became a jungle, with managers spending their time and profits on luxury cars and cocaine. Every day, one secretary was in charge of cocaine supply and would walk around taking orders.<sup>125</sup> Casablanca's acts became less and less successful—except for Donna Summer, who departed to Geffen Records.<sup>126</sup> The result of all this was that from 1980 onwards, Polygram was incurring enormous losses.

In 1983, when Polygram reportedly was losing \$300,000 a day, Philips manager Jan Timmer was appointed CEO. He reduced Polygram's 18 LP and cassette factories to five, cut the workforce from 13,000 to 7,000, relocated headquarters from Baarn to London (international) and New York (record division), and decreased the dependence on superstars, by spreading the repertoire across more different genres and nurturing national and regional talent.<sup>127</sup> In late 1983, Timmer announced a merger with Warner Music. Warner president Horowitz had supported the compact disc, and both companies seemed as good a match as PPI and DGG had been in 1962: Polygram was internationally strong, but weak in the US, while Warner was strong in the US, but weak internationally. However both the US Federal Trade Commission, and the German cartel office blocked the deal.<sup>128</sup> Complaints of CBS Records played an important role.<sup>129</sup>

After the botched merger, Philips bought forty percent of Siemens' stake in Polygram, and in 1987, Siemens' remaining ten percent. Timmer started to poach top managers from other record companies, to blow new life into Polygram. He bought Maurice Oberstein from CBS Records UK, who managed to build British CBS, from nothing when the CBS-PPI

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<sup>122</sup> Dannen, *Hitmen*, 175.

<sup>123</sup> On ownership vs. control see also Geoffrey Jones, "Control, Performance, and Knowledge Transfers in Large Multinationals: Unilever in the United States, 1945–1980," *Business History Review* 76 (Fall 2002): 435-478. For a long period Unilever owned US subsidiaries, but hardly controlled them.

<sup>124</sup> Denisoff, *Risky Business*, 249.

<sup>125</sup> Dannen, *Hitmen*, 161-181.

<sup>126</sup> *Ibid.*

<sup>127</sup> Gruijthuijsen, *Timmer*, 17-28.

<sup>128</sup> *Ibid.*, 22; Dannen, *Hitmen*, 252-257, 262.

<sup>129</sup> Ironically, Columbia had a large influence on the history of Polygram. Its refusal to co-operate with Philips in the 1930s encouraged Philips to move into the record industry itself, in the 1950s its alliance with PPI was a major factor in PPI's rapid growth, and now, finally, in the 1980s, it prevented Polygram becoming a Dutch-American company.

agreement expired into market leader. Timmer bought Alain Levy from CBS France, who had done the same for CBS France. Finally, Timmer appointed Dick Asher, former president of CBS International to head Polygram US, leading industry insiders to nick-name Polygram 'CBS-East'.<sup>130</sup> Timmer also closed down Polygram Pictures and sold music publisher Chappell to Warner, for a reported \$100 million.<sup>131</sup>

Although Philips and Siemens did not release exact figures, the crisis had threatened Polygram's existence. Legal documents put the losses incurred by Polygram at at least \$220 million.<sup>132</sup> But Timmer's strategy worked. By 1985 Polygram was finally making a profit again, of 119 million guilders on a turnover of 2.9 billion guilders.<sup>133</sup> It would never make a loss again. In 1989, Philips floated 16 percent of Polygram on the Amsterdam stock exchange, increasing this to 25 percent in 1993.

