

Music industry and effect of digital world



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The marketing department of a record label plays a large part in portraying an artists' image to its fan base and the music industry. Once an artist has produced their music and is ready to be made public, it is up to the marketing department to make sure that it is made available in all media formats. This is done solely through a range of distribution and promotion campaigns.

This case will look at the current situation of the music industry and analyse the effect the new technologies and the digital world are having on record labels and artists. Firstly by looking at a micro and macro environmental view point using various analysis models a better understanding can be made of the music industry in its current state. Once establishing the fundamentals areas by which record labels can advance objectives will be set and followed by promoting and distributing an up and coming artist to her target audience.

This record label is called Mystical Records and currently manages one, up and coming artists called Thallie. Thallie is originally from Mauritius, however is now based in the UK and is looking for her big break. Back at home in Mauritius she has be compared with the likes of Shakira and Whitney Houston due to her singing style. Thallie is an urban artist, producing songs in a range of genres from R&B to Dancehall. She has made a name for her self back in Mauritius, and now feels that is time to tackle the international markets in particular to the UK and US music markets.

2. 0 Analysis

The music industry will be analysed through both a macro and micro environmental aspect. The macro environment will be analysed using a PEST analysis, therefore determining all external factors of the music industry. Examining legal factors concerning illegal downloaders which are affecting record label sales, and to establish any government action taken to tackle this problem. Economic factors will be analysed in terms of income and revenue of artists and record labels. The most important element being the technological factors which are also heavily influencing social factors within the music industry, through recent developments in social and mobile networks.

Secondly by looking at the micro environment using Porter's (1979) five forces model a better understanding of the industries levels profitability. This model shows how customers, competitors, suppliers, distributors and dealers are all affected with the recent changes in the music industry. A major factor towards recent changes of power and relationships has been due to advances in technology over recent years. The internet has affected many industries, however with the surge in social networks and peer-to-peer (P2P) sharing systems the market share of major record labels has been hit hard.

2. 1 PEST Analysis

2. 1. 1 Political / Legal Factors

Major record labels are being turned against obtaining information on customer communications from telecom companies by European & American

Parliaments. This is due to the greater risk of terrorism occurring. (Appendix 2).

This information could be also be used to gain access to private information by the music industry. (Appendix 2).

Many cases have been held against illegal downloaders by the music industry. (Now over 150 cases in the UK, according to the British Phonographic Industry.) (Appendix 2).

A large majority of illegal downloaders obtain music through peer-to-peer (P2P) sharing software; therefore by taking legal action against P2P operators, there can be a step forward in tackling a large number of illegal downloaders. (Appendix 3).

Kazaa (large P2P sharing software company) paid \$115 million to record labels in compensation due to a case by the Australian Federal Court. (This has been the largest case of its kind.) (Appendix 3).

Similar cases have taken place under courts of law in Denmark, Netherlands, Russia, & Taiwan. (Appendix 3).

By signing agreements with record labels to become legal, P2P sharing software operators can escape being prosecuted. (Appendix 3).

As technology evolves so does the level of crime. For example the evolution of digital radio stations (Digital Audio Broadcasters (DAB)) has lead to the evolution of DAB ripping. (Appendix 3).

The likes of Apple are being restricted by having their music offerings only available on iPod players, and therefore believe by having copyright protection removed by record labels, there can be a better turnover for all parties involved. (Appendix 13).

The current traditional method of record labels is that they keep the copyrights of artists' recordings, which generally leads to the record label being profitable and the artists breaking even. (Appendix 7).

A new possible method of keeping the music industry profitable may be by legalising file sharing and giving artists / bands control over their own music. (Therefore working with a collapsed copyright system.) (Appendix 7).

2. 1. 2 Economic Factors

There are more methods of opportunities for artists / bands to both increase revenue and exposure, through CDs, digital downloads ringtones, concerts, TV shows, and video games. (Appendix 7).

Concert ticket sales have increased immensely over recent years and have become major events in an artists / bands diary. (Appendix 7).

A recent revision by the American President of the tax code has made it easier for intellectual property to be sold in the US, which therefore means that another possible method of development for the music industry can be through making artists / bands their own public company. As profits are taxed with low rates and intellectual property being fully accessible, their can be the possibility of artists / bands being invested in via the stock market. (Appendix 7).

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Due to the slow take up by the music industry of the digital world, there were slumps in sales by up to 7% in 2002 and 2003, by 2006 this figure had decreased to 4% and the music industry was showing signs of competing in new markets. (Appendix 17).

