

# Digitalisation and its implications for the music industry



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## More Music, Lower Prices and a Better Listening Experience: Digitalisation and it's Implications for the Music Industry

Music is arguably the greatest creation of mankind. While music remains any organised combination of sounds at its core, it is unrivalled in its capacity to elicit powerful emotions and unite listeners. The creative individuals involved in the formation of these songs give rise to an industry that today dominates the entertainment landscape. At the turn of the 21<sup>st</sup> century, the recorded music industry had experienced a period of growth that surpassed almost a quarter of a century. Spirits among industry representatives were high, and few foresaw the innovations that would eventually undermine the very foundations of the industry.

The transformation of the music industry is an illustration of the disruptive nature of innovation, and its ability to render existing structures obsolete. From an economical perspective, the introduction and adoption of change typically reflects a theoretical process. New developments, and in this case technologies, are initially supported by venture capital and ultimately bring prosperity to those who adopt and develop them (Perez, 2009). Eventually institutional changes are introduced, in an effort to drive these changes into long term opportunities and create widespread and persistent benefits to social wellbeing (Peretto, 1999).

It is particularly important to consider the impact of innovation from both a services and manufacturing standpoint, as there are certain intricacies to each relationship. On one hand, a manufacturing perspective maintains that trades are mostly based on prices and quantities, where developments

impact the quality of the product being traded (Pires, Sarkar, & Carvalho, 2008). Whereas when considering service activities, focus needs to be directed on the changing relationships between businesses linked in the value-chain of a particular industry, as opposed to the object at the heart of the trade (Pires et al., 2008).

To assess the impacts of digitalisation on the music industry, we embrace a service-oriented perspective and conduct value-chain analysis. The industry holistically is comprised of interwoven activities which can each be attributed to one of three distinct phases;

- 1) Production of content,
- 2) Manufacturing, marketing and distribution,
- 3) Delivery and performance.

In order to fully understand the impacts of these developments, we must analyse how the relationships between individual components respond to the adoption of the new technologies. In particular, we draw inferences from the comparisons between the ex-ante and ex-post digital eras.

### **The Production of Content**

The initial phase of the music industry value chain refers to the actions of all those involved in the production of musical works. This production entails the composition, arrangement and performance of musical content, as well as the storage of original copies for later retrieval and distribution (Graham, Burnes, & Lewis, 2004).

The cost reductions associated with these advancements is the primary benefit induced by digitalisation. The most significant aspect of this post-digital environment is the ease at which recordings can now be produced and the greater potential for individuals and groups to participate in the creation of production quality musical works. Brown and Knox (2016) assert that these rapid developments have elicited greater exposure to small musical acts, boosting interest in the musical sector as well as live performances. The adoption and increased access to cheaper, higher quality digital technologies has removed the need for professional recording studios and the consequent financial onus to musical performers. This sentiment is shared by Wikstrom (2013), who illustrates the blurring of the contrasting responsibilities between professional and amateur music creators.

Digitalisation has also ensured the evolution of different participants within the production process, largely consolidating the differences between technicians and creators. The role of the producer has been reconfigured with the advent of new recording technologies, evolving from a studio facilitator and engineer, to an active agent in the creative process (Moorefield, 2002). Producers today not only assist with the recording phase of production but perform instrumental roles in the 'post-production' phase, charged with responsibilities restructuring and remixing recordings (Pras, & Guastavino, 2011). Producers nowadays increasingly lend their brand to maximise both the commercial life and reach of a recording, a far cry from their previous comparatively modest role.

The overwhelming impact of digitalisation has been an exponential increase in the participants in the music industry. The accessibility of higher quality  
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and cheaper recording materials has broadened the possibilities of music production. This increased scope encompasses not only those amateurs now equipped to make professional recordings, but those existing participants with reconfigured roles.

### **Manufacturing, Distribution and Marketing**

Manufacturing relates to the varying formats in which musical content is duplicated and distributed. Advancements in internet and telecommunication technologies have dramatically increased the range of platforms able to circulate recorded content. Despite the onset of digital and increased avenues for delivery, these innovations remarkably coincided with a drop in overall recorded music sales, as the development of sophisticated file sharing services allowed music to be shared illegally without compensating rights holders (Wikstrom, 2014). Only recently has global recorded music experienced growth (9.7% in 2018), supported primarily by growth in streaming revenues (34% in 2018) (IFPI, 2019). The manufacturing costs of both physical and digital formats have been greatly reduced, as the capabilities of production technologies continue to advance.

Distribution is the subsequent step in the value chain, and the processes which transport the recorded works to retailers for on sale to final consumers. In a 1990 study, Nicholas Garnham identified the increasing incidence of oligopolistic competition in individual cultural industries, a sentiment shared by Negus (1992) who recognized six multi-national companies controlling over seventy per cent of the global market. Production and distribution channels prior to the advent of digitalisation could only be accessed through one of these major corporations, artificially restricting the

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world market supply. The internet enabled creatives to act independently and effectively bypass traditional mechanisms to reach a mass audience. The ability to perform functions previously reserved to major music corporations prompted a process of disintermediation (Waldfogel, 2012). Costs associated with distribution and retailing would be partly or fully removed, allowing practically anyone the ability to achieve widespread diffusion of their works.