However, the 1980s were not only the appalling ending of Polygram's disco-peak, but also the wonderful beginning of a new format that would boost the company's sales and market share. In the 1970s, Philips had done research on optical digital information carriers, especially on technology to burn digital information with a laser onto a disc. It formed a research joint venture with MCA Universal, which had substantial know-how on carriers discs, but little on reading and writing technology.<sup>134</sup> In 1978, Philips launched the laserdisc in the US, and in 1982 in Europe, but it never became a success, although Philips relaunched improved versions three more times throughout the 1980s.<sup>135</sup>

Another application of the same technology, the compact disc, did become a success. Philips pooled its know-how with those of Sony. Polygram helped make the CD into a standard. When several large companies planned to boycott the CD, in response to the three-dollarcent royalty Philips and Sony demanded, Sony president Akio Morita phoned Cor van der Klugt, Philips' vice-president, and told that a boycott would be discussed at the next industry meeting. Van der Klugt replied: 'Polygram will also attend that meeting, and we will bring two lawyers. Anyone who will bring about the idea of a boycott will receive a subpoena and be arrested as soon as he leaves the room, because in the US it is illegal to announce a

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<sup>130</sup> Gruijthuijsen, *Timmer*, 17-28; Dannen, *Hitmen*, 252-264.

<sup>131</sup> Hull, *Recording Industry*, 49, which states \$200 million and 1984.

<sup>132</sup> Dannen, 181, 369. President Jan Timmer said that the turnover between 1981 and 1985 shrunk with \$500 to \$600 million guilders [*Polygram Post* (April 1985): 1].

<sup>133</sup> *Polygram Jaarverslag* 1989: 38.

<sup>134</sup> "Polygrammers Maken Kennis met Video-LP," *Polygram krant* (November 1978): 3-4; "Video Langspeelplaat Wordt Werkelijkheid: OR-leden Hebben het Gehoord en Gezien," *Polygram krant* (August 1977): 14-15.

<sup>135</sup> It was a Japanese company, Pioneer, that created a niche market for the laserdisc, by tying it to Karaoke machines, which were popular in Japan. After that, the laserdisc became for a short while a limited success in Japan, the US and France. Gruijthuijsen, *Timmer*, 29-33.

boycott.<sup>136</sup> Apparently, Van der Klugt's tactics worked as the boycott was never launched and ultimately the CD became successful.

The CD boosted Polygram's sales. Polygram had been an early mover, commanding sufficient manufacturing capacity, unlike EMI, which thought that CDs would not catch on. When EMI finally realised its mistake, most capacity had been booked by competitors. It had to wait a full year before it could release its repertoire on CD, losing market share to Polygram and others.<sup>137</sup> Polygram's strength in classical music came in handy, as many of the first CD-buyers were classical music lovers. US sales of CD's exploded from one million units in 1983 to 334 million by 1990 and 943 million in 2000. Similarly, UK sales increased from 300,000 units in 1983 to 51 million in 1990 and 202 million by 2000.<sup>138</sup> The CD significantly increased Polygram's profit margin, from a range of 4-6 percent of sales in the mid-1980s, to a range of 7-9 percent by the early 1990s.<sup>139</sup>

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<sup>136</sup> Ibid., 26.

<sup>137</sup> Ibid., 26-27.

<sup>138</sup> Bakker, 'Setting the Standard.'

<sup>139</sup> Polygram Annual Reports.

## **7. Renewed expansion, 1989-1999**

After the initial public offering, which yielded \$560 million, valuing the whole company at \$5.6 billion, Polygram embarked on a new expansion strategy focused on acquisitions (table 3). The first important take-overs were A&M Records and Island Records in 1989, followed by Motown in 1993. Polygram had already done US and international distribution for Motown in 1991, but needed an acquisition to permanently secure Motown's supply. These take-overs increased the efficiency of Polygram's US distribution organisation by realising scale economies. Later in the 1990s, Polygram increased distribution efficiency further by buying labels such as Def Jam Records, and Rodven Records of Venezuela, Latin America's largest record producer-distributor, which supplied Polygram with increasingly popular Latin music.

The main value added of Polygram as a multinational company buying all these labels, rather than having independent record labels fine-tuned to each local market lay in its international distribution organisation. It could guarantee its labels distribution access in all the world's music markets, and exploit local hits internationally. Not owning this organisation would allow others to capture the rents of Polygram's copyrights. Already in 1970, CEO Coen Solleveld underlined the necessity of a global distribution network by observing that, although Polygram had a world-wide market share of 11 percent, in the areas in which it did its own distribution its share was 23 percent.<sup>140</sup>

Besides physical distribution, which involved large fixed costs and depended heavily on scale economies, a major resource of Polygram was its knowledge about international markets and its sales data. Its managers judged if local hits had international appeal, and if so, in what markets and through which channels. Inside local markets, the local Polygram distribution organisation had an excellent know-how of which music sold through which distribution channel (such as music stores, discount music stores, general stores, supermarket racks, record clubs), and in which segments (such as geographic, demographic and income groups).<sup>141</sup> In this costly, worldwide distribution organisation, combined with intangible know-how of international markets, lay Polygram's competitive advantage.

One might still argue that Polygram would not need to own record labels, and that distribution contracts were sufficient. This would also shield Polygram against fluctuations in the labels' revenues. Owning record labels, however, guaranteed Polygram reward for its

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<sup>140</sup> Drs. W.J. Eisses, 'Punten voor toespraak hr. Solleveld tot genootschap van jonge academici in Eindhoven op 21 mei, 16.00 uur,' 27-4-1970, PA/Ds641.

<sup>141</sup> A general overview of record marketing/distribution is Hull, *Recording*, 149-200.

distribution efforts. Without ownership, a label could leave after Polygram had successfully marketed their new acts. Only by ownership was Polygram able to fully capture the rent of its capability to combine knowledge from many different markets. Likewise, because music mainly is copyright, by owning as many rights as possible, Polygram could maximise the rents to be captured from these rights. Independent labels may be reluctant to let distributors capture rents, which can lead to market failure if no deal, or a suboptimal one, would be made, and not all possible rents would be generated and captured.

The cases of Island, Go!Discs and Motown give insight in how Polygram integrated new labels. Island was founded in the 1970s and had had acts such as *U2*, *Frankie goes to Hollywood* and others. A study by Huygens shows in detail how Polygram integrated Island after takeover. It took over manufacturing and distribution; it formed a larger sales team at Polygram exclusively for Island and A&M; it moved the financial department to Polygram headquarters; it moved Islands feature film interests to Polygram's film division, while Island focused on music video; it transferred music publishing (royalty and copyright administration) to Polygram's music publishing division; it reduced the 119 staff by 40 percent; it shedded half the artists because they were unprofitable; it developed new high quality repertoire; and, finally, it substantially increased the marketing team at Island, previously just one person. Consequently, Island showed some overall growth in turnover and profits, but a lot of ups and downs remained. Given the £272 million price tag, profits were modest at best. When all profits between 1990 and 1996 are simply summed, the total was negative.<sup>142</sup> Polygram's integration strategy for Island does not appear unusual compared to the other music multinationals. When EMI, for example, bought Virgin Records in 1992 for \$960 million, it fired 450 of the 1,200 staff and half the artists.<sup>143</sup>

Polygram's attempt to integrate another label, Go!Discs, as a distinct entity, failed. In 1987 Polygram had bought 49 percent of the British label for £0.75 million. When, in 1996, it wanted to buy the rest it ran into disagreements with Go!Disc's manager. When the negotiations reached a deadlock the owner-manager sold his stake, for a reported £20 million, and quit the company. Many other managers were leaving, and ultimately Polygram had to close down Go!Discs and fold all its acts into other labels. All Polygram had bought was a bundle of copyrights and contracts with artists. The performance of Go!Discs between 1987 and 1996 had not been spectacular, profitable years mixed with bad years.<sup>144</sup>

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<sup>142</sup> Marc Huygens, *Coevolution of Capabilities and Competition: A Study of the Music Industry* (Rotterdam, 1999): 162.

<sup>143</sup> Burnett, *Global Jukebox*: 53.

<sup>144</sup> Huygens, *Music Industry*: 214-215, 218.

Polygram gave its labels substantial autonomy and freedom, and only centralised the non-creative part of their business, such as record manufacturing, distribution and rights management. This strategy increased the variety of music Polygram could supply and retained the labels' managers, but, as in the 1970s, the danger existed of expenditure running out of control, of overpayment of artists and strings of expensive flops. When Polygram bought Motown Records, for example, it appointed Andre Harrel as president and CEO, offering him a great deal of autonomy and \$35 million over five years. Harrell had just sold his company, Uptown Records, to MCA for a reported \$50 million. At Motown, Harrell's self-promotional campaigns allegedly irritated many, including some of Motown's artists. By 1996, the label lost nearly \$70 million on an annual sales of \$90 million. Only in mid-1997 did Harrell resign and did Polygram parachute a new CEO at Motown, film producer George Jackson, who sharply reduced the label's staff. In early 1998, finally, Polygram merged Motown with the rhythm and blues interests of its Mercury label.<sup>145</sup>

Lopes shows that the system of large music multinationals maintaining a score of semi-autonomous labels maintained diversity and innovation when the music industry was concentrating rapidly. The labels were the main reason why, paradoxically, concentration did not lead to more homogenous products.<sup>146</sup> The average number of labels per record company, measured by a sample consisting of the annual top-100 records, increased from 1.70 in 1969-1970 to 3.71 in 1989-1990.<sup>147</sup> Thus, the increasing number of labels Polygram acquired reflected a general trend in the international recording industry.

Two years after it sold Chappell, Polygram re-entered music publishing, setting up Polygram Music Publishing. It bought Dick vs. James Music (which held the rights to *Elton John* songs), Cedarwood, a Nashville firm, followed by many other publishers.<sup>148</sup> The CD increased the profitability of music publishing, because old music was re-issued on the format.<sup>149</sup> By the mid-1990s, Polygram was again one of the few large international music publishers in the world, competing with Bertelsmann Music Group (BMG) for the number three spot.<sup>150</sup> BMG, part of the German Bertelsmann media conglomerate, having purchased RCA Records in 1987, had also integrated backward into music publishing, acquiring 73

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<sup>145</sup> Entry 'Polygram' in Derdak ed., *International Directory*.

<sup>146</sup> Lopes, "Innovation," 56-71, 62.

<sup>147</sup> The figures are the average of two complementary data-sets: the first is the annual top-100 singles 1969-1990 (values 1.59 and 3.77), the second the annual top-100 albums between 1969 and 1990 (values 1.80 and 3.65). Lopes, "Innovation," 61.

<sup>148</sup> Hull, *Recording*, 49.

<sup>149</sup> Gruijthuijsen, *Timmer*, 24.

<sup>150</sup> BMG: Hull, *Recording*, 49.



catalogues between 1988 and 1993.<sup>151</sup> This backward integration ensured multinationals received the rents they captured of these rights.

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<sup>151</sup> Ibid.

Table 3. *Polygram's acquisition strategy in record production and distribution, 1986-1997.*

Year	Company	Country	Share	Price	Character	Remarks
1986	sell-of CD-factory Hannover	Germany	100		backward disintegration	Sold to Philips.
1986	Dick vs James Music (music publishing)	UK	100		backward integration	14,000 titles, incl. 14 Elton John albums
1987	Go! Discs	UK	49	£0.75	horizontal integration	
1989	A&M Records	US	100	460	horizontal integration	
1989	Island Records	UK	100	£272	horizontal integration	incl. music publishing
1989	Welk				backward integration	music publishing
1989	Sweden Music	Sweden			backward integration	music publishing
1990	Polar	Sweden	100		horizontal integration	
1991	Sonet	Sweden	100		horizontal integration	incl. music publishing
1991	Really Useful Holdings Theatre/TV/film prod., music publishing.	UK	30	168	backward integration (rights)	Andrew Lloyd Webber owns 70 %.
1991	CD-factories Hannover and Louviers	Germany, France	100	122	backward integration (production)	Bought from Philips-Du Pont Opticals.
1992	CD-factory Kings Mountain	US	100	(3fact)	backward integration (production)	Bought from Philips.
1992	Kitty Music	Japan	70		backward integration	music publishing
1993	Big Life Records	UK	49		horizontal integration	
1993	European Record Club	Europe	33,3		forward integration	Warner+Sony own rest. Polygram also owns clubs in UK and France.
1993	Sonet Music AB	Finland	100		horizontal integration	
1993	Nippon Phonogram	Japan	100		horizontal integration	Bought from Matsushita (up from 65 to 100%).
1993	Polydor Japan	Japan	89		horizontal integration	Bought from Matsushita (up from 75 to 89%).
1993	Motown Records	US	100	301	horizontal integration	Polygram distributes for Motown since 1991.
1994	Polygram SRO	Czech Republic	100		entry new market	
1994	Music Division BIZ Enterprises	Russia	100		entry new market	Incl. option on direct mail. Mgt. BIZ retained.
1994	Izabelin Studio (record label)	Poland	100		entry new market	Just after Poland accepts new copyright law.
1994	Def Jam Records	US	50	33	horizontal integration	
1995	Leonard Bernstein Music Publishing Co.	Internat.	50		backward integration	Joint-venture with Leonard Bernstein
1995	Rodven Records	Venezuela	100	57	horizontal integration	Repertoire feeds Polygram Latino ( Miami).
1996	Def Jam Records	US	60		horizontal integration	Increase of existing 50% stake.
1997	Go! Discs	UK	51	£20	horizontal integration	folded into Polygram

Note: share in percentage, price in millions of dollars.

Source: Polygram. For Go!Discs: Huygens 1999.

In 1989, four years after folding Polygram Pictures, Polygram re-entered international film production and distribution. It embarked on a string of take-overs in which it bought producers, distributors and catalogues of film rights (table 4). The reasons for this were threefold. First, as Polygram's success in the 1970s had shown, music and film were closely related. All major record companies owned film producers at some point. Even besides music films, soundtracks were a large business, and owning both enabled record companies to place their songs in films and to capture most of the rents. It also gave them a stronger bargaining position when external film studios wanted to use their rights. Second, Philips Electronics introduced new audiovisual formats in the 1990s, initially the CD-i, which failed, and later the DVD. Remembering the failure of its V2000 video system, Philips hoped that owning a film company could make its standards into a success. Third, during the 1980s, music video had become increasingly popular. To capture as much of the rents possible, Polygram needed to expand in video-distribution and music television stations.

Two other multinationals entered the film industry by buying incumbents. Sony bought Columbia Pictures and Matsushita MCA Universal, both losing billions of dollars. Polygram, however, used a different strategy, and tried to apply the organisational model of the music multinational to film, with a multitude of distinct production subsidiaries targeting specific segments and feeding a large international distribution organisation, their rights also being managed centrally. Until the mid-1990s, Polygram focused on low and medium-budget films of \$7 million on average, often with a cultural/artistic bend. *Four Weddings and a Funeral* (1994), for example, cost only \$5 million, but grossed \$250 million.<sup>152</sup> Polygram set up production and distribution subsidiaries in smaller English speaking countries, such as Britain, Canada, Australia, New Zealand and Ireland, and in some non-English markets, such as France, Spain and the Netherlands, to differentiate its products from the Hollywood majors. Of 18 films released in 1995, for example, eight were in English, and ten in other languages.<sup>153</sup> In 1997 Polygram entered major US distribution, by setting up a distribution network of its own, and producing high-budget films. When Polygram was bought by Seagram, its film revenues were \$1 billion and the division was not breaking even yet. Whether Polygram's film strategy was viable can therefore never be proven.

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<sup>152</sup> Polygram Jaarverslag 1994. Polygram complained that because its distribution organisation was far from complete, much of the \$250 million flowed to others, and decreased potential profits.

<sup>153</sup> Polygram Halfjaarbericht 1995.

Table 4. *Polygram's re-entry into film and television production and distribution, 1989-1998.*

Year	Company	Country	Share	Price	Activity	Remarks
1989	A&M Films	US	100		film production	Part of A&M Records purchase
1989	Working Title Films	UK	49		film production	
1989	Founding Manifesto Film Sales	Internat.	100		International sales of rights to Polygram films	
1990	Founding Polygram Video US	US	100		recorded video cassette distribution	
1990	Propaganda Films	US	51		TV and film production	
1991	Really Useful Holdings	UK	30	168	Theatre/TV/film	Andrew Lloyd Webber owns other 70 %.
1991	Palace Group	UK			production/distribution film/video/TV	
1992	Interscope Communications	US	51	35	film production	
1992	Gramercy Pictures	US	50		distr. art house films US and Canada	Joint-venture with Universal.
1992	Pan-Européenne	France			distribution	Polygram has stakes in 3 other French film co.
1992	Teddy Polly Films	Hong Kong	50		film production	
1992	Polygram Television International	UK	100		Sales of TV-rights to pop concerts	Founded by Polygram Diversified Entertainment (pop concerts prod.).
1993	Working Title Films	UK	100		film production	Buys remaining 51 percent
1993	Cinéa	France	50		film production	
1993	Agreement MGM/UA	US		contract	Distribution	Distribute mainstream Polygram movies in US.
1994	Movies Film Production (MFP)	Netherlands	100		film production and distribution	Name is changed to Polygram.
1994	Founding Sogepaq Distribution	Spain	50		distribution to cinemas, TV and video	Distribution of Sogepaq and Polygram product.
1994	Island World	US	100		film production	
1995	Interscope Communications	US	100		film production	Buys remaining 49 percent
1995	Vision Video Ltd.	UK	100		video production	
1995	Abbey Home Entertainment	UK	75		children's video and audio programming	
1995	ITC Entertainment Group	UK	100	156	Film and television rights	Folded into Polygram TV-Distribution.
1995	Def Pictures (~ Def Jam Records)	US		contract	film production	Two year agreement to produce films.
1996	Gramercy Pictures	US	100		distribution	Polygram buys the 50% stake of Universal.
1996	Sundance Channel	US	33.3		Television channel showing foreign and independent films	Robert Redford and Showtime Networks own both 33.33 percent.
1996	Founding of Polygram Distribution Australia	Australia	100		film distribution	
1997	Dirty Hands Productions	UK/Ireland		prod. agrmt	film production	DHP is owned by Alan Parker.
1997	The Jones Company	UK/Ireland		prod. agrmt	film production	

1997	Consortium de Realisation SAS	Internat.	100	film rights	
1997	founding Polygram Television (US)	US	100	development + distr. of TV-programs	
1998	Castle Rock Pictures	US	agreement	financing and distribution	Alliance with Warner to jointly finance + distr. Castle Rock films.
1998	Reitmand/Pollack Company	US	joint vent.	film production	Stake in this new company.

**Entry in music television industry**

1992	Polygram Television International	UK	100	Sales of TV-rights to pop concerts	Founded by Polygram Diversified Entertainment, which produces pop concerts for TV.
1994	Plan for competitor to MTV.	Europe	25	Music TV-station	With Warner, Sony, EMI, Ticketmaster. Plan cancelled same year.
1994	participation in Viva	Germany		Music TV-station	Minority stake. Time Warner also holds stake.
1995	founding MTV Asia, Singapore	Singapore	50	Music TV-station	Joint-venture with MTV. Broadcasts to several Asian countries.
1995	founding MTV Mandarin, Singapore	Singapore	50	Music TV-station	With MTV. Broadcasts for Taiwan, later more countries.
1996	Atomic TV	Poland		Music TV-station	With Atomic Entertainment (Poland) and Planet 24, a UK TV producer.

Note: share in percentage, price in millions of dollars.

## **8. Conclusion**

As one of only five major music multinationals, Polygram was a unique company that influenced the kinds of music available to consumers all over the world since 1945. Three pillars underpinned Polygram's growth strategy: alliances, acquisitions, and its technological know-how. Polygram's initial success was largely based on being at the nexus of several alliances, enabling it to increase sales rapidly from a low financial and experience base. Polygram's management effectively perceived the company's shortcomings, became aware of its inability to solve them internally, and quickly embarked on international alliances. The first alliance was the purchase by Philips Electronics of HDD, combining basic music industry know-how with Philips technological edge and international network. The second alliance, with Deutsche Grammophon Gesellschaft, focused on expertise and presence in the international recording industry. The third alliance tried to solve the lack of the easily exportable Anglo-Saxon repertoire. When a merger with Decca failed, Polygram closed this alliance with CBS.

After it failed to renew its alliance with CBS, in 1962, the alliance with DGG was transformed into a full merger, and from then onwards, Polygram's growth strategy shifted to acquisitions. The stream of major and minor acquisitions was nearly continuous, and many were in the US. The strategy hinged on good expertise to evaluate targets' true value and this probably explains why Polygram embarked on the buying spree only later in life. The third pillar under Polygram's growth strategy—access to Philips' advanced know-how and manufacturing capabilities for sound carriers—placed it at the forefront of new formats like the LP, the audiocassette and the CD. Polygram was able to release its copyrights as fast as possible on the new formats, maximising the rents captured. Competitors such as Decca and EMI initially missed out on new formats, limiting the size of their rents.

Polygram's emergence as a music multinational can also be explained by an accumulation of expertise. Initially, it acquired distinctive capabilities by piggybacking on Philips and Siemens, such as easy access to capital, multinational management expertise, international distribution networks, technological know-how, and, finally, M&A skills. Over time, however, Polygram became less dependent on its owners' capabilities and developed more and more of its own, such as industry-specific M&A skills, international music marketing knowledge, a specialised international distribution network, skills in international rights management, and, finally, a reputation and brand names.

Polygram's development can also be explained by the two-way effect of its foreign investments: they fed more copyrights into its international distribution machine, which 'knew' in which markets and channels the music could be popular, but they also yielded knowledge about the local market, facilitating the marketing of more international repertoire locally, and enabling more fully informed contracts with and purchases of other local A&R companies. Besides of this resource-driven character, Polygram also added value by forward integration: doing its own distribution internationally maximised the rents captured from its copyrights and guaranteed distribution access.

The synchronicity of the international backward and forward integration was essential for music multinationals. To justify its large investments in A&R, Polygram needed to ensure it captured the marginal revenues they ultimately generated, as marginal revenues largely equalled marginal profits. The increasing vertical integration meant that Polygram and not others benefited from the effects of its A&R policy on sales. Coincidentally, the vertical integration of the Hollywood studios in the 1910s followed a similar mechanism.<sup>154</sup>

This paper has shown that Polygram was not a marvellous accident of history, and that the above explanations played the largest role. Yet, several historical factors exerted a great influence, and combined were necessary, though not sufficient conditions for Polygram's development. First, the strategic blunders of EMI, its largest European competitor, gave Polygram a window of opportunity to enter the international music industry. By not renewing its alliance with CBS, EMI pushed its essential US repertoire into Polygram's hands, and by not committing to the LP it allowed Polygram to reap benefits as first mover in Europe.

Second, the changing business environment played into the hands of Polygram. The post-war music market was growing as never before and underwent significant changes. International market integration was taking place on a grand scale, both in trade and in tastes. Such a situation is often the best period for entry in an (oligopolistic) industry. As music distribution capacity became less scarce it became less profitable to focus on the lowest common denominator, and targeting market segments became increasingly profitable. Each multinational needed several labels fine-tuned to different segments. The organisational structure of music multinationals changed from a centralised model into a multi-divisional vertically integrated model combining A&R and distribution (but not always manufacturing). This multidivisional model further developed from containing geographical divisions to segment-based divisions, consisting of locally rooted labels tied to global market segments.

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<sup>154</sup> See Bakker, "Decline and Fall of the European Film Industry."

This development benefited Polygram, because one of its major resources was to acquire new organisations without losing their management and identity.

In the last decade, technology has become less important. All music is now stored in the same digital code, which transfers more easily between carriers. The decreasing importance of technology is illustrated by EMI's demerger from Thorn-EMI in 1990, and Polygram's demerger from Siemens—and, finally, Philips. Polygram's 1998 sale to Seagram/MCA-Universal marked the end of an era in which music multinationals shifted from technology-based geographical organisation structures to segment-focused configurations.