Within a year in 2006 there has been an increase in sale of singles by 78% in the UK, therefore showing the change in trend of purchasing and obtaining music. This is due to this new digital age operating in full force. (Appendix 11).

In Europe from 2005 to 2006 alone, there was an increase in single downloads of 80%, up to 111 million single tracks downloads. In the US during the same period there was an increase of 65% up to 583 million single tracks downloads. A calculation of the entire world's single track download was made during the same time and was shown to have increased from 420 million in 2005, to 795 million in 2006 which is an 89% change. (Appendix 12).

Music charts were traditionally accounted for through sales of singles and albums, now with recent changes the Top 40 charts are now calculated including downloads. (Conducted by the Entertainment Retailers' Association, (ERA)) (Appendix 11).

Digital music sales increased by \$0.9 billion within a year from 2005, which includes both downloads to computers and mobile phones. (Calculated to be a tenth of all music sales.) (Appendix 17).

Radio has been one of the most important formats by which new music is promoted, and in recent years there have been many mergers within the radio industry. With there only being a handful of companies left covering the majority of the national network, there has been a large homogenisation of the airwaves. This has meant that it is now even more difficult for artists / bands to get their music on to radio and promote the singles and albums.

(Appendix 14).

2. 1. 3 Social Factors

The increase in social networks has lead to artists having the opportunity to get the first major breaks in the industry. The popularity of social networks has lead to there being awards for the most number of “ friends” for artists on social networks like MySpace. (Appendix 5).

Fans are given the opportunity to share their interests in music, artists / bands and send/receive pictures from concerts, interviews etc. via discussion blogs and forums. These various applications are all being recognized within the music industry leading there to be a range of awards for artists.

(Appendix 5).

In addition to this many fans socialize on websites such as YouTube, where various video clips are shared and commented on, therefore giving many up and coming artists with small budgets an opportunity to be made aware.

(Appendix 8).

The innovation of music online has led them to be sites such as Last.fm which makes it possible to connect fans through similar music tastes which aids the awareness of artists and fan groups. (Appendix 5).

The rise in social networks has led to the phenomenon of making fans into marketers indirectly. As fans communicate and get involved with their favourite artists online offerings they are said to be in the process of online word of mouth. (Appendix 7).

The changes in chart rules, allow up and coming artists to make their big break, this is through including online downloads to be which is allowing fans to have more control and influence over music. (Appendix 9).

As selling CDs is no longer enough to generate revenue, many other formats have been given better consideration, such as ringtones, concerts and video games. Each of these formats plays a part in influencing social groups and fans. For example ringtones can portray a person's music taste which in turn can relate to that person's social group. Concerts are a more traditional format where fans gather in a social aspect to see their favourite artists perform. (Appendix 7).

The 20th Century showed a mass growth in the music industry, which linked music with intellect and in turn with social status. With classical and jazz music being linked with those who are intellectually elite, while pop and rock seemed to be linked with the general population.

As the 20th Century developed, so did music in terms of their being more variations of genres. For example in the 1970s the emergence of ' progressive rock. (Appendix 7).

Through developments across the world, in particular with technology and communications there have been changes in the style and influence of music. With musical influences coming from African, Jamaican, Latin American and Asian music through various means of media coverage all effecting social changes.

Through increases in the number of university students there has also been a huge surge within the clubbing industry. This social activity has therefore lead there to be a direct link with music. Larger clubs offer a range of music genres each in separate rooms; where as smaller clubs play certain genres of music catering to the crowds' tastes.

2. 1. 4 Technological Factors

Technology has changed dramatically in recent years and has taken the world by storm, in particular within the music industry. An example of this was the introduction of online software called Napster, which was the first P2P sharing system.

The recent developments in online social networks has allowed for there to be an added communication method between record labels and their artists' fans. Every EMI artist now has a MySpace page allowing fans to swap news and post stories, share their video clips taken live from their mobile handsets. (Appendix 4).

Digital technology specifically has grown at alarming rates; video directors now have to create their productions so that they play well with mobile devices with 2 inch screens. (Appendix 4).

There are increasing range of formats by which music sold in this new digital era, for example USB singles and mobile packages. (Appendix 4).

The advance of new technology is making is easier for record company marketers to target large portions of the youth and adult markets, through mediums such as social and mobile networks. (Appendix 5).

The number of mp3 player inventions has also surged in recent years with market introductions of the Apple iPod and the Sony iRiver. In this case a large majority of the music is downloaded via P2P networks. There are increasingly becoming more and more formats where music can be applied to. (Appendix 7).

New technologies have influenced relationships in the music industry greatly, as artists become more independent the major record labels are loosing out, and the fans are dictating what they want from music and having more communication with artists. (Appendix 8).

Music downloaded to computers, mobile phones and any other digital device are all now calculated when establishing music charts due to their large presence in this modern era. Information and communication technology has created a new platform for music. (Appendix 11 & 12).

The digital era has largely affected the methods by which music is created and performed. It is possible to a produce a single track or album simply with <https://assignbuster.com/music-industry-and-effect-of-digital-world/>

using a home computer giving opportunities to thousands of artists looking for their big break, where previously they would not have been able to.

Buyer Power (HIGH)

Buyers power is strong therefore influencing the industry. Developments in technology and resources mean a range of choices are available by which music can be purchased by customers. Instead of just CDs, music is available online, on mobile phones and other digital devices.

Rivalry/Competitive Environment (HIGH)

For a long time the five major record labels have profited from economies of scale, however the digital era has affected revenues. As more artists produce under their own record companies, the market share for each company consequently falls. The industry is becoming competitive at an alarming rate.

Threat of Substitutes (HIGH)

The internet has provided fans and customers with opportunity to purchase music from a number of locations therefore making record companies work hard at delivering the product at the right price and formats. As technology develops so does the number locations by which music can be applied.

Threat of New Entrants

(MEDIUM/LOW)

The internet has lead there to be lower barriers to entry, allowing artists to set up their own record companies and to sell music themselves through new online channels. If new laws were to be put in place then there could be a possibility for the large record labels to regain some control.

Supplier Power (MEDIUM/LOW)

Previously record labels had a large influence on an artist's career. However now in this digital era artists have more control of the distribution of their music and the record labels have less control over the artist. However as record labels come with large financial resources they have the opportunity to exploit all media formats professionally.

2. 2 Five Forces Model of the Music Industry (Porter, 1979)

2. 3 SWOT Analysis

Below is a SWOT analysis of Mystical Records showing it's the present assets and offerings and all future possibilities.

STRENGTHS

WEAKNESSES

Low overheads such as staff.

Talented artist roster.

Thallie has a good reputation in Mauritius.

Good product range.

Access to a larger target market with online outputs.

First to initiate online concerts.

The ability to sell music at low prices therefore enticing new fans to engage in Thallie's music.

Difficult to establish on traditional formats like primetime radio.

Lack of financial resources could still hinder the process, but less so with online outputs.

Lots of risk due to some lack of expertise and staff.

Possibly the same media outputs as competitor record companies therefore making the market hard to become established in.

OPPORTUNITIES

THREATS

As technology develops more opportunities to apply music.

To establish a larger fan base for artist roster at a quicker rate.

To make artist roster internationally recognised.

New sources of revenue e. g. ringtones and video games.

Sell single tracks that are performing well in local markets to major record labels to market yet receiving royalties and retaining intellectual property rights.

Lots of competition, with many artists creating their own record companies.

Lack of piracy control.

Major record labels re-establishing market share through new innovations.

New legislations could cause problems in terms of artist awareness.

Consumer tastes are ever changing.

3.0 Aims & Objectives

When developing the objectives many were discarded taking budget and resources in to consideration. The above objectives are a good indication as to what Mystical Records could achieve once various marketing tools and strategies have been implemented.

Corporate Mission / Aim

To become an established company both online and offline, that solely signs, promotes and manages up and coming artists.

Key Objectives

To raise the bulk of revenues through the online activities.

To establish up to 8 digital communications of music for each artist.

To establish a range of promotional activities in order to increase awareness of the artist roster.

To establish a fan base of at least 8000 people through online social networks in 12 months.

4.0 Segmentation

Mystical Records is a record company that manages artists under urban music style, therefore covering music genres such as R&B, Hip Hop, Dancehall and related styles. Therefore automatically segmenting the entire population to those only interested in urban music. Further segmenting is derived through geographic, demographic and psychographic variables.

4. 1 Geographic

Geographic Segmentation defines customers according to their location (Brassington & Pettitt, 2002).

As a company based in the UK the large majority of current and potential fans will be from surrounding areas.

Due to the majority of media outputs being online the potential fan base extends to a global field.

As Thallie has a big background in Mauritius, the population there is part of the potential fan base.

4. 2 Demographic

According to Brassington and Pettitt (2002), demographic segmentation tells you a little more about the customer and the customer household on measurable criteria that are largely descriptive, such as age, gender, race, income, and occupation.

Music in general has been almost equally shared between genders over the last 10 years. (Appendix 15).

Though urban music originates from black African Americans, our offerings are for those of all races.

The large majority of the population that engages in music via the internet are those aged between 16 to 25 years old. (Appendix 5).

Urban music within the American markets only consists of roughly 22% of all music, however with digital innovations giving the ability to remix music into other genres the majority of the youth to adult market are potential fans. (15 to 29 years old) (Appendix 15).

This age range concentrates on those who are students to working professionals; however the music on offer is available to all, especially due to low prices.

4. 3 Psychographic

‘ Psychographic bases for segmentation centre on perceptual issues.’ (West et al, 2006).

This element of segmentation considers those who listen and live urban music. Therefore including those who listen to specific radio stations and shows, those who attend specific night club events (both clubbers & DJs), those who are involved with online networks, blogs and forums, and all related fields to urban music outputs.

In particular our online offerings will be directed towards internet users and online social networkers. With music videos being placed on site such as YouTube to raise awareness and let fans comment on. “ YouTube carries more than 100 million videos a day” (Appendix 8).

5. 0 Targeting

Now that the market segments have been established, strategies must be put in place in order to target each segment. Due to the majority of outputs

being through online mediums, it is possible to apply music to more entities with both lower costs and lower risk.

There are 3 general strategies by which targeting can occur (Dibb & Simkin, 1996):

Mass Marketing Strategy: This is where one marketing strategy is applied to the entire market, which leads to low production costs but carries this disadvantage that all customer seek different benefits.

Multi Marketing Strategy: This is where the one large market is broken down to smaller markets and all offered different marketing strategies. This method caters for all however in some circumstances can require large financial resources.

Single Marketing Strategy: This strategy is sometimes known as a niche strategy, where all marketing efforts are concentrated on one particular market. This can be very risky however if successful can be profitable.

For Mystical Records the most viable targeting strategy would be a mixture of both multi and mass marketing strategy. As there will be a range of media outputs used, where there will be slightly different marketing strategies for each, there will be an element of a multi marketing strategy; therefore each media output will relate to a particular segment. Other segments that will be targeted differently include offline segments, such a night clubbers, DJs, and other media outputs.

However in general for online segments there will be one mass marketing strategy and for offline segments there will be a mass marketing strategy

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therefore making it a more effective and competitive method for such a company.

6. 0 Positioning

As the music industry becomes increasingly competitive, in particular with more and more artists producing music under their own record labels it is important to be established as a recognised and positive company.

According to Fill (2006) all products and all organisations have a position.

In terms of Mystical Records becoming recognised within the industry and having more artists to sign with us, the marketing message of being a fun and innovative company will be sung. In particular our offering of online concerts will be the main focal point. In terms of Thallie, she will be marketed as a new up and coming artist with an exotic international background, proving to have some competitive advantage over other artists in similar situations.

7. 0 Product Portfolio

The product portfolio consists of the distribution of music, produced and marketed in a number of formats, such as CDs, music videos, events, live stream shows and digital downloads. The record label's main feature and source of revenue is the artist roster, which currently consists of one performer called Thallie.

Thallie – This artist is our first signing and therefore will be given maximum attention in making her a great musician. Thallie is an up and coming artist, originally from Mauritius but now looking to tackle the international market, and is now based in the UK. She is a singer with an urban style, producing

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music in a range of related genres music such as R&B, Hip Hop, & Dancehall. Back at home she has been known as the prospering version of Shakira (a world famous artist).

CDs – This media format will primarily be used as a promotional tool. In order to raise awareness of Thallie and her music, CDs will be distributed to radio stations, and at all events and gigs at which Thallie will perform at. There will be a small number of CDs available to purchase as a support to revenue.

Music Videos – Music videos of Thallie’s songs will be produced in order to be placed in a number of outputs. Like CDs, these music videos will be used to promote the artist to her current and potential fan base. The music videos will be uploaded online on social networks such as YouTube, Facebook, and MySpace, therefore allowing and encouraging fans to comment and discuss the artist’s music and create a following. This method will also be an ideal approach to launching new single tracks and other material. The music videos will also be made available for music television and other related outputs.

Events (Offline) – In order to raise awareness directly to current and potential fans, there will be a number of events, ranging from concerts, night club events and press releases. This element of the product portfolio will be one of the main sources of revenue, with fans having to pay for concert tickets and night club promoters having to pay a hiring fee for Thallie. Press releases will be the support activity in terms of promotions, however will be used a method to be recognised throughout the entire music industry.

Live Stream Shows (Online) – In recent years there have been many changes in the music industry, and new concept that has yet to be fully utilized is online concerts. As concerts have been a major source of revenue and as the internet has been the most popular means of obtaining music, putting the two together may possibly be another method by which record labels can prosper. Therefore by hosting live regular online concerts to Thallie's global online fan base at a relatively low price a new income source can be created.

Digital Downloads – To support the live stream shows, digital downloads will be available to purchase at a variety of online locations. Fans and others interested in music will have the opportunity to purchase single tracks, albums, and short video clips. These downloads will be made available via the artist's website and P2P sharing programmes, such as iTunes.

Figure 1: BCG Matrix of Mystical Records Product Portfolio

Music videos, events and digital downloads have all been placed as star products, as they all to have high potential growth and high market share. Music videos and digital downloads in recent years have been increasingly popular formats by which music is distributed and acquired and is therefore seen as a profitable source of revenue. Therefore the primary objective is to maintain and hold their current status and use it as a strategy to only develop and diminish.

Thallie and live stream shows have both been placed under question marks, as they both have potentially high levels of growth, however they both currently have low market share. With changes within the industry and with

technology as a whole both of these products are under building strategies and are projected to become star products and features.

CDs have been placed in cash cows, as they are now seen as a traditional format by which music is distributed, however they will still be used for mostly promotional campaigns with the support of some sales. There will not be any major efforts made to sell physical CDs, but will be an ongoing production in order to maintain some regular income.

8. 0 Place Strategies

One of the most important processes of a record label is deciding where and how to deliver the artist's music to the fans and other end users. By carefully implementing solid place strategies there can be an effective method by which the online arena can make an artist's career. As a small record label there are limited budgets available, and therefore any chosen method of distribution must be carried out with due diligence.

For Thallie, there will be a range of direct and indirect channels of distribution in order to market and sell her singles, albums and other material. The main location for this will be via the online arena, through her website and the record label's website. However there will be a number of channel intermediaries which will also be used to distribute and sell music to the fans and customers. In support there will be promotions and distribution through offline outlets such as local record stores and at events. The model below shows the various methods of distribution, with both direct and indirect channels. Thallie's website can sometimes be seen as an indirect

channel; however the same method will be used for future signings, and therefore is a direct link between the record label and the end users.

= Indirect

= Direct

MYSTICAL RECORDS

FAN BASE / CUSTOMERS / END USERS

Record Stores

P2P Sharing Systems

Social Networks

Thallie's Website

Figure 2: Channels of distribution

9.0 Promotional Strategies

The selection of promotional activities to be used by Mystical Records will be a big challenge. They must suit the company's framework and budget, as well as be executed in a timely and efficient manner in order to achieve maximum results. The promotional campaign will hopefully lead to attracting a larger fan base, increased purchases, and establishing Thallie and Mystical Records within the music industry.

A promotional mix will be implemented in order to promote the various musical productions by Thallie to her current and potential fan base. The mix consists of the following elements; advertising, direct marketing, personal

selling, sales promotion, and public relations, however areas such as viral marketing, sponsorship and networking can also be included.

9. 1 Advertising

The first element of the promotional mix is advertising, this is where paid for messages and ideas are published to the public in order to inform, remind and persuade them. In the case of Mystical Records, advertising will be used to promote Thallie's musical releases both online and offline. However more focused will be placed on offline advertisements due to their being many free advertising opportunities online. As a large portion of our target audiences are the youth market, advertising on global music websites can be an effective method to both reach and inform them of new offerings and events. Though traditional media formats are decreasing in popularity there are still opportunities to advertise in magazines and newspapers about new releases. However due to financial resources being lower advertising will be selective in terms of placing and regularity.

9. 2 Sales Promotions / Incentives

One of the most important aspects of the use of promotional tools is the incentives used to attract fans and customers to purchase Thallie's music. For new customers registering their details via Thallie's website or the record label's website, they will be offered free 10 minute viewing of upcoming live online concerts. This will both engage customers in purchasing the full showing of the concert and attract their friends and family to also register. Additionally monthly draws will be held giving selected customers free viewings of entire live online concerts or the chance to win tickets to regular

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live concerts or other freebies. For dedicated fans there will be further incentives of receiving free signed posters and CDs or even being chosen to feature in music videos.

9. 3 Direct Marketing

Once fans and customers have registered their details, information can be sent on a regular basis. For example details about special offers, events and new releases can be sent out through regular monthly emails to fans and customers. Information can be sent in a customised manner, making the communications with fans more personal.

Traditional formats of direct marketing can be used a support tool, however due to this method costing a lot to be effective, an eCommerce (online channels) and mCommerce (mobile channels) channels of marketing is preferred.

9. 4 Personal S