Marketing success in the current media environment is contingent on a highly integrated, efficiently timed and specifically targeting campaign that utilises both the remaining relevant traditional techniques and those techniques made possible with the internet (King 2009). Of those traditional methods, radio remains the most relevant direct promoter in the post digital world. The presence of radio in the media landscape has increased substantially, consequently magnifying the potential for music airtime and advertising. Radio remains unrivalled in its ability to access niche specialised audiences, as well as mainstream primetime markets (Ogden, Ogden, & Long 2011). Similarly, television too remains an important vehicle but rather as an indirect, as opposed to direct promoter of content (Ogden et al., 2011). Music assists television primarily through synchronisation, where it acts as an attachment to visual images. Technological developments have proliferated the reach of television, providing greater advertising opportunities for artists. On the other hand, the internet has significantly reduced the effectiveness of the music press, the final traditional marketing technique (Ogden et al., 2011). Previous users of press products have gravitated to online services, due to its ease of access and comparatively lower cost.

The digital age has alternatively created a plethora of marketing avenues that largely remain free and widely accessible. Creators can connect with millions instantaneously on a multitude of platforms, in a way that not only promotes their music but often acts as a revenue generator for license holders. Websites allow artists a direct channel to communicate with listeners, while retaining control of the platform. Social media forgoes this control but offers immeasurable exposure and the opportunity to build fanbases and listening communities. Similarly, streaming and blog services amplify this exposure to connect artists with existing and new listeners (Hutchison, 2013). YouTube remains the largest music streaming platform, offering an incredibly easy way for fans to interact and curate music, while other services like Spotify provide ‘Discover Weekly’ and ‘Release Radar’ tools in addition to playlists tailored for any sub-genre imaginable. The video game industry has similarly transformed to deliver unrivalled and instantaneous exposure to millions of impressionable people. Listeners discover music while playing a game they love, rendering the experience particularly impactful as it fosters an emotional attachment to the content (Omblor, 2018).

### **Delivery and Exhibition**

The final stage of music supply is largely concerned with the delivery of content, and the methods in which this material can be exhibited to consumers.

In the pre-digital linear supply chain model, a series of intermediary steps eventually led to a retail outlet. Physical retail sales dominated over 95% of music revenues during this time (IFPI, 2018). The advent of digitalisation  
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greatly reduced the effectiveness of the traditional ‘bricks and mortar’ music retailer. Digital access prompted consumers to question the value of owning music, resulting in a cultural shift and the closure of prominent music outlets and chains worldwide. Physical record sales continue to decline, by 10.1% in the latest measures, as consumers continue to preference online music formats (IFPI, 2018).

In order to negate the negative implications associated with a downturn in recorded music revenues, artists have had to rely on increasingly varied income streams (Vella, Homan, & Redhead, 2016). Technological innovations have intensified the broadcast media, and consequentially the ‘direct’ and ‘indirect’ promotion of musical works. Radio and television exposure have significantly increased, generating licencing revenues through synchronisation and specialised promotions. More specifically, Rothenbuhler and McCourt (2004) extend this idea detailing the ‘inverse U’ relationship that exists between sales and radio airplay. The licensing industry has grown into the most profitable music industry sector, with revenues more than doubling over the previous decade (Wikstrom, 2013). The live performance industry however, has grown into the largest industry sector, benefiting from the proliferation of recorded music content (Negus, 2014). PWC (2019) estimate live performance revenues to increase by 3% per annum to 2020, as a result of increased exposure to musical content and in particular those smaller acts restricted by incumbent supply structures.

The Napster software program allowed users to download and share music files using a centralised database system and avoid compensating the appropriate rights holders (Zentner, 2008). While legal infringements <https://assignbuster.com/digitalisation-and-its-implications-for-the-music-industry/>



eventually stopped Napster, a variety of sophisticated file sharing services followed allowing the free download of music. These illicit behaviours threatened the survival of the recorded music industry, with estimates claiming there were twenty illegal downloads for every legitimate one (IFIP, 2009). iTunes presented the first successful legal online marketplace for music distribution and helped stem some of the resultant bleeding. Although today streaming services dominate an estimated 46.9% of global revenues (IFIP 2018), as access-based music services offer far more convenient and cost-effective access to an inexhaustible music library. Spotify has been a pioneer in this sector but has faced strong criticism regarding its unsustainable payment practices, as revenues are generated not by song plays but rather the number of users of the platform (Marshall, 2015).

The music industry has heavily transformed with the advent of digitalisation. Technological innovations have rendered existing industry structures obsolete, as these hinged on the ability to control physical distribution. The post-digital landscape has been influenced principally by the diffusion of higher quality and cheaper production inputs, greatly assisting amateur artists to create and distribute recorded material. Disintermediation has created a situation of abundance, amplifying the importance of promotion in channels both incumbent and newly formed. Higher competition at the end of the value chain coupled with the decline in recorded music sales have increased the reliance on a variety of income streams, as artists seek to nullify lower recorded music sales.

While access-based music services dominate the digital music economy, technological innovation will nonetheless continue. Consumer behaviour is <https://assignbuster.com/digitalisation-and-its-implications-for-the-music-industry/>

evolving to prioritise a real-time listening experience, as users abandon retrospective collections and interact with the music on a new level (Amaral, Pereira de Sá, & Kibby, 2009). Streaming services will likely converge towards a similar offering in the future, resulting in an oligopolistic outcome as participants compete on the basis of price. The commoditisation of these services will demand suppliers to compete with innovative features, focused on context rather than content, in order to enhance the listening experience and create value for consumers.

Regardless of the future direction of the music industry, consumers will continue to demand more music, lower prices and a better listening experience, allowing those who adapt first the greatest chance at future success.